

The investment outlook for 2009

The investment team entered 2009 with some trepidation, but with the ambition to make back losses experienced in 2008.

There were some signs in December 2008 that commodity prices were bottoming, but this has yet to be translated into stronger production numbers coming out of Asia. The Australian economy has started to reveal the true extent of job shedding with 105,000 full-time jobs lost since December 2008.

In January and February the Australian Ethical trusts held higher than normal cash levels which we started to reinvest into the market in early March 2009. The lows experienced in early March 2009 were a result of nervousness around the new US Administration's lack of concrete plans, concerns over the US car industry and further bad news on the US domestic economy. It was only after the quantitative easings in the US and the UK that markets started to rebound.

The investment team has been monitoring the turnaround in markets globally and notes it was the Asian stock markets which first showed signs of a recovery in late 2008. By late April 2009 the Japanese market (Nikkei) was 16% and the Chinese market (Shanghai SE) 42% above the lows reached in October 2008. Western stock markets have been slower to respond, partly because they are more heavily weighted to financial stocks. The US Dow Jones is 16% higher than the low experienced in early March 2009, but still 13% below the close in December 2008.

We first saw signs of a turnaround in the Australian market mirrored in the stabilisation of commodities prices in late 2008, but this was not reflected into significant market gains in anything other than the materials sector until mid-March 2009. Part of the reason for this slow response has been the unusually high number of capital raisings by Australian companies, especially banks and property companies. This has weighed down the market with new stock. For Australian Ethical's portfolios this was an opportunity to buy shares in very good companies at very attractive prices.

The rally in March 2009 has seen the S&P/ASX 200 rise 14% from the 6 March low. It is now only 3.75% below the December 2008 close. This has been primarily driven by a turnaround in prices of financial stocks, particularly banks. Bendigo Bank and the Bank of Queensland rose 39% and 31% respectively in March.

While we welcome the current market optimism, most of the economic statistics are not yet pointing to a turnaround, but rather a deceleration of recessionary factors. There comes a point where less negative bad news becomes inspiring good news as investors fatigue of the pessimism.

We are still looking to the US and UK housing markets for a lead on the fortunes of households. It is estimated that 1 in 440 homes in the US are in some stage of foreclosure and average prices are down 19% over one year and 27% over three years. One might contend that they have further to fall having risen in some cases by 100% over the five years to 2007. We are looking for signs that unemployment is slowing and this will be reflected in a reduction in the foreclosure rate and house prices stabilising.

Our investments have already benefited from some of the early initiatives by the Obama Administration on renewable energy. This has helped to underpin the performance of our wind, solar and geothermal investments. We are still cautious about the US over-promising on climate change leading into the Copenhagen meeting at the end of 2009. Like the Australian Government and the Carbon Pollution Reduction Scheme, the passing of any climate legislation through parliament is a tough road. Having said this, the market is responding already to lower input and commissioning costs for projects such as wind with the commencement of a 132 megawatt wind farm in South Australia. As electricity prices rise and input and commissioning costs for renewables fall, renewable energy becomes a less-expensive proposition against traditional stationary energy.

The Australian Ethical portfolios are well positioned to benefit from any rebound. We have pared back our overweight exposures to defensive health care and utilities stocks while maintaining a core position, since we view many of these stocks as well-run companies who can benefit in all types of market weather. Overall we are comfortable that our investment philosophy is performing very well for investors with the majority of our ethical funds substantially outperforming mainstream funds in 2008. Pleasingly, this appears to be repeating itself in early 2009.

Have you chosen the right super strategy?

Choosing an appropriate super strategy is of great importance in ensuring you achieve your investment goals when you reach retirement.

While retirement seems a long way off for younger workers, the super strategy you choose now could make a significant difference to how much money you have in retirement.

While recent volatility in financial markets may be worrying for those close to retirement, for younger workers it is important to remember that your super is a 10, 20 or even 50-year investment. The super strategy you choose should have this long-term investment timeframe in mind. This suits a balanced or a growth strategy.

Placing too much of your super into conservative investments means you face lower risk than growth investments, but you may also miss out on opportunities for higher returns. This means you could end up with a smaller final superannuation balance.

While more volatile over the short term, growth funds historically earn the highest returns over the long term. Even a slight difference in returns can make a big difference over the life of your super.

