

Balanced Fund

Quarterly Report | June 2018

About Balanced Fund

- A diversified portfolio of asset types and markets to reduce the volatility of returns.
- Only consists of investments that have passed Australian Ethical's positive and negative screens, based on the Ethical Charter.
- Offers excellent diversification benefits as it invests across multiple asset classes.
- Aims to provide a balance between capital growth and a moderate level of income.
- Certified by the Responsible Investment Association Australasia.



Performance Returns

| | 3 months (%) | 1 year (%) | 3 years (%p.a.) | 5 years (%p.a.) | 10 years (%p.a.) | Since Inception (%p.a.) |
|-----------------------------|-----------------|---------------|--------------------|--------------------|---------------------|----------------------------|
| Fund (Retail)* | 2.7 | 6.5 | 6.3 | 8.1 | 5.6 | 6.7 |
| Benchmark | 4.1 | 8.7 | 7.5 | 9.1 | 7.2 | 7.4 |
| Relative Performance | -1.4 | -2.2 | -1.2 | -1.0 | -1.6 | -0.7 |
| Fund (Wholesale)^ | 3.2 | n/a | n/a | n/a | n/a | 3.0 |
| Benchmark | 4.1 | n/a | n/a | n/a | n/a | 4.1 |
| Relative Performance | -0.9 | n/a | n/a | n/a | n/a | -1.1 |

* Inception Date (Retail): 16 October 1989

^ Inception Date (Wholesale): 28 March 2018

Past performance is not an indicator of future performance.

Investment Commentary

The Australian and global markets performed well over the June quarter. In Australia it was driven by the banks and healthcare sectors, while the global markets were boosted by the IT and energy sectors (due to the oil price increasing 11% in June).

The S&P/ASX 200 index was up 8.5% due to the performance of the Resources and Energy sectors (crude trading at US\$74/bbl, its highest level since 2014). The ASX 200 Industrials index was up 6.7%, demonstrating the impact of the resources stocks on the overall market. There were solid gains in the IT sector and the banks recovered some lost ground due to the Royal Commission.

Global markets, as measured by the MSCI ex Australia index were up 5.5% over the quarter. Similar to the Australian market, the Energy sector and the oil price increase were catalysts for the performance. The other strong sector globally was IT, where solid performances by the US stocks Apple, Microsoft and Facebook, were driven by good quarterly earnings.

Following a turbulent March quarter, the Balanced Fund returned positive performance across all asset classes. Australian equities were particularly strong, returning 5.33% over the quarter. International shares also posted strong results, returning 3.56% for the period.

The Fund underperformed the benchmark over the quarter by -0.88% despite the strong performances by domestic and international equities. Domestic Equities underperformed by -0.45% and International Equities by -0.51%.

The underperformance in domestic equities was due to the underweight position in the Financials sector which recovered after the impact of the events of the Royal Commission last quarter. The fund was particularly impacted by its non-ownership of ANZ and Macquarie Bank (not ethically rated) where the underperformance was -1.08%. The other sector

