

Australian Shares Fund

Monthly Report | March 2018

About Australian Shares Fund

- Has outperformed its benchmark since inception after retail fees.
- Only consists of companies that have passed Australian Ethical's positive and negative screens, based on the Ethical Charter.
- Certified by the Responsible Investment Association Australasia.



CERTIFIED BY RIAA

Performance Returns

	1 month (%)	3 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since Inception (% p.a.)
Fund (Retail)*	-1.5	-1.6	5.5	8.1	12.9	10.2	9.9	9.9
S&P/ASX Small Industrials	-1.7	-2.2	10.9	8.7	8.8	8.5	4.8	7.2
Relative Performance	+0.2	+0.6	-5.4	-0.6	+4.1	+1.7	+5.1	+2.7
Fund (Wholesale)^	-1.4	-1.3	7.0	9.7	14.6	n/a	n/a	15.7
S&P/ASX Small Industrials	-1.7	-2.2	10.9	8.7	8.8	n/a	n/a	11.6
Relative Performance	+0.3	+0.9	-3.9	+1.0	+5.8	n/a	n/a	+4.1
<i>Alternative benchmarks</i>								
S&P/ASX 200	-3.8	-3.9	2.5	3.8	7.7	7.2	5.4	
S&P/ASX Small Ordinaries	-2.3	-2.8	15.0	10.7	6.4	2.4	1.4	
S&P/ASX 200 Industrials	-3.6	-3.8	-0.4	2.9	8.8	10.8	7.3	

* Inception Date (Retail): 19 September 1994

^ Inception Date (Wholesale): 23 January 2012

Past performance is not an indicator of future performance.

Investment Commentary

The Fund outperformed its S&P/ASX Small Industrials benchmark -1.6% vs -2.2% over the quarter. The Fund's exposure to Telecommunications, Healthcare and Information Technology sectors were positive contributors to investment performance, with Financials and Consumer Discretionary and Consumer Staples detracting over the quarter.

At the stock level the strongest individual contributor was wealth management and administration software provider Bravura Solutions which appreciated 56% after reporting a solid half year result and a promising 2018 outlook. The stock had been trading at a significant discount to its listed software peers.

We were also very pleased with our investment in data centre and telecommunications company Macquarie Telecom which appreciated 24% after announcing a strong first half 2018 result and a solid investment outlook. The company is currently contemplating additional data centre investment as its facility in Sydney is rapidly approaching capacity.

The third strongest contributor was sleep apnea company Resmed which appreciated 12.5% after giving a decent quarterly update which pointed to the key mask division sales growth accelerating.

Junior biotech Pharmaxis appreciated 27% on renewed interest in the Australian biotech sector. This interest was driven by corporate activity with immunotherapy drug developer Viralytics being taken-over by pharmaceutical giant Merck and medical device company Sirtex being acquired by Varian Medical Systems over the quarter.

The two largest detractors were the regional banks Bank of Queensland and Bendigo Adelaide Bank which fell 14 and 16% respectively. We attribute these falls to the slower credit growth environment, more competitive pricing, higher funding costs and negative sentiment around the Royal Commission.

Other detractors included mortgage reinsurer Genworth Mortgage Insurance Australia which fell 23% on concerns around the outlook for Australian residential housing and the Royal Commission.

Other laggards included building products supplier Fletcher Building which fell 18% after the company announced further cost over-runs in its construction division. We were disappointed with our investment in accounting software company Reckon which fell 20% after the Australian Competition and Consumer Commission (ACCC) highlighted it had some concerns with the planned sale of Reckon’s Accountant software division to ASX listed accounting software company MYOB. Investors will receive a final decision from the ACCC on the 30th of May 2018 and we remain optimistic the deal will ultimately be approved. Systems Integrator RXP Services fell 27% after reducing its revenue and profit expectations for 2018.

We actively added 7 new names to the portfolio over the quarter.