While you need to carefully consider your own objectives, situations and needs, from a general perspective, younger Australian Ethical Super members should look at investing their super in the Balanced Strategy or one of the Share-based strategies (or a combination of both). For our younger members, an investment in the Income Strategy, while having lower risk, means missing out on opportunities for higher returns over the long term.

Australian Ethical provides a list of advisers on our website who have a good knowledge of Australian Ethical's products and could advise you on the best super strategy to meet your retirement goals.

Boost your super savings

Take advantage of greater government co-contributions before 30 June 2009

Designed as a helping hand for low and middle income earners, the government will kick in to boost your savings, tax free, if you earn less than \$60,342 and make after tax contributions to your superannuation fund.

The maximum contribution that the government will pay is \$1500 and to receive this amount you will need to have a total income less than \$30,342 and make a contribution of \$1000. If your income is between \$30,342 and \$60,342 then you are still eligible for co-contributions but at a reduced amount. Of course, you don't have to contribute the whole lot in one go as the government will add up how much you have paid in after-tax contributions and base the payment to you on your total amount.

The table below will give you a guide to how much you would be entitled to but to calculate your entitlement you can go to www.ato.gov.au/individuals, then 'Find a rate or calculator' on the left hand side of the page.

Note that this is based on your total income, which is made up of your assessable income and any reportable fringe benefits that would be stated on your group certificate.

Are you eligible?

In order to receive the co-contribution, you must :

- have a total income less than \$60,342;
- earn 10% or more of your income from eligible employment, running a business or a combination of both;
- have provided us with your tax file number;
- be aged under 71 at the end of the financial year in which the after-tax contribution is made by you; and
- be a permanent resident of Australia for the entire financial year.

How do you make your payment?

If you decide to take advantage of the government co-contribution, you can either mail a cheque payable to 'Australian Ethical Superannuation Fund (for [insert your name here]) to PO Box 1916, WOLLONGONG NSW 2500 or phone 1300 134 337 for details on how you can make payment by direct deposit.

Don't forget that to obtain any payment, you will need to lodge your tax return for this financial year. The government will then calculate your co-contribution and pay it to your super fund account and write to you to let you know that payment has been made.

If you total income is...	And you contribute this... (by 30 June 2009)	You'll be eligible for a maximum of this...
\$30,342 or less	\$1,000	\$1,500
\$35,342	\$834	\$1,250
\$40,342	\$667	\$1,000
\$45,342	\$500	\$750
\$50,342	\$334	\$500
\$55,342	\$167	\$250
\$60,342 or over	-	\$0

Investor profile: Kieran Fallon



I am 54 years old and after having spent 10 years living at glorious Avoca Beach, I have spent the last 15 years in Canberra working at the Australian Institute of Sport where I am Head of Sports Medicine. While this position is endlessly fascinating and challenging, I am also privileged to spend some of my time teaching in the Faculty of Medicine at the Australian National University.

Having now, as is done so frequently, defined myself by my occupation, what about the more important things? The key words that generally guide me are reflection, improvement and alignment. These three words can make things difficult as one's life becomes one of constant questioning.

Behind these words are two philosophers. One from long ago, Socrates, who suggested that 'the unexamined life

is not worth living' and one still living, Peter Singer, who surprisingly early in his book *How are we to live?* suggested one of the main purposes of our existence is to live an ethical life.

This brings me to what is a key ethical issue for me: cruelty to animals and my major work in this field with the Animals Asia China Bear Rescue. This organisation frees Asiatic black bears (moon bears) from bear bile farms where they are confined in cages no bigger than themselves and drained of their bile. This is used in traditional Chinese medicine and there is little hard evidence for its efficacy in the vast majority of conditions for which it is used. Even if it was highly efficacious there is no excuse for the cruelty inherent in the manner of its production. For seven years my wife Sue and I have led the wonderful ACT support group for Animals Asia Foundation, raising over \$240,000 for the bears by a multitude of events including a 1000km walk.

And so to investing. Why Australian Ethical? Because ethical funds align with my values and do the difficult research for me. They aim to improve lives, both mine and human others and those of our animal friends. Ethical investment lead to wins all around and is an excellent example of alignment of our actions with our values.

Preserving the Daintree



Each year Australian Ethical donates 10% of its company profit to social and conservation groups through its community grants scheme. Applications for the 2009 round of community grants are open until 17 July.