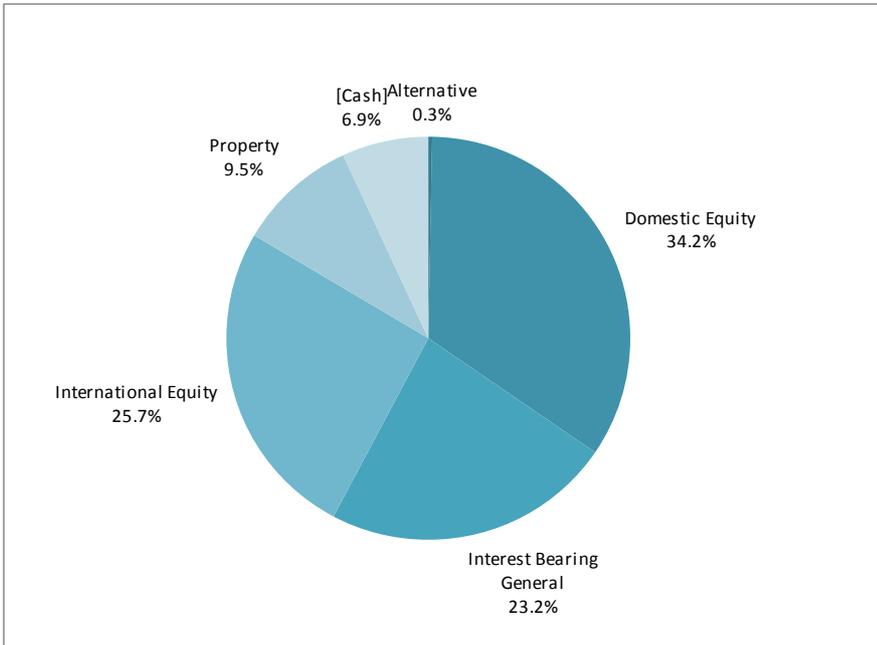
which negatively impacted the Fund was Consumer Staples where our underweight positions in Wesfarmers and Woolworths (due to not being ethically rated) contributed underperformance of -1.15%. However there was generally good outperformance in most of the Funds' other sectors, with IT, Industrial and Materials featuring, but not enough to offset the detractor sectors of Financials and Consumers. It was stock selection in the positive contributing sectors rather than underweight positions due to ethical screening that lead to their outperformance.

The International shares fund underperformed its blended benchmark. The portfolio contributed a return of 3.5% versus the benchmark return of 5.5%. The fund's underperformance was specifically driven by underweight positions in the Consumer Discretionary and Energy sectors. Due to our ethical screening, we do not hold Amazon in Consumer Discretionary which had a negative impact of -0.33. As Energy is not ethically rated, the Fund does not hold any stocks in this sector which delivered a negative impact of -1.0%. The fund is overweighted in the Financials sector and as the result of stock selection based on our Ethical Charter, the sector contributed -0.48% versus the benchmark return of -0.15%. The other sector which dampened performance was the fund's underweight position in Health Care where the benchmark was a positive contribution of 0.75% versus the fund's contribution of 0.46%. Significant overweight positions in the IT and Property Trusts sectors contributed 1.07% of performance but this was not enough to offset the underperformance.

Top Holdings

| | | |
|---|----------------------------|-----|
| Investa Property Group | Australian Direct Property | 5.3 |
| Healthcare Wholesale Property Fund | Australian Direct Property | 4.0 |
| National Australia Bank Limited | Domestic Shares | 1.0 |
| Westpac Banking Corporation | Domestic Shares | 1.0 |
| Microsoft Corporation | International Shares | 0.9 |
| Alphabet Inc. Class A | International Shares | 0.8 |
| Government Of Australia 4.25% 21-apr-2026 | Australian Fixed Interest | 0.8 |
| Government Of Australia 4.75% 21-apr-2027 | Australian Fixed Interest | 0.8 |
| Suncorp Group Limited | International Shares | 0.8 |
| Government Of Australia 5.75% 15-may-2021 | Australian Fixed Interest | 0.8 |

Asset Allocation



Key Information



Portfolio Manager David Macri, CFA

David is Australian Ethical’s Chief Investment Officer. He has over 19 years experience in the financial services industry.

| | |
|-----------------------------|---|
| Responsible entity: | Australian Ethical Investment Ltd |
| Minimum initial investment: | \$1,000 (retail) \$25,000(wholesale)^ |
| Distribution: | Half yearly |
| APIR: | AUG0001AU(retail) AUG0017AU(wholesale) |
| ARSN: | 089 919 255 |
| Contribution fee: | None |
| Establishment fee: | None |
| Withdrawal fee: | None |
| Termination fee: | None |
| Performance fee: | None |
| Management fee: | 2.42% pa (retail) 0.85% pa (wholesale) |
| Buy–sell spread: | 0.15% |
| Platforms: | Asgard, Freedom of Choice, Plan B, Lifetrack, MLC Navigator, Netwealth, Oasis, Spectrum (SMF) |
| Fund size: | \$1149.9 Million |
| Objective: | To provide investors with a balance between capital growth and a moderate level of income through a diversified portfolio of assets that supports 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 Balanced 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