

Diversified Shares Fund

Monthly Report | June 2018

About Diversified Shares Fund

- Australian investments generally have a market capitalisation greater than the 200th ranked stock listed on the ASX.
- Only consists of companies that have passed Australian Ethical's positive and negative screens, based on the Australian 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)* | 2.2 | 4.8 | 8.9 | 8.1 | 11.3 | 10.8 | 6.9 | 8.3 |
| Benchmark~ | 3.0 | 6.4 | 9.7 | 8.3 | 11.2 | 13.1 | 9.2 | 8.1 |
| Relative Performance | -0.8 | -1.6 | -0.8 | -0.2 | +0.1 | -2.3 | -2.3 | +0.2 |
| Fund (Wholesale)^ | 2.3 | 5.1 | 10.3 | 9.5 | 12.8 | n/a | n/a | 15.0 |
| Benchmark~ | 3.0 | 6.4 | 9.7 | 8.3 | 11.2 | n/a | n/a | 15.1 |
| Relative Performance | -0.7 | -1.3 | +0.6 | +1.2 | +1.6 | n/a | n/a | -0.1 |
| <i>Alternative benchmarks</i> | | | | | | | | |
| S&P/ASX 200 Industrials | 3.3 | 6.7 | 7.8 | 7.7 | 10.3 | 12.3 | 9.2 | |
| S&P/ASX 200 | 3.3 | 8.5 | 13.0 | 9.0 | 10.0 | 9.1 | 6.4 | |
| MSCI World ex Australia (AUD) Net | 2.3 | 5.5 | 15.4 | 10.0 | 14.9 | 15.0 | 9.2 | |

* Inception Date (Retail): 3 November 1997

^ Inception Date (Wholesale): 23 January 2012

~ AEDSF melded benchmark is constructed based on strategic asset allocation. Current composition is 75% ASX 200 Industrials and 25% MSCI World ex Australia.

Past performance is not an indicator of future performance.

Investment Commentary

Both the Australian and global markets recorded significant appreciation over the June quarter. In Australia it was driven by the banks and health care sectors whilst the global markets were boosted by the performance of the IT and energy sectors. The oil price increased nearly 11% in the June quarter.

The S&P/ASX 200 index ended the quarter up 8.5% with particularly strong performance in the months of April and June (+3% each month). The April performance was largely driven by the Energy sector which was up 11% due to crude oil increasing to US\$68/bbl, the highest level since 2014. The performance was repeated in June with the sector up 8% and crude trading at US\$74/bbl. The ASX 200 Industrials index was up 6.7% in the quarter demonstrating the impact of resources stocks on the overall market. There were also solid gains in the IT sector and the banks recovered some of the ground lost due to the Royal Commission into financial services.

Global markets, as measured by the MSCI ex Australia index performed strongly as well, up 5.5% over the quarter. As with 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 of Apple, Microsoft and Facebook, were driven by good quarterly earnings.

The fund underperformed its melded benchmark by -1.15% (pre fees) during the June quarter. The domestic equities portfolio contributed an underperformance of -0.6%, while international equities provided underperformance of -0.5%.

Domestic equities underperformed due to their underweight position in the Financials sector which recovered in the June quarter after earlier impacts of the Royal Commission. Non-ownership of ANZ and Macquarie Bank (not ethically rated) in particular, contributed to an underperformance of -1.08%. Our underweight positions in Wesfarmers and Woolworths in the Consumer Staples sector (not ethically rated) contributed an underperformance of -1.15%. There was generally good outperformance in the Fund’s other sectors, especially IT, Industrials and Materials. However, this was 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 led 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.

The cash position at the end of the quarter was 2.63%, slightly higher due to the proceeds of the divestment of AMP in the domestic portfolio as a result of a change in ethical rating.