In 2008 Australian Ethical donated \$200,891 across 25 non-profit groups. Rainforest Rescue was one successful recipient, receiving a \$3000 grant.

Rainforest Rescue has been protecting and restoring rainforests in Australia and internationally since 1998.

Rainforest Rescue's projects re-establish rainforests through planting, maintenance and restoration programs, as well as purchasing and protecting high conservation value rainforest properties and preserving their biodiversity.

The Daintree Rainforest is the most significant tropical rainforest in Australia. It sustains a unique range of flora and

fauna including the endangered Cassowary, the primitive Musky Rat-kangaroo, the rare Bennett's Tree Kangaroo, endangered Spotted-tailed Quoll, and a myriad of smaller creatures little known to science.

The Daintree Rainforests are the last extensive areas of lowland rainforest still connected and linked as a continuum with the main rainforest to the west. The connectivity of these rainforests is integral to the long-term survival and sustainability of these forests and their fauna.

Most people believe that due to its National Park status and World Heritage Listing, the Daintree is fully protected. Unfortunately, this is not the case. In the 1980s a rural residential development comprising more than 1100 private blocks was established over much of the Daintree lowland rainforest. For this reason the majority of the ancient lowland rainforest area was never listed as World Heritage.

With the assistance of Australian Ethical's community grants, Rainforest Rescue has bought back properties that were at risk of residential development and subsequently registered them as Nature Refuges with the Queensland Environmental Protection Agency.

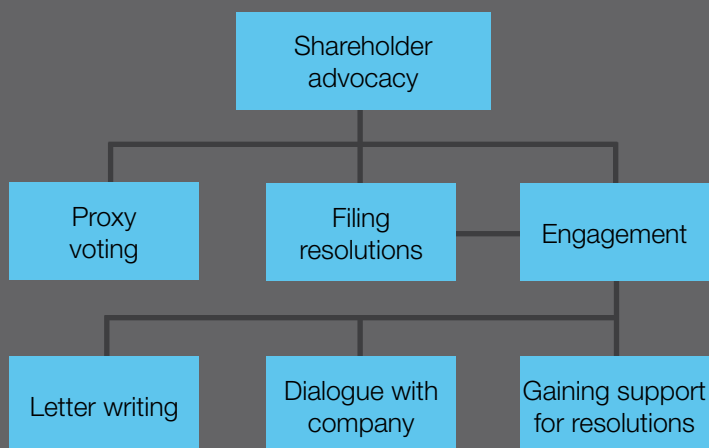
With the help of generous individuals, businesses and grant makers, Rainforest Rescue has protected ten properties since 2000 and is about to purchase and protect the eleventh. Strategically situated, the eleventh property will help provide a natural corridor through the rural residential subdivision, linking the Daintree National Park to the north and two declared Nature Refuges to the south.

Engaging with our investee companies

One of Australian Ethical's goals is to improve company behaviour and performance in regards to the environmental, social and governance (ESG) issues set out in the Australian Ethical Charter. In working towards this goal Australian Ethical generates information regarding standards of corporate behaviour and engages in dialogue with the corporate sector.

Engagement

Engagement is a key component of shareholder advocacy. Australian Ethical and its ethical research provider, the Centre for Australian Ethical Research (CAER), have engaged with numerous companies over the years on issues related to the Charter. This engagement has mostly been conducted through meetings, correspondence and telephone conversations with company management. In 2007–08 Australian Ethical and CAER engaged with 16 companies on a range of ESG issues. This represented about 10% of the companies in Australian Ethical's portfolios. In addition, Australian Ethical and CAER made numerous general enquiries in the course of our normal research.



Each of Australian Ethical's investee companies is required to meet the positive elements of the Charter. Indeed, each investee company is subject to regular monitoring and review to ensure ongoing compliance with the Charter.

If, for example, an investee company diversified into an excluded industry or engaged in unacceptable practices, a review would be performed by CAER which may involve company engagement (correspondence, telephone or face-to-face) both prior to and after the event. If the investment is no longer considered appropriate it would be divested as soon as it is practical.

