

Adviser update

April 2011

From the desk of the Chief Investment Officer

March was a good month for the Australian Ethical equity funds with all of them outperforming their benchmarks.

One of the best performing stocks in our portfolios has been TPG Telecom which rose 21.0% in March. This followed a first half financial year result ahead of expectations, accompanied by an upgrade to financial year EBITDA guidance. The upgrade was driven by better than expected subscriber growth.

Another top performer was dark fibre owner Amcom Telecommunications after the market gained greater confidence about its move into IT service products. The potential cost blowouts in the rollout of the National Broadband Network may have also highlighted the value in Amcom's Perth, Darwin and Adelaide dark fibre network.

We were pleased to see continued strong share price performance from QRxPharma as it nears the end of its clinical development program for its immediate-release dual opioid. The overall Australian biotech sector has been buoyant of late as global pharmaceutical and medical device companies have either licensed or acquired Australian IP and assets.

REA Group, Qube Logistics and Pharmaxis all benefited from improving investor attention and sentiment.

Detractors from recent performance included metals recycler, Sims Metal Management, which has yet to demonstrate consistency in profitability. We remain hopeful



James Jordan - Chief Investment Officer

the stock will benefit as the economic recovery in the US broadens. Transpacific Industries saw its share price continue to drift lower following a disappointing half year result.

Internationally, March saw global stock markets decline 2.7% while the global smart energy themed International Equities Trust rose 3.4%. This 6.1% outperformance was driven predominantly by the renewable energy sectors.

In March a huge earthquake and tsunami caused massive devastation to Japan. The back-up systems of the nuclear power plant at Fukushima were overwhelmed and the situation remains unstable. The immediate effects on the Japanese electricity capacity and the reaction of European and US governments in relation to their own nuclear fleets has refocused market attention on renewables, in terms of relative energy security and cost.

March also saw a rise of instability in the Middle East and North Africa. Though the Egyptian protests reached a positive resolution, civil war in Libya was set in motion with foreign military involvement initiated. This helped drive world oil prices well above \$100 per barrel.

We are taking a more conservative stance on the equity risk as we believe the negative impacts of continued high oil prices and the withdrawal of the US quantitative easing programs are not fully priced in. We continue to focus on high cash flow companies with quality management.

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Steve Newnham joins Australian Ethical

Finance industry veteran Steve Newnham has taken up a position on the Board of Australian Ethical.

Steve has over 20 years experience in marketing and distribution in the financial industry. He comes from Lonsec Ltd as a consultant on the marketing and distribution of their research and stock broking services. Prior to this, Steve was head of distribution at Zurich Financial Services, chairman of a financial planning dealer group, director of a wrap platform and an administration business, and executive vice president of BT Financial Group.



Steve has had significant involvement with community and social justice activities having worked on homeless shelter support schemes, indigenous fellowship programs, environmental and drought relief projects and mental health awareness initiatives.

Adviser section added to Australian Ethical website

Australian Ethical continues to improve its award-winning website with a new section dedicated to financial advisers. Resources on the website include performance and full portfolio listings, up-to-date platform and research listings, and contacts for our adviser support team.

To visit, go to www.australianethical.com.au/finance-professionals

New stocks added to portfolios

Australian Ethical has recently added SomnoMed to its Australian holdings, as well as adding Power-One, Rubicon and Power Integrations to its global smart energy themed International portfolio.

SomnoMed is an Australian company whose products treat sleep-disordered breathing (SDB) conditions such as obstructive sleep apnea, snoring and teeth grinding. SDB is a condition affecting an estimated 4.2 million Australians and is associated with serious conditions such as hypertension and cardiovascular disease.

Power-One is a designer and manufacturer of power conversion and power management components for a wide range of electrical systems. It is currently the world's second largest manufacturer of renewable energy invertors, an essential component of renewable energy systems.

Rubicon is an electronic materials provider that manufactures monocrystalline sapphire and other crystalline products for light-emitting diodes (LEDs). LEDs are used in applications such as mobile devices, cameras, computers, LCD televisions, and specialty lighting. LED lights are extremely efficient compared to traditional modes of lighting.

Power Integrations supplies integrated circuits used for power conversions in many electrical appliances. The company developed the EcoSmart technology which reduces the amount of energy wasted by electronic appliances in standby mode. An estimated 10 per cent of electricity used in Australian households is attributed to standby power.

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Smaller Companies Trust out-performance, low volatility

The Australian Ethical Smaller Companies Trust continues to provide outstanding performance. As shown in the tables below, the Smaller Companies Trust has not only been able to provide outperformance over the long term but at much lower levels of volatility.

The following graph shows the value of \$100 invested over 5 years for the Smaller Companies Trust (blue line) compared with the ASX300 (green line) and the ASX Small Ordinaries (red line). The time period includes the tail end of the mining boom, the global financial crisis and the subsequent share market recovery.