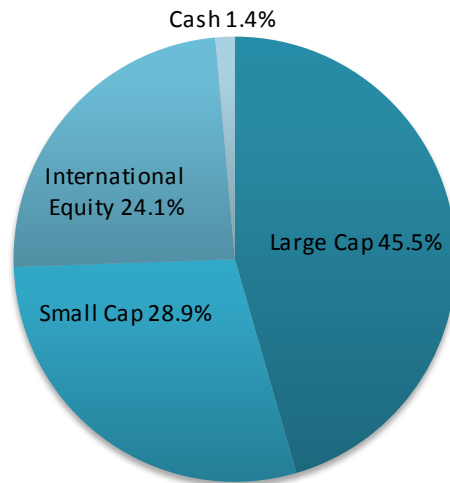
Top Holdings

| | |
|-----------------------------------|------|
| National Australia Bank | 2.1% |
| Westpac Banking Corporation | 2.0% |
| CSL Limited | 1.9% |
| Suncorp Group Limited | 1.6% |
| Telstra Corporation Limited | 1.5% |
| Insurance Australia Group Limited | 1.5% |
| Lendlease Group | 1.4% |
| Cochlear Limited | 1.4% |
| Resmed Inc. | 1.4% |
| Brambles Limited | 1.4% |

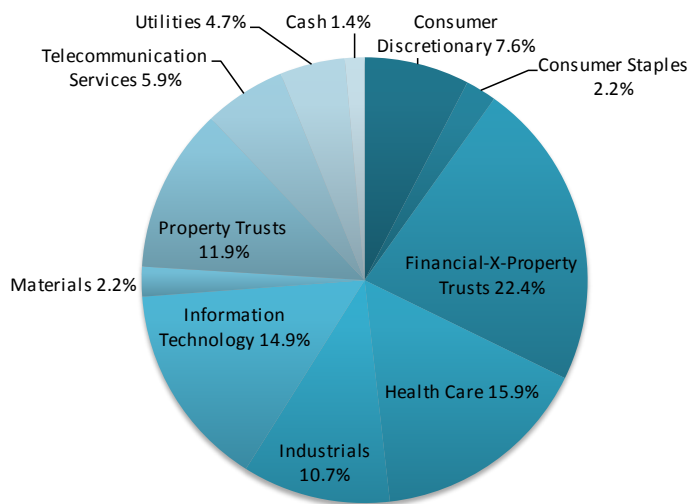
Significant Performers (For the quarter)

| Best | Total Return | Contribution | Worst | Total Return | Contribution |
|-------------------------------|--------------|--------------|-----------------------------|--------------|--------------|
| CSL Limited | 23.9% | 0.4% | AMP Limited | -25.3% | -0.3% |
| Xero Limited | 34.6% | 0.3% | Telstra Corporation Limited | -16.6% | -0.3% |
| Reliance Worldwide Corp. Ltd. | 25.0% | 0.2% | Ramsay Health Care Limited | -13.4% | -0.2% |

Asset allocation



Sector allocation



Key Information

| | |
|-----------------------------|---|
| Responsible entity: | Australian Ethical Investment Ltd |
| Minimum initial investment: | \$1,000 (retail), \$25,000 (wholesale)^A |
| Distribution: | Six-monthly Portfolio Manager. He has over 28 years' experience in the equities market. |
| APIR: | AUG0004AU (retail) AUG0019AU (wholesale) |
| ARSN: | 089 919 166 |

DIVERSIFIED SHARES FUND

Our Ethical Approach

t 1800 021 227 e enquiries@australianethical.com.au p GPO Box Centre Sydney, GPO Box 8, Sydney NSW 2001
 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.

| | |
|--------------------|--|
| Contribution fee: | None |
| Establishment fee: | None |
| Withdrawal fee: | None |
| Termination fee: | None |
| Performance fee: | None |
| Management fee: | 2.20% pa (retail) 0.95% pa (wholesale) |
| Buy-sell spread: | 0.15% |
| Platforms: | AXA North, BT Wrap, Colonial FirstWrap, Emerald, Freedom of Choice, Macquarie, Netwealth, Oasis, Spectrum (SMF) |
| Fund size: | \$ 857.6 Million |
| Objective: | To provide long-term growth through investment in listed companies on Australian and international stock exchanges 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 Diversified 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

DIVERSIFIED SHARES FUND