A recent example of a broader engagement Australian Ethical has undertaken involved encouraging investee companies to respond to the Carbon Disclosure Project (CDP). The CDP is supported by 475 institutional investors from around the globe. On behalf of these investors the CDP seeks information on climate change management and greenhouse gas emissions data from the world's largest companies. The CDP is now the largest repository of information on corporate carbon data and climate change strategies in the world. In recent years, investors have begun

to use this common source of information in their analysis of the impact of climate change on different industry sectors, and in ranking individual companies.

Australian Ethical has been considering the greenhouse gas impacts of investments for some years now. In late 2008, Australian Ethical contacted investee companies that had not responded to CDP6 (the 2008 survey) to express our disappointment. We also asked the companies to provide evidence to demonstrate their commitment to reducing greenhouse gas emissions. Responses ranged from the CDP request not being received through to still putting systems in place to accurately report this data. Responses also included details of current greenhouse gas reduction initiatives being undertaken by the companies. Australian Ethical will be closely monitoring both the response rate and quality of responses from our investee companies to CDP7 (the 2009 survey).

Proxy voting

Australian Ethical has made a commitment to vote on investee company resolutions where it has voting authority and responsibility to do so. Decisions on how to vote proxies are made with regard to:

- the preservation and increase of the value of the investment;
- improving and upholding the governance of investee companies;
- the overall performance of the investee company; and
- the application of the Australian Ethical Charter.

In 2007–08, Australian Ethical voted proxies for almost all investee companies where it had voting authority and responsibility to do so. 764 resolutions were voted on across the Balanced Trust, Equities Trust, Large Companies Share Trust and the World Trust.

Of the 764 resolutions, 26 were voted 'against' and Australian Ethical 'abstained' from voting on two. The negative votes related to remuneration issues (director fees and the issue of options or shares to directors and CEOs), appointment and re-election of directors, an anti-takeover provision and unsatisfactory terms for an omnibus stock plan. The resolutions Australian Ethical abstained from voting on related to insufficient information being provided.

UN Principles for Responsible Investment

Australian Ethical is a signatory to the UN Principles for Responsible Investment (UN PRI). The UN PRI aims to help integrate consideration of ESG issues into the investment decision-making and ownership practices of institutional investors. The UN PRI offers signatories access to its Engagement Clearinghouse where information about engagement activities are shared. Signatories can then pool their resources and influence, and seek changes in corporate performance on ESG issues. Australian Ethical plans to take greater advantage of the Engagement Clearinghouse in future as we promote the ESG issues set out in the Charter.

Art – an ethical investment



Winner of the inaugural art prize: lino cut *Respect your elders*, by Isabella Mackay.

The Australian Ethical Art Prize is on again in June 2009. This is the third year that the Art Prize has been held.

Entries will be exhibited at the TAP Gallery in Darlinghurst, Sydney, from 1 to 14 June, with the presentation evening on Saturday 6 June.

Each work will explore an ethical theme and artists will use the Australian Ethical Charter as a guide. The Australian Ethical Art Prize provides a unique opportunity to not only increase awareness of ethical investment but also allows people to think creatively about ethical issues.

The TAP Gallery is an 'open policy, artist-run collective' staffed totally by volunteers. Their aim is to support emerging artists and community groups by providing a forum to exhibit their work.

To find out more or to download an entry form visit www.austethical.com.au.

How to master mental accounting

Spending too much on your credit card? Try freezing it – literally. Drop it in a glass of water and put it in the freezer, then when you get the urge to splurge you will have to let the ice thaw, by which time your sanity should have prevailed. According to Richard Thaler, an economist at the University of Chicago, tricks like this are a useful way to counter our brain's irrational financial tendencies. These arise, Thaler believes, because our psychological biases cause us to put money into different "mental accounts" and to think of the contents of each in a different way.

Adding £50 to a credit card bill already in the thousands seems far less extravagant than paying out £50 cash for a meal. Anyone with a credit card appreciates the truth of this. Indeed, it has been shown that people paying with plastic are less able to remember how much they spent than those paying with cash. As Thaler points out, credit cards act as "decoupling devices", separating the pleasure of the purchase from the pain of payment, which gets pushed into the foggy future. Freezing your card gives you a chance to overcome this emotional pull and act rationally.