Top Holdings

National Australia Bank Limited	4.2%
Westpac Banking Corporation	4.2%
Macquarie Telecom Group Limited	3.8%
Contact Energy Limited	3.5%
Bendigo & Adelaide Bank Ltd.	3.5%
Bank of Queensland Limited	3.4%
Resmed Inc CHESS Depository	3.3%
Interests on a ratio of 10 CDIs per ord.sh	
Suncorp Group Limited	3.2%
Spark Infrastructure Group Ltd.	3.0%
Computershare Limited	2.6%

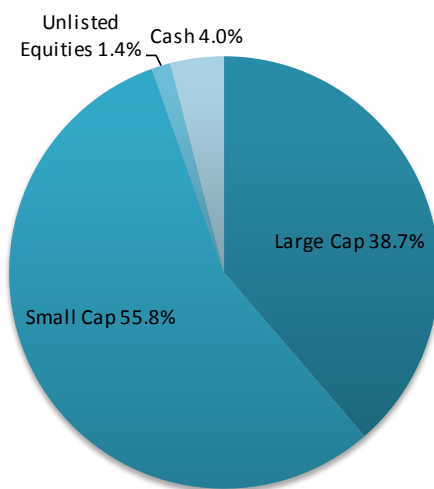
Our Ethical Approach

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.

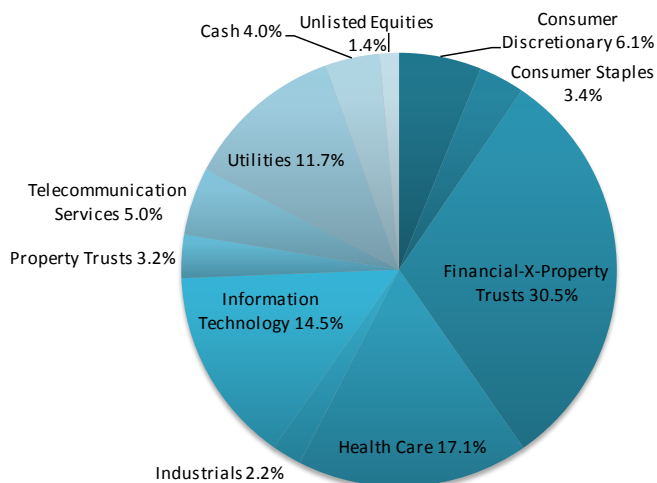
Significant Performers (For the quarter)

Best	Total Return	Contribution	Worst	Total Return	Contribution
Bravura Solutions Limited	59.2%	1.0%	Bank of Queensland Limited	-13.8%	-0.5%
Macquarie Telecom Group Limited	25.8%	0.8%	Bendigo & Adelaide Bank Ltd.	-13.0%	-0.5%
Resmed Inc	12.9%	0.4%	Genworth Mortgage Insurance Australia Ltd	-19.1%	-0.4%

Asset Allocation



Sector Allocation



Key Information



Portfolio Manager Andy Gracey

Andy has been portfolio manager of the Australian Shares Fund for over ten years.

Responsible entity:	Australian Ethical Investment Ltd
Minimum initial investment:	\$1,000 (retail) \$25,000 (wholesale)^
Distribution:	Six-monthly
APIR:	AUG0002AU (retail) AUG0018AU (wholesale)
ARSN:	089 919 175
Contribution fee:	None
Establishment fee:	None
Withdrawal fee:	None
Termination fee:	None
Performance fee:	None
Management fee:	2.50% (retail) 1.10% (wholesale)
Buy-sell spread:	0.15%
Platforms:	Asgard, AXA North, BTWrap, Colonial FirstWrap, Emerald, Freedom of Choice, Plan B, Macquarie, MLC Navigator, Netwealth, Oasis, Spectrum (SMF)
Fund size:	\$ 808.4Million
Objective:	To provide long-term growth focusing on Australian companies that meet 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.

^ Direct investors must maintain a minimum \$500,000 investment across Australian Ethical's managed funds and a minimum of \$25,000 in the Australian Shares Fund.

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

- t** 1800 021 227
- e** enquiries@australianethical.com.au
- w** australianethical.com.au

Units in the managed funds are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. Our Product Disclosure Statements (PDS) and Financial Services Guide are available from our website or by phone and should be considered before making an investment decision. This information has been prepared without taking account of your individual investment objectives, financial situation or needs. Before acting on it, you should consider obtaining financial advice that is tailored to suit your personal circumstances. Australian Ethical is a registered trademark of Australian Ethical Investment Ltd