

## Emerging Companies Fund

Monthly Report | June 2018

### About Emerging Companies Fund

- Modelled from the ex S&P/ASX 100 component of the flagship Australian Ethical Australian Shares Fund.
- 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.)	Since Inception (% p.a.)
<b>Fund (Retail)*</b>	1.7	2.0	13.1	13.8	13.8
<b>S&amp;P/ASX Small Industrials</b>	1.4	6.8	18.3	12.9	12.9
<b>Relative Performance</b>	+0.3	-4.8	-5.2	+0.9	+0.9
<b>Fund (Wholesale)^</b>	1.8	2.5	14.2	14.7	14.7
<b>S&amp;P/ASX Small Industrials</b>	1.4	6.8	18.3	12.9	12.9
<b>Relative Performance</b>	+0.4	-4.3	-4.1	+1.8	+1.8
<i>Alternative benchmarks</i>					
<b>S&amp;P/ASX 200</b>	3.3	8.5	13.0	9.0	9.0
<b>S&amp;P/ASX Small Ordinaries</b>	1.1	7.7	24.2	15.0	15.0
<b>S&amp;P/ASX 200 Industrials</b>	3.3	6.7	7.8	7.7	7.7

\* Inception Date (Retail and Wholesale): 1 July 2015

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 2.0% vs 6.8%. The Fund's limited exposure to the strong performing Consumer Discretionary sector and overweight exposure to the poorer performing Financials sector and cash holdings, explains 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 information technology company Rhipe, which appreciated 30.2%. This Microsoft-focussed software-as-a-service distributor is benefiting from the strong demand for cloud based software, with investors expecting multiple years of revenue growth for Rhipe.

Wholesale drug distributor and owner of retail pharmacy network Priceline, Australian Pharmaceutical Industries appreciated 13% after announcing it was buying a service business called Clearskincare Clinics for \$127.4 million. The rationale around leveraging Priceline's health and beauty product franchise into skin care services makes sense in our opinion.

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 enterprise software peers with this discount largely closing in 2018.

The Fund's investment in medical device company Oncosil has been a strong performer with its share price up 77% over the quarter. We are encouraged with the early stage clinical data Oncosil has generated in the treatment of pancreatic cancer.

EMERGING COMPANIES FUND

1

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

Australian Ethical Investment Ltd ABN 47 003 188 930 AFSL 229949 [australianethical.com.au](http://australianethical.com.au)

The Fund added to its investment in radiology company Capital Health, with its share price appreciating 20% over the quarter. Shareholders are enjoying Capital Health acquiring small radiology practices on attractive earnings multiples.

The largest detractor to investment performance was sales enablement software provider Bigtincan after its share price fell 19% in the quarter. The company raised fresh equity money to fund acquisitions, however is yet to gain the full confidence of the market.

Education software company 3P Learning fell 16% over the quarter, after announcing a disappointing sales price for its minority holding in software-as-a-service assessment company Learnosity.

Medical device company Cyclopharm fell 16% on little or no news, while Shriro fell after announcing its first half 2018 profitability would be 15% below the corresponding period in 2017, with kitchen appliances' sales and margins under pressure. 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.

The Fund continues to actively target new positions.

## Top Holdings

Contact Energy Limited	4.0%
Rhipe Limited	3.9%
Bigtincan Holdings Ltd	3.7%
Macquarie Telecom Group Limited	3.7%
Auswide Bank Ltd.	3.4%
Australian Finance Group Ltd.	3.2%
Capitol Health Limited	3.2%
Australian Pharmaceutical Industries Ltd	3.2%
3P Learning Ltd.	3.1%
Empired Ltd	3.0%

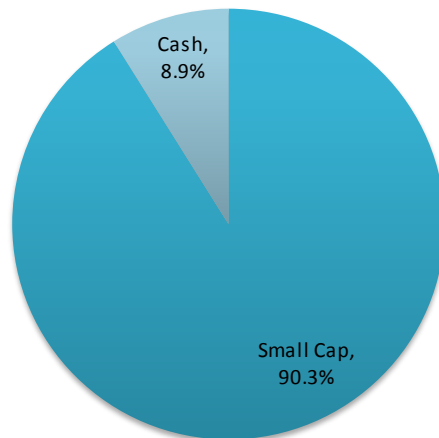
## Our Ethical Approach

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.

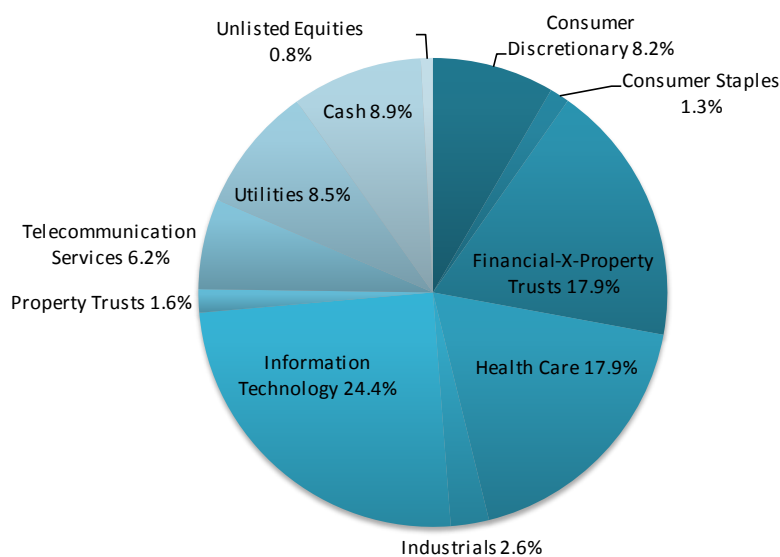
## Significant Performers (For the quarter)

Best	Total Return	Contribution	Worst	Total Return	Contribution
Rhipe Limited	30.2%	1.0%	Bigtincan Holdings Ltd	-18.5%	-0.7%
Australian Pharmaceutical Industries Ltd	16.2%	0.5%	3P Learning Ltd.	-15.5%	-0.6%
Bravura Solutions Limited	18.9%	0.4%	Cyclopharm Limited	-15.3%	-0.3%

## Asset Allocation



## Sector Allocation



## Key Information



### Portfolio Manager Andy Gracey

Andy is portfolio manager of the Emerging Companies Fund. He has been managing portfolios at Australian Ethical for over 10 years.

Responsible entity:	Australian Ethical Investment Ltd
Minimum initial investment:	\$1,000 (retail) \$25,000 (wholesale)
Distribution:	Six-monthly
APIR:	AUG0026AU (retail) AUG0027AU (wholesale)
ARSN:	606 254 157
Contribution fee:	None
Establishment fee:	None
Withdrawal fee:	None
Termination fee:	None
Performance fee:	20% of the difference between the Fund's daily return and its performance above the hurdle.
Management fee:	2.20% (retail) 1.20% (wholesale)
Buy-sell spread:	0.20%
Platforms:	To be advised
Fund size:	\$ 63.8 Million
Objective:	To provide long-term growth by investing in small capitalisation 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.

## 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](mailto:enquiries@australianethical.com.au)
- w** [australianethical.com.au](http://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