

Australian Shares Fund

Monthly Report | June 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)*	1.8	2.9	8.0	10.7	13.1	11.7	9.4	9.9
S&P/ASX Small Industrials	1.4	6.8	18.3	12.9	11.8	10.2	7.1	7.4
Relative Performance	+0.4	-3.9	-10.3	-2.2	+1.3	+1.5	+2.3	+2.5
Fund (Wholesale)^	1.9	3.3	9.5	12.4	14.9	n/a	n/a	15.6
S&P/ASX Small Industrials	1.4	6.8	18.3	12.9	11.8	n/a	n/a	12.3
Relative Performance	+0.5	-3.5	-8.8	-0.5	+3.1	n/a	n/a	+3.3
<i>Alternative benchmarks</i>								
S&P/ASX 200	3.3	8.5	13.0	9.0	10.0	9.1	6.4	
S&P/ASX Small Ordinaries	1.1	7.7	24.2	15.0	11.6	4.9	2.6	
S&P/ASX 200 Industrials	3.3	6.7	7.8	7.7	10.3	12.3	9.2	

* 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 underperformed its S&P/ASX Small Industrials benchmark in the June quarter appreciating 2.9% vs 6.8%. The Fund's limited exposure to the strong performing Consumer Discretionary sector and overweight exposure to the poorer performing sectors of Financials and Utilities as well as cash holdings, explain much of this underperformance. Additionally some of the Fund's information technology names underperformed this quarter.

At the stock level, the strongest individual contributor over the quarter was sleep apnea company Resmed, which appreciated 14.1% after announcing a strong March 2018 quarterly result driven by increased sales of its higher margin mask business. Other strong performing names included wealth management and fund administration software provider Bravura Solutions which appreciated 19%. Bravura had been trading at a significant discount to software peers with this discount closing in 2018. Other decent performers include regional bank Bendigo & Adelaide Bank which appreciated 10% from an oversold position.

We were very pleased with the performance of data centre owner/operator and telecom company Macquarie Telecom, which appreciated 8.5%. Macquarie Telecom has been rerated over the last 12 months on the back of strengthening data centre earnings and greater market appreciation around data centre businesses being positively leveraged to the unstoppable growth of the internet. Other strong share price performers included New Zealand genretailer Contact Energy which appreciated 8.6%. This company has traded at a significant discount to its New Zealand electricity generator/retailer peers since around the time of the 2015 Origin Energy sell-down of its holding in Contact Energy. We are encouraged to see Contact Energy's greater focus on the hydro and geothermal renewables energy sources and similarly pleased to see the discount close against peers over recent quarters.

The underperformers included education technology company 3P Learning which fell 16% over the quarter, after announcing disappointing sale proceeds following the divestment of its minority holding in online assessment company Learnosity. Other laggards included sleep company, Somnomed which sells dentist-fitted sleep apnea devices. These offer better patient compliance than the continuous positive airway pressure (CPAP) machines sold by the likes of Resmed and Fisher & Paykel Healthcare. Somnomed disappointed the market with its efforts to commercialise its business outside the company's core dentistry sales channel. We have used the current share price weakness to add to our holding. Ellex Medical Lasers disappointed the market with the growth of its minimally-invasive glaucoma surgery iTrack device. Other laggards include Shriro, after announcing its first half 2018 profitability would be 15% below 2017, with kitchen appliances' sales and margins under pressure. Accounting software company Reckon was frustratingly unable to sell its accountant software business after protracted dealings with Australian and New Zealand competition regulators.

The Fund continues to actively target new positions.

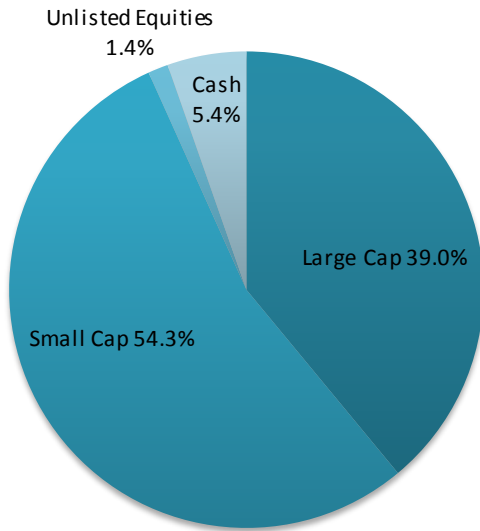
Top Holdings

Westpac Banking Corporation	4.3%
National Australia Bank Limited	4.0%
Macquarie Telecom Group Limited	3.9%
Resmed Inc CHESS Depository	3.6%
Interests on a ratio of 10 CDIs per ord.sh	
Bendigo & Adelaide Bank Ltd.	3.6%
Contact Energy Limited	3.6%
Suncorp Group Limited	3.3%
Spark Infrastructure Group Ltd.	3.0%
Bank of Queensland Limited	3.0%
Mirvac Group	2.1%

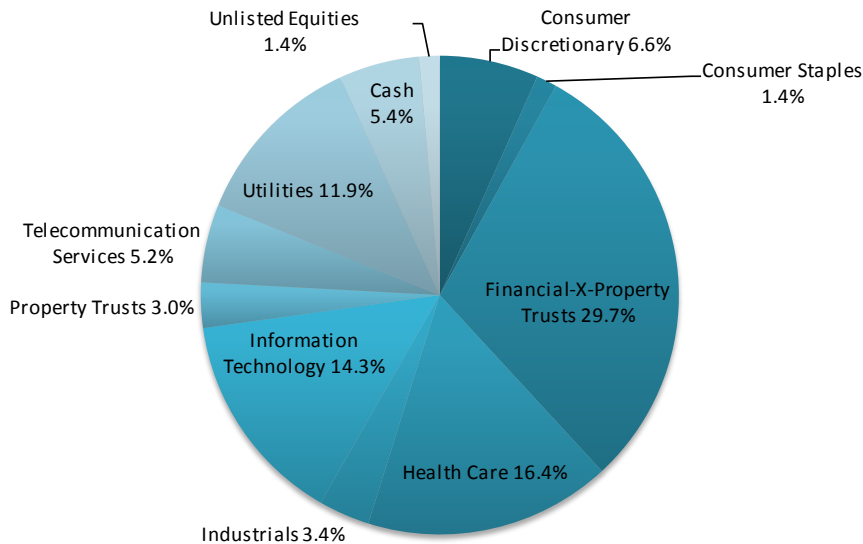
Significant Performers (For the quarter)

Best	Total Return	Contribution	Worst	Total Return	Contribution
Resmed Inc	14.5%	0.5%	3P Learning Ltd.	-15.5%	-0.4%
Bravura Solutions	18.9%	0.4%	Somnomed Limited	-27.6%	-0.3%
Bendigo & Adelaide Bank Ltd.	10.2%	0.4%	Ellex Medical Lasers Limited	-29.5%	-0.3%

Asset Allocation



Sector Allocation



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.

Key Information



Portfolio Manager Andy Gracey

Andy has been portfolio manager of the Australian Shares Fund for over 10 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:	\$ 851.4Million
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

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