Australian Ethical Smaller Companies Trust
Value of \$100 invested in Retail-Equity - Australia - Small Cap from Mar 2006 to Feb 2011
(before tax and after fees)

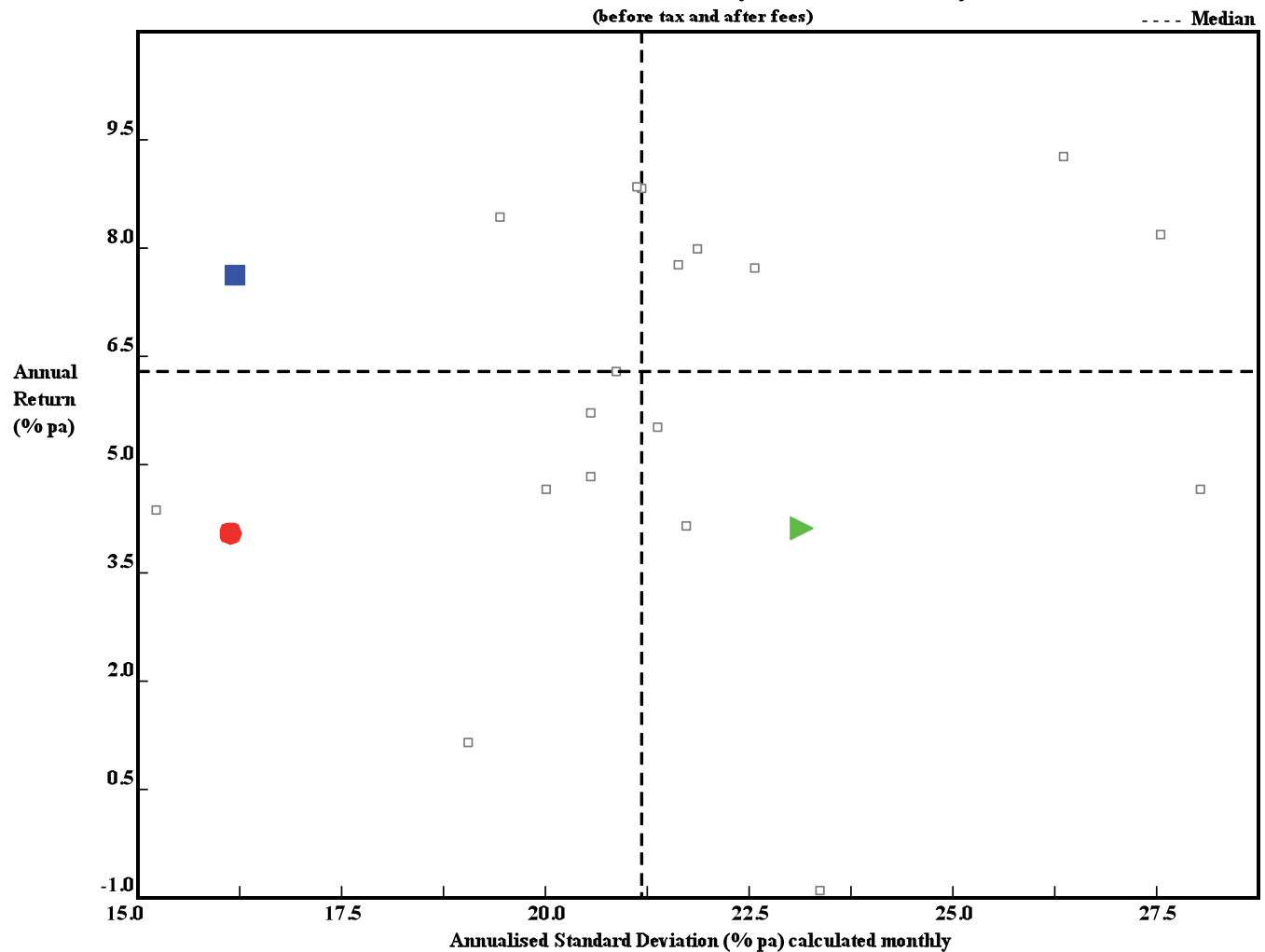


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The following graph shows the risk/return plot over 5 years for the small cap universe. The marks closest to the top are those with a higher return, and those closest to the left side of the graph have the lowest volatility. The blue circle is the Smaller Companies Trust, the red square the ASX300, the green triangle is the ASX Small Ordinaries, and the small squares are the other funds in the small cap universe.

Australian Ethical Smaller Companies Trust Comparison with the Mercer Retail-Equity - Australia - Small Cap Universe Annualised Risk and Return for 5 years ended February 2011



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Returns

Returns to 31 March 2011	3 mth	1 yr	3 yr (p.a.)	5 yr (p.a.)	Since inception (p.a.)
Smaller Companies Trust	2.0%	8.7%	9.2%	6.7%	9.8%
S&P/ASX Small Industrials	2.2%	5.8%	-3.2%	-2.1%	6.7%
Larger Companies Trust	1.9%	-1.9%	-1.0%	-1.4%	7.7%
Melded Benchmark	3.6%	0.2%	-1.4%	-1.0%	6.0%
International Equities Trust	8.3%	2.1%	-6.5%	-	-8.3%
MSCI World (AUD)	3.6%	1.0%	-3.8%	-	-7.2%
Balanced Trust	1.9%	3.8%	1.3%	0.8%	6.6%
Morningstar Multisector Balanced	n/a	n/a	n/a	n/a	n/a
Property Trust	2.1%	14.0%	-	-	3.6%
Mercer Unlisted Property Index	n/a	n/a	-	-	n/a
Climate Advocacy Fund	0.4%	3.6%	-	-	8.3%
S&P/ASX 200 Accumulation	3.2%	3.4%	-	-	8.3%