In his book *Nudge*, co-authored with legal scholar Cass Sunstein, also at the University of Chicago, Thaler identifies other irrational biases that lead to distortions in our mental accounting. Almost all of us, for example, are "loss averse" – it hurts more to lose £50 than it feels good to win £50. We also value money in relative rather than absolute terms – we consider £10 irrelevant when buying a house but not when paying for a meal. Similarly, finding £100 will give many people more pleasure than having a heating bill cut from £950 to £835, even though this gains them more in real terms.

We also have a well-known bias in favour of a little money now over more money later, which makes saving so difficult.

Thaler has suggested – and many companies are now using – a scheme called "Save more later" that puts this bias to work. Employees can commit themselves to putting more money into their retirement savings in future years, rather than doing it now. It seems to work for the same reason that we are lured by offers of "no payments for the first year", but in a more beneficial way.

Knowing about mental accounting offers some insight into how we might handle money difficulties and the pain that comes with them. Thaler's tip for saving is to take money from the mental category of "loose change". Instead of writing a cheque for £1000 to be deposited in a savings account, he says, it is far less painful and can be just as effective to continually round up our purchases – thinking of an item costing £22.50 as costing £30, say – and then saving the balance.

Another economist has a trick for taking the sting out of costs associated with car troubles or other unforeseen expenses. He sets aside a lump sum at the beginning of each year and mentally earmarks it "donations to charity". If any unexpected bills arise, he pays them from that fund, which in his mind is already gone, and donates whatever is left in December.

Daniel Ariely from the Massachusetts Institute of Technology has come up with a more ambitious plan. He suggests we should all be able to add categories to our credit cards to which we can apply suitable limits: no more than £50 for a meal out, say, or £300 annually on shoes. It may not come as a surprise that he has yet to persuade any bank that this is a good idea.

Article courtesy of *New Scientist* magazine, 21 March 2009, by Mark Buchanan. www.newscientist.com.au

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Fair trade continues to grow

Although the economic downturn has many people cutting back on expenses, the sale of ethical fair trade products is expected to continue to grow in 2009.

Fairtrade Labelling Organizations International (FLO) expects the sale of fair trade products worldwide to grow by about 15% in 2009, following a 25% increase in sales in 2008.

Fair trade aims to support producers in developing countries and promote sustainability. It aims to achieve this by ensuring a fair price for goods, fair terms of trade and decent working conditions for farmers, workers and producers who have been economically disadvantaged or marginalised by the conventional trading system. Fair trade also looks after the environment through measures such as avoiding banned pesticides.

Fair trade products are typically agricultural products such as coffee, tea, cotton, cocoa, sugar and bananas, but can also include goods such as handicrafts and sports equipment.

Australia is a market where rapid expansion is expected in fair trade products. According to market research firm

GlobeScan, this is because up until now Australians have had a relatively low familiarity with fair trade products.

Etiko is one of the first Australian businesses to source and sell products which are fair trade certified and sweatshop free. Etiko's clothing is made from cotton which is certified both fair trade and organic. The farmers who produce the cotton also own a share in the factory that makes the garments. Etiko's fair trade sports balls were the first non-food products to be certified fair trade. The balls are also certified sustainable by the Forest Stewardship Council because the rubber used in them is sustainable natural latex.

Australian Ethical is currently offering a free ethical gift for new trust investors. New trust investors will get the choice of an Etiko fair trade soccerball, an Etiko cotton t-shirt or a one-year subscription to New Internationalist magazine. To receive the gift investors must receive a copy of the current trust PDS and return gift card when they make their investment.

For further information phone 1800 021 227.

Staff profiles



Remus Chan

Remus joined Australian Ethical in August 2007. He works in the marketing department and as an assistant to the Marketing Operations Manager. He is very proud of working at Australian Ethical's six green star building, especially as it is very short walk to his home.

Remus came from the busy city of Hong Kong and has been living in Canberra for almost 10 years. Remus graduated from the University of Canberra with a commerce degree majoring in marketing management.

His interests include cooking Asian foods, making fruit juice, playing chess, badminton and watching movies. Although he loves to play soccer and basketball, Remus prefers to lay down on the beach with a frozen watermelon crush.

Christopher Wood

Christopher joined Australian Ethical 18 months ago after moving to Canberra. He is the Team Leader for the Trust Administration team, who respond to trust and company enquiries and manage the unit registry and trust transaction processing. If you call or email they are the people who will answer.

