

Income Fund

Quarterly Report | March 2018

About Income Fund

- Aims to generate a competitive income stream while minimising the risk of capital loss.
- Invests in a diversified portfolio of interest-bearing investments, generating income.
- Certified by the Responsible Investment Association Australasia.



Performance Returns

	3 months (%)	6 months (%)	1 year (% p.a.)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
Income Fund (Retail)*	0.2	0.6	1.4	1.5	2.1	4.0
Australian 90 Day Bank Bill Rate	0.5	0.9	1.8	2.0	2.3	4.6
Relative Performance	-0.3	-0.3	-0.4	-0.5	-0.2	-0.6
Income Fund (Wholesale) ^	0.4	0.9	2.0	n/a	n/a	2.1
Australian 90 Day Bank Bill Rate	0.5	0.9	1.8	n/a	n/a	1.9
Relative Performance	-0.1	-	+0.2	n/a	n/a	+0.2

* Inception Date (Retail): 26 November 1997

^ Inception Date (Wholesale): 30 June 2015

Past performance is not an indicator of future performance.

Our Ethical Approach

Australian Ethical is a specialist ethical fund manager. By investing responsibly in well-managed ethical companies, we believe we can deliver competitive financial performance to our clients and positive change to society and the environment.

Investment Commentary

The March Quarter has seen a disconnect in Australian short-term markets from expectations about the future pace of activity from the Reserve Bank of Australia.

There has been no change to the official cash rate, with the RBA continuing to leave the rate at 1.5%, as inflation continues to run below the 2-3% target band and wage growth remains soft. While the RBA continue to expect that wage growth has troughed and inflation will return to the target band this year, they emphasise this process will be gradual, and some forecasting a rate rise to come in 2018 have been pushed back their expectations to 2019.

Despite this benign outlook for a tightening in monetary policy, the 3 month Bank Bill Swap Rate increased from 1.80% to 2.04% across March, driven by an increase in short-term funding costs in offshore markets. Higher offshore funding had

the effect of forcing the domestic issuers who used those markets to issue here instead, pushing the local rate higher. It remains to be seen whether this increase in BBSW is going to be sustained.

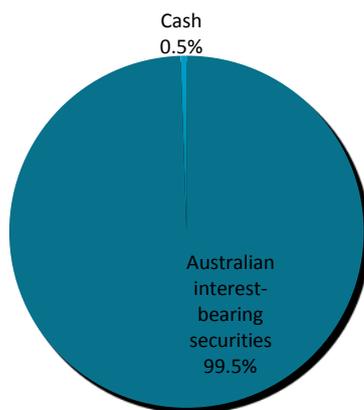
For many of the fund holdings, the increase in short-term rates will be reflected at future interest rate resets on floating rate notes and rollovers on term deposits. Some up to 1 year fixed rate investments, particularly the more liquid State and Commonwealth Government names, have seen a shift lower in price to reflect the increased yield to maturity.

Fund performance through the March quarter was slightly below that of the benchmark rate after fees as a result.

Top Issuers

Top 10 issuers	%
Australian Government Bond	9.5
Treasury Corporation of Victoria	9.0
West Australian Treasury Corp	8.8
Australian Capital Territory	6.1
Westpac Banking Corporation	5.6
Bendigo and Adelaide Bank	5.5
National Australia Bank	5.0
Bank of Queensland	4.7
Suncorp	4.5
KfW	3.3

Asset Allocation



Key Information



Portfolio Manager Tim Kelly

Tim has over 15 years investment experience and currently manages the Cash and Fixed Interest funds.

Responsible entity:	Australian Ethical Investment Ltd
Minimum initial investment:	\$1,000 (retail) \$25,000 (wholesale)
Distribution:	Half yearly
APIR:	AUG0003AU (retail) AUG0024AU (wholesale)
ARSN:	089 919 120
Contribution fee:	None
Establishment fee:	None
Withdrawal fee:	None
Termination fee:	None
Performance fee:	None
Management fee:	1.00% (retail) 0.35% (wholesale)
Buy-sell spread:	None
Platforms:	Lifetrack, Spectrum (SMF)
Fund size:	\$151.5 Million
Objective:	To generate an income stream consistent with prevailing short-term interest rates while minimising the risk of capital loss and supporting the Australian Ethical Charter.
Structure:	The Fund is an open-ended public unit trust.

A full explanation of all of the fees and costs that you may be charged for investing in the Fund is provided in the Fund's Product Disclosure Statements available from our website.

Why invest ethically?

Aligning values with investments

You probably already understand the importance of having a portfolio that matches your appetite for risk, but equally, if not more important, is holding a portfolio that reflects your values. For example, if you value the provision of fair working conditions (and no child labour) then it's important to invest in funds that negatively screen out stocks on this basis.

Portfolio diversification

Ethical funds in particular, often invest in stocks that are not covered by many fund managers and brokers.

Good for the world

Your investments can help build a new low-carbon economy, fund medical and technology breakthroughs, efficient transport and more.

For more information

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