

Australian Ethical Australian Shares Fund (Wholesale)

29 March 2018

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Important

This Product Disclosure Statement (PDS) is issued by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949), the Responsible Entity of the Australian Ethical Australian Shares Fund (Wholesale) (ARSN 089 919 175).

The information in this PDS is up-to-date at the time of preparation. However, information in this PDS is subject to change from time to time. Updated information can be obtained by contacting your financial adviser, going to our website or calling us on 1800 021 227.

This PDS is a summary of the significant information you need to make a decision. It includes references to important information that forms part of the PDS and is included in the Managed Funds Additional Information Booklet dated 29 March 2018. The Managed Funds Additional Information Booklet can be found on our website: australianethical.com.au/managed-funds/pds/ or by contacting us on 1800 021 227.

You may request a paper copy of this PDS and any updated information at any time, free of charge.

The offer made in this PDS is made only to persons receiving this PDS in Australia or New Zealand (electronically or otherwise).

Retail investors

If you are a retail investor you should read the Australian Ethical Australian Shares Fund PDS. This can be found on our website at: australianethical.com.au/managed-funds/pds/

You should consider this other important information before making your decision.

Information in this PDS is general information only and does not take into account your personal financial situation or needs. You should consider obtaining financial advice that is tailored to suit your personal circumstances.

1 About Australian Ethical Investment Ltd

Australian Ethical Investment Ltd (Australian Ethical) is a publicly listed funds management company, which has a long history of actively seeking out investments that are positive for society and the environment and avoiding investments in harmful activities. Since pioneering ethical investment in Australia in 1986, Australian Ethical has grown to manage investments and superannuation on behalf of over 37,000 investors.

Ethical investment is our only business

Australian Ethical believe the more money doing good for the planet, the better. Since 1986 we have been influenced by the 23 principles of the Australian Ethical Charter to invest in ethical and responsible initiatives that have a positive impact on the planet, people and animals while achieving competitive long-term returns. We avoid investments in corporations that engage in harmful practices such as coal, oil, weapons, tobacco, gambling and human rights abuses. The Charter not only influences our investment choices, but underpins every aspect of our business practices.

Australian Ethical strives to maintain its position of leadership amongst ethical and responsible funds. Australian Ethical is a signatory to the United Nations' Principles for Responsible Investment and our funds have achieved certification by the Responsible Investment Association of Australasia (RIAA). We are one of the founding B Corps in Australia and the first listed on the Australian Securities Exchange.

In 2015, 2016 and 2017 we were honoured on the 'B Corps' 'Best for the World' list, as the top 10% of all certified B Corps globally.

Australian Ethical believe it's important for businesses to play a leadership role in making the world a better place, not just to make profit. That's why we invest 10% of our profits every year back into the community via our community grants program and social impact investments. This initiative provides financial support to not-for-profit & organisations that contribute to humanitarian, environmental and animal welfare efforts in Australia and abroad.

2 How the Australian Ethical Australian Shares Fund (Wholesale) works

You should read the important information about how the Australian Ethical Australian Shares Fund (Wholesale) works before making a decision. Go to Section 2 of the Additional Information Booklet. The material relating to how the Fund works may change between the time when you read this PDS and the day when you acquire the product.

When you invest your money in a managed fund like the Australian Ethical Australian Shares Fund (Wholesale) (the Fund), your money is pooled together with other investors' money. A team of investment professionals invest and manage this money on behalf of all investors in the Fund in a range of assets such as domestic and international shares, fixed income, property and other asset classes.

The Fund is divided into units and these units are used to identify and value each investor's investment in the Fund. The amount you invest is used to buy units in the Fund. The number of units allocated to you depends on the amount you invest and the value of a unit on that day. The number of units you hold will increase if you make additional investments or reinvest your distributions. If you make a withdrawal, units will be redeemed and the number of units you hold will decrease.

Investor classification

Under the Fund's constitution, we are able to issue different classes of units. At our discretion we will provide wholesale and larger investors with a different class of units provided specified conditions are met.

To be classified as a wholesale investor, a direct investor in the Australian Ethical Australian Shares Fund (Wholesale) must maintain a minimum \$500,000 investment across Australian Ethical's managed funds and a minimum of \$25,000 in the Australian Shares Fund.

If at any time your balance in the fund falls to less than \$25,000 you will be classified as a retail investor, and may be subject to a different rate of fees.

This PDS applies to the retail class of units. You should refer to the Australian Ethical Australian Shares Fund (Wholesale) PDS if you are a wholesale investor.

Calculating unit prices

The unit price is the dollar value of each unit. New unit prices are calculated every business day by dividing the net value of the assets of the Fund by the number of units issued. The value of units will change as the market value of the assets in the Fund increase or decrease in value.

A buy price is used when you purchase units and a sell price is used when you redeem units. The buy and sell prices differ to cover the transaction costs when you buy or sell units so that these costs are not passed onto other investors.

Daily unit prices are available at:

australianethical.com.au/unit-prices-managed-funds/

2 How the Australian Ethical Australian Shares Fund (Wholesale) works continued

mFund settlement service

Australian Ethical is a member of the mFund Settlement Service (mFund) operated by the Australian Securities Exchange (ASX).

When and while the Fund is admitted as an mFund product under the ASX Operating Rules, investors can buy and sell units in the Fund. mFund uses CHESS, ASX's electronic settlement system to receive and process applications for and withdrawals of units in the Fund through ASX brokers (or financial advisers using a stockbroking service).

