

Portfolio Commentary

The Australian Governance & Ethical Index Fund returned 0.9% throughout the September quarter (Q3) on a Net Asset Value basis, with the initial portfolio fully invested in early July. Pleasingly, the Fund has had a positive start, outperforming the broader S&P/ASX 100 Index which had a flat return over the same period.

The primary positive relative contributors to performance included the exclusions of Evolution Mining (down 22%), Aristocrat Leisure (down 9.0%) and AGL Energy (down 13%). Aristocrat Leisure experienced a selloff as the strong run in higher growth stocks partly unwound, while AGL Energy was weaker amid increasing uncertainty around energy policy following the withdrawal of the proposed National Energy Guarantee. Overweight positions in both Computershare (up 12%) and Telstra (up 18%) also contributed to performance, with the Telecommunications sector benefitting following news of the Vodafone/TPG merger. At quarter end, we took the opportunity to reduce the Telstra holding, following the strong share price gains.

While the market absorbs the uncertainty around energy policy, in our view, the increasing political commentary around securing price and reliability while ignoring the environmental impact of production does not align with the changing priorities of consumers. The 2018 edition of a decade-long survey by the Australia Institute tracking climate change sentiment has found the overwhelming majority of respondents (73%, up from 66% in 2017) remain concerned about climate change, while 68% believe the government should set domestic targets to comply with our Paris commitments. In addition, an increased 67% want coal-fired power to be phased out within 20 years, up from 61% in 2017. While being somewhat overlooked in the current political climate, we believe these trends will have strong investment implications over the coming years.

Looking forward, Annual General Meeting season has now begun, with a key focus expected on company remuneration policy and director accountability. Remuneration policy, in particular, has become a flash point with investors, following the introduction of the "two strikes rule" in July 2011, which can result in a board spill should a company receive 25% or more votes against its remuneration report over two consecutive years. With these policies increasing in importance, we often consider what makes for a "good" compensation structure. In our experience, we believe three elements are most important when evaluating any policy.

Fund Performance

| | 1 month | 3 months | 6 months | 1 year | 3 years | S.I. |
|------------------------|---------|----------|----------|--------|---------|------|
| NTA* | -1.6% | - | - | - | - | 0.9% |
| S&P/ASX 100 Acc. Index | -1.3% | - | - | - | - | 0.0% |
| Excess return | -0.3% | - | - | - | - | 1.0% |

*Performance figures are total returns with distributions reinvested and after fees and expenses.

FUND FACTS¹

| | |
|---------------------------------|-------------------------------------|
| ASX ticker | AGM |
| Asset class | Australian equities |
| Structure | Listed investment trust |
| Investment Manager | Walsh & Company Asset Management |
| Inception date | July 2018 |
| Market capitalisation | \$43.5 million |
| Unit price | \$1.81 |
| Net asset value | \$1.84 |
| Number of portfolio holdings | 76 |
| Distributions (1-year trailing) | 4.5c |
| Target Cash Distribution Yield | 5.00% |

Ongoing fees

| | |
|--|-------------------------|
| Investment Management and Responsible Entity fee | 0.19% p.a. ² |
| Performance fee | Nil |

¹ As at 30 September 2018

² Inclusive of GST net of RITC

INVESTMENT MANAGER & ADVISORY COMMITTEE

| | |
|----------------------|----------------------------|
| Jeffrey Whalan, AO | Committee Chairman |
| Ian Watt, AC | Committee Member |
| Josephine Tan | Committee Member |
| Nerida Cole | Committee Member |
| Alex MacLachlan | CEO, Walsh & Co |
| William Hart | Portfolio Manager |
| Matthew Baillie, CFA | Senior Performance Analyst |

Portfolio Commentary (CONT.)

Horizon: Remuneration should be sufficiently biased towards longer-term incentives so as to encourage longer-term decision-making rather than short-term profit maximisation.

Symmetry: Remuneration should be structured so that management participates in both upside and downside performance to avoid excessive risk-taking and ensure accountability for actions.

Alignment: Remuneration should be tied to the actual performance achieved by shareholders over the long term to ensure sufficient alignment and reduce agency issues.

Over the coming months as we participate in shareholder meetings and direct proxies on behalf of our unitholders, we will be focused on supporting remuneration policies that meet these principles, and likewise, will seek to reject those we believe are not in the interest of investors.

Australian Market Review

The domestic equity market finished Q3 higher, with the S&P/ASX 100 Accumulation Index gaining 1.5% over the period. Investors shrugged off trade war rhetoric between the US and China as well as domestic data that indicates continued softening in the Australian housing market.