Christopher graduated from a Bachelor of Financial Administration at the University of New England in early 2008, and he is currently studying his Bachelor of Laws.

He enjoys jogging and cycling on his new bike on the many great paths in Canberra. Christopher is eagerly anticipating becoming a father for the first time in September. He enjoys super hero comics and movies and is very excited about the new Wolverine movie. He is also a mad Sydney Swans supporter.

Shawn Boughey

Shawn has worked at Australian Ethical for two years since moving to Canberra from Sydney. Originally from Canada, Shawn has worked with Information Systems in many industries. He works in the Finance Investment section developing and customising the unit pricing and portfolio management systems.

Shawn cycles to work as often as possible, and makes the most of the rest that Canberra has to offer.

He is married and enjoys rock climbing, skiing and motorcycling.

Ethical issue: Green IT

In the last couple of decades, computers have risen from their humble and esoteric beginnings in giant university laboratories to touch almost every aspect of our lives. From managing the fuel injection systems in cars, running mobile telephones, solving the riddle of DNA or hosting the internet, computers and the resultant technological revolution have enabled social and scientific advances which would have otherwise been very difficult or impossible to achieve.

In the early 90s advances in information technology opened up the world wide web, potentially giving any individual access to the largest information repository in our history. Furthermore, the information and communication technology (ICT) revolution has enabled huge leaps in operational efficiencies. Indeed, Greenpeace claim the efficiencies provided by the ICT sector have resulted in a 15% reduction in greenhouse emissions over business as usual.

However, the ICT revolution is no simple fairytale of technological advances, efficiency improvements, YouTube and quicker downloads. The unprecedented adoption of ICT has also heralded considerable environmental impacts.

Due to the infinitely evolving nature of the industry, computers and related electronic devices rapidly become obsolete. The turnover of computer parts and peripherals leads to considerable electronic waste issues, as these are typically disposed to landfill. ICT waste also poses serious environmental and health problems due to the hazardous chemicals and heavy metals it contains. It is often exported to developing countries with lax environmental and safety regulations where uncontrolled disassembly, burning and disposal of e-waste can have disastrous health and environmental ramifications.

The environmental impacts of electronic components are not limited to the end of the product lifecycle. The manufacture of items such as silicon chips, printed circuit boards and computer monitors has considerable environmental impacts including substantial CO₂e emissions through energy use and emissions intensive gases, use and disposal of hazardous chemicals and acids, water use, and resource use and extraction. The manufacture of electronic components can also have considerable health impacts for employees, as studies have shown that exposure to these chemicals during manufacture has led to higher rates of cancer, fertility problems and other illnesses.

The impacts of the ICT sector also stem from the energy required to cool and operate servers and mainframes throughout their lifespan, particularly in large-scale data centres. Data centres are centralised complexes containing a large number of servers and information storage infrastructure where external companies typically lease a certain amount of 'server space' to serve their ICT needs. Servers need to operate in relatively cool environments, and the sheer number of servers in constant operation in a data centre generates an incredible amount of ambient heat which needs to be managed, typically through industrial scale air conditioning.

Such impacts have lead many to criticise this sector, with suggestions that the environmental impact equals that of the aviation industry – about 2% of CO₂ emissions worldwide.

Australian Ethical recognises that while the ICT sector provides a number of positive services, we need to be mindful of the potential impacts of investments we make in this sector. Australian Ethical typically avoids electronics component manufacturers and computer distributors because of the aforementioned environmental and health risks.

However, Australian Ethical does support companies which provide internet and communication services, such as ISPs and telecommunications companies, and software companies which facilitate positive activities and enhance operational efficiencies through virtualisation, electronic billing and professional software packages.

VMWare provides virtualisation software, which provides the ability to consolidate multiple computers into a single machine. Virtualisation of computer hardware is now being used to move existing computers into a software environment. This means that a single physical computer can now replace multiple machines, and each virtual machine lives on its own software defined virtual computer. This provides numerous economic, space and energy use benefits.

Australian Ethical also invests in companies which facilitate the operation of mobile communication networks through companies such as eServGlobal, which develops electronic mobile phone and internet account management packages which are used worldwide, particularly in developing nations.

While the developed world takes the availability of mobile telecommunications for granted, studies have shown that the availability of mobile communications in the developing world where access to fixed line telecommunications is limited has contributed to considerable economic growth, education and prosperity.

