

Emerging Companies Fund

Monthly Report | March 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 (%)	2 years (% p.a.)	Since Inception (% p.a.)
Fund (Retail)*	0.4	1.1	11.3	13.9	14.3
S&P/ASX Small	-1.7	-2.2	10.9	10.2	11.5
Relative Performance	+2.1	+3.3	+0.4	+3.7	+2.8
Fund (Wholesale)^	0.3	1.1	12.1	14.8	15.1
S&P ASX Small Industrials	-1.7	-2.2	10.9	10.2	11.5
Relative Performance	+2.0	+3.3	+1.2	+4.6	+3.6
<i>Alternative benchmarks</i>					
S&P/ASX 200	-3.8	-3.9	2.5	11.2	6.7
S&P/ASX Small	-2.3	-2.8	15.0	14.3	13.4
S&P/ASX 200 Industrials	-3.6	-3.8	-0.4	8.2	5.9

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

Past performance is not an indicator of future performance.

Investment Commentary

The Fund outperformed its S&P/ASX Small Industrials benchmark +1.1% vs -2.2% over the quarter. The Fund's exposure to Financials, Telecommunications, Healthcare and Information Technology sectors were all positive contributors to investment performance 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 funds holding in aerial imagery mapping company, was the third strongest contributor to portfolio performance appreciating 55% after Nearmap announced decent growth in both its Australian and American revenues. The market is now taking some comfort that Nearmap is on the road to being free cashflow generative.

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.

We were pleased to see medical device company Cyclopharm appreciate 25% on news their clinical study of functional lung ventilation imaging technology product (Technegas) was progressing positively. The company expect to be in a position to submit 40 patient interim data package to the FDA by mid 2018.

The detractors included mortgage reinsurer Genworth Mortgage Insurance Australia which fell 23% on concerns around the outlook for Australian residential housing and the Royal Commission. The Funds investment in strata and property management software-as-service company Urbanise fell 39% after the company disappointed the market with its progress in the first half of 2018.

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 fellow 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 6 new names to the portfolio over the quarter.

Top Holdings

Contact Energy Limited	4.0%
Trilogy International Limited	4.0%
Auswide Bank Ltd.	3.8%
3P Learning Ltd.	3.8%
Bigtincan Holdings Ltd	3.7%
Macquarie Telecom Group Limited	3.6%
Australian Finance Group Ltd.	3.4%
Rhipe Limited	3.2%
EQT Holdings Ltd.	3.2%
Bravura Solutions Limited	3.2%

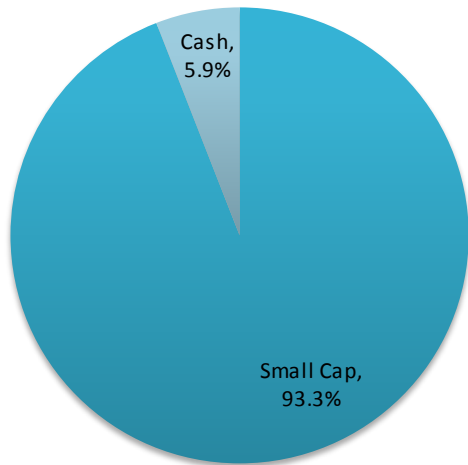
Our Ethical Approach

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.

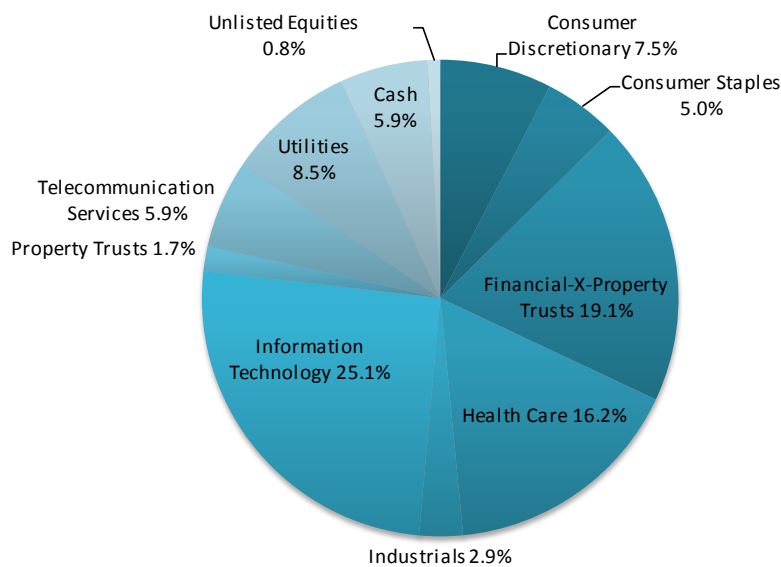
Significant Performers (For the quarter)

Best	Total Return	Contribution	Worst	Total Return	Contribution
Bravura Solutions Limited	59.2%	1.3%	Genworth Mortgage Insurance Australia Ltd	-19.1%	-0.5%
Macquarie Telecom Group Limited	25.8%	0.8%	Urbanise.com Ltd.	-39.0%	-0.4%
Nearmap Ltd.	54.8%	0.7%	Fletcher Building Limited	-17.9%	-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:	\$ 59.2 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

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