Communication Services was the top performer, with investor fears of irrational pricing and increased competition diminishing following the announcement of a merger between Vodafone and soon-to-be mobile competitor TPG. The **Industrials** sector also performed strongly, with price gains in both CIMIC and ALS Limited driven by strong earnings results amid an increase in mining services expenditure. Meanwhile, Brambles also rose following a solid set of August results for the logistics company.

Conversely, **Utilities** was the worst performing sector, with both AGL Energy and Origin falling after the withdrawal of the National Energy Guarantee and speculation that a Royal Commission may be called into gas and electricity pricing following increasing regulatory scrutiny. The **Financial** sector was also weaker as the market digested further headlines around the Royal Commission into Financial Services, with diversified financials group AMP Limited continuing its recent run of share price weakness. The interim report of the Financial Services Royal Commission was released at quarter end, with incentive structures most notably highlighted as the cause of many poor customer outcomes.

TOP 10 HOLDINGS¹

In alphabetical order

| | |
|-------------------|-------------------------|
| ANZ Banking Group | National Australia Bank |
| BHP Billiton | Wesfarmers Limited |
| Commonwealth Bank | Westpac Banking Corp. |
| CSL Limited | Woodside Petroleum |
| Macquarie Group | Woolworths Group |

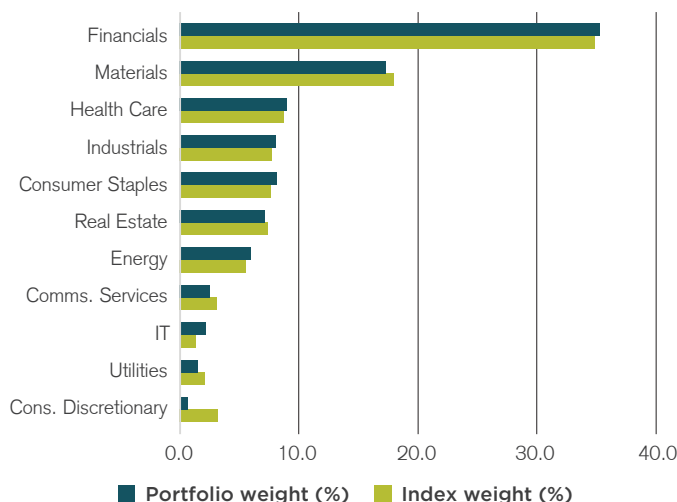
TOP 10 EXCLUSIONS¹

The following are the largest companies excluded from the investment portfolio due to relative governance, social and environmental performance.

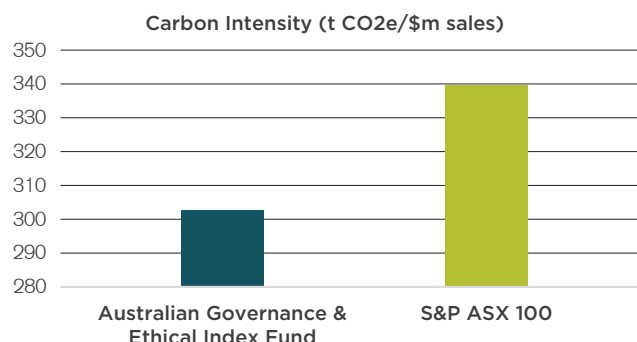
In alphabetical order

| | |
|--------------------|------------------------|
| AGL Energy | Fortescue Metals Group |
| Arcor Limited | Goodman Group |
| AMP Limited | Ramsay Health Care |
| Aristocrat Leisure | Tabcorp Holdings |
| CIMIC Group | Treasury Wine Estates |

SECTOR ALLOCATION¹



PORTFOLIO CARBON INTENSITY¹



¹ As at 30 September 2018.

Source: MSCI ESG Research, Bloomberg, Walsh & Company Asset Management

Investment Overview

The Australian Governance & Ethical Index Fund (AGM) is an ASX-listed managed investment scheme that provides exposure to a portfolio of the S&P/ASX 100's top performing corporations evaluated on a range of governance, environmental and social standards.

The Fund pursues an index style of investing with a focus on entities that:

- have strong corporate governance frameworks
- are committed to overall corporate social responsibility
- undertake sustainable operating practices including minimising environmental harm.

The Investment Manager also seeks to promote adherence to overall corporate social responsibility and governance best practices in its investments by engaging with portfolio companies, directing proxies and participating in shareholder meetings.

About Walsh & Company

Walsh & Company is a multibillion-dollar global funds management firm founded in 2007, with assets under management across global equities, residential and commercial property, private equity, fixed income and sustainable and social investments.

We provide investors access to unique investment strategies and focus on building high quality, diversified portfolios.

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Important Information

This document has been prepared by Walsh & Company Asset Management Pty Limited (ABN 89 159 902 708, AFSL 450 257), as Investment Manager of Australian Governance & Ethical Index Fund (ARSN 625 826 646).

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