Adobe Systems is a highly reputed developer of professional software suites, with flagship products including Photoshop, Acrobat, Flash, Illustrator and Dreamweaver. Australian Ethical supports Adobe Systems as they consistently provide high-quality software products which facilitate the inherent benefits provided by the ICT sector without any particular ethical compromises.

While the ICT sector has brought many benefits, there are clear ethical impacts and the sector has a long way to go before these impacts are adequately mitigated and a sustainable future is reached. Australian Ethical endeavours to support the positive aspects of this sector while avoiding the negative issues associated with this remarkable revolution.



Returns to 30 April 2009

	6 month return (%)	1 year return (%)	3 year return (% pa)	5 year return (% pa)	7 year return (% pa)	Inception year
Trust						
Balanced	-2.0	-10.5	-2.7	3.9	7.1	1989
Equities	8.3	-2.4	3.1	10.2	7.6	1994
Large Companies	-3.4	-17.9	-6.7	4.8	7.8	1997
World	-10.7	-25.9	-	-	-	2007
Income	0.3	3.1	4.4	4.6	4.8	1997
Super						
Balanced	-2.0	-9.3	-2.2	3.6	4.5	1998
Equities	6.6	-2.7	2.8	9.2	8.0	1998
Large Companies	-3.4	-16.4	-5.7	4.7	5.5	1998
World	-6.7	-22.7	-	-	-	2007
Income	0.2	2.5	3.5	3.6	3.8	1998
Pension						
Balanced	-2.0	-10.9	-2.6	3.9	5.1	1999
Equities	6.1	-5.3	2.6	9.7	8.7	1999
Large Companies	-3.7	-18.7	-6.8	4.6	5.7	1999
World	-9.2	-28.4	-	-	-	2007
Income	0.4	3.2	4.2	4.5	4.8	1999

Past performance is not a reliable indicator of future performance. Total returns are calculated using exit prices. Total returns take into account ongoing management fees and trust or super fund expenses. For the super fund, total returns are based on an investment of \$10,000 (pensions based on \$30,000) at the inception of each strategy. Performance figures for each strategy assume an investment in that strategy only. For the trusts, total returns are calculated as if distributions of income have been reinvested. They do not take into account tax that may be payable on the distribution of income. For the super fund, total returns are calculated taking into account taxation on super fund earnings and capital gains. Neither the return of capital nor the performance of a trust or the super fund is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual total return. Figures for periods of greater than one year are on a per annum compound basis. The latest available performance figures can be obtained from our website or by calling 1800 021 227. Units in the trusts are offered and issued by Australian Ethical Investment Ltd ('AEI') ABN 47 003 188 930, AFSL 229949. Interests in the super fund are offered by AEI and issued by the trustee of the fund, Australian Ethical Superannuation Pty Ltd ABN 43 079 259 733, RSEL L0001441. The PDS should be read before making an investment decision.

Company profiles*

Cabcharge Australia Ltd

Cabcharge is a leader in 'common payment' electronic technology systems for public transport. Cabcharge travel expenditure management systems are used in taxis in Australia, Europe, Asia and North America. The company aim is to be among the best performing land transport companies globally. Recent acquisitions of private bus operations has added to the company line of business and consolidated private bus operations in NSW, Australia.

Geodynamics Ltd

Geodynamics are pioneers of the use of geothermal energy for electricity generation in Australia. The last few years has seen the company demonstrate the practicality of their process, involving pumping water down deep wells, having the heat of the earth transform the water into steam, and using the steam to drive turbines back at the surface to generate electricity. Geothermal energy offers a real alternative to fossil fuels because it can provide the 'base-load' power that other intermittent renewables such as wind and solar cannot.

Hyflux

Hyflux's core business is water purification and fluid treatment. The Company was the winner of the Global Water Awards in 2006 for its contribution to the standing of the private water industry. Approximately 1% of the water consumed daily by Singapore is added to reservoirs from recycling plants designed by Hyflux.

*USE OF INVESTMENT EXAMPLES: By including the investment examples in this newsletter, we seek to further our transparency to investors and inform you about the nature of the Australian Ethical trust portfolios. The examples are provided by way of illustration only and you must not treat them as advice or recommendations about any particular item or asset class.

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