Through mFund, the minimum initial investment in the Fund is \$25,000. Additional investments must be a minimum of \$1,000. The Fund also offers a Regular Investment Plan.

Further information about mFund can be found at: australianethical.com.au/managed-funds/mfunds/

Making investments and withdrawals

The minimum investment amounts are noted in the table below. You can increase your investment by starting a Regular Investor Plan or by making additional investments at any time.

Minimum investment amounts*		
	Direct Investors	mFund Investors
Starting investment and minimum balance	\$25,000 [#]	\$25,000
Additional investments	\$1	\$1,000
Monthly Regular Investor Plan investments [^]	\$100	\$100

* Australian Ethical may accept lesser amounts at its discretion.

[^] Deducted from your personal bank account.

[#] Direct investors in the Australian Ethical Australian Shares Fund (Wholesale) must maintain a minimum \$500,000 investment across Australian Ethical's managed funds and a minimum of \$25,000 in the Fund.

Withdrawals can be made at any time by completing the Withdrawal Form available on our website or by making a withdrawal request through mFund with your licensed broker. There is no minimum withdrawal amount.

In most situations we will make payment to your nominated Australian bank account within seven business days of receiving a payment request.

There may be some circumstances when withdrawals may take longer, such as in July and January when the distributions are calculated, if there is a freeze on withdrawals, or where the Fund is illiquid.

Processing your transactions

The close of business unit price will be used for applications or withdrawal requests received before 3pm (Sydney time) on a business day. Applications or withdrawals received after 3pm (or on a day other than a business day) are processed using the close of business price for the following business day.

Applications and withdrawals received via a platform or mFund may have a different processing cut-off time applied. You should contact your financial adviser or broker to determine if a different cut-off time may apply for applications or withdrawals.

Income distributions

Payments of net income earned by the Fund are distributed to you every six-months, typically in July and January. The distributable income may include interest, dividends, foreign income, realised net capital gains and other income.

The amount of income you receive will be proportionate to the number of units you hold relative to the number of units on issue at the end of the distribution period. The amount will vary from year-to-year and on occasion, no distribution may be made.

Income can be reinvested or paid to your nominated Australian bank account. If no selection is made or we are unable to pay it to you for any reason, your income will be automatically reinvested and additional units in the fund purchased in your name.

3 Benefits of investing in the Australian Ethical Australian Shares Fund (Wholesale)

You should read the important information about the benefits of investing in the Australian Ethical Australian Shares Fund (Wholesale) before making a decision. Go to Section 3 of the Additional Information Booklet. The material relating to the benefits of the Fund may change between the time when you read this PDS and the day when you acquire the product.

Significant features

Investment strategy

The opportunity to invest in a diversified share portfolio of companies predominately listed on the ASX and selected on the basis of their social, environmental and financial credentials.

The Fund utilises an active stock-picking management style with stocks selected for growth rather than income, with a bias towards smaller capitalisation stocks listed on the ASX. All stocks are chosen on the basis of relative value where we deem the risks are being adequately priced.

Our unique investment process

Australian Ethical believes in the transformative power of money to achieve positive social and environmental outcomes.

The Australian Ethical Charter, shown on the next page, guides our ethical investment decisions - what we seek to invest in and what we avoid, and also guides our corporate activities beyond our Managed Funds.

However, ethics alone are not enough; investments made by Australian Ethical must also have solid investment prospects. Our team of ethical and investment analysts work together to provide our investors with an ethical portfolio that aims to provide competitive returns over the long term.

Certified Responsible Investment

Australian Ethical's Managed Funds have been certified by RIAA according to the strict disclosure practices required under the Responsible Investment Certification Program.

The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations.

3 Benefits of investing in the Australian Ethical Australian Shares Fund (Wholesale) continued

The Symbol also signifies that Australian Ethical has adopted strict disclosure and education practices required under the Responsible Investment Certification Program for the category of Asset Manager.

The Certification Symbol is a Registered Trade Mark of RIAA. Detailed information about RIAA, the Symbol and Australian Ethical's methodology and performance can be found at responsibleinvestment.org, together with details about other responsible investment products certified by RIAA¹.



¹ The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Significant benefits

Management – experts in ethical investment

The Fund provides access to a professionally managed investment portfolio that takes account of ethical factors (including environmental and social impact plus corporate governance), so that you can invest knowing your money is involved in positive activities.

Governance – looking after your investment

The operations of the Fund, including the rights, responsibilities and duties of Australian Ethical and investors, are governed by its constitution and the *Corporations Act 2001*.

Communications – staying in touch with you

You can keep track of your investment in the following ways;

- via our website australianethical.com.au/managed-funds/, which provides all the information that is material for our Managed Funds;
- through statements issued twice yearly;
- by using our secure online account access system, InvestorServe; and
- by subscribing to our monthly and quarterly investment commentary reports and our ethical magazine (Good Money) at australianethical.com.au/subscribe-to-updates

The Australian Ethical Charter¹ addresses environmental and social considerations. The Charter sets out the types of activities we seek to support, and the types of activities we seek to avoid.

The Fund shall seek out investments which provide for and support:

- | | |
|--|--|
| a. the development of workers' participation in the ownership and control of their work organisations and places | g. the preservation of endangered eco-systems |
| b. the production of high quality and properly presented products and services | h. activities which contribute to human happiness, dignity and education |
| c. the development of locally based ventures | i. the dignity and well-being of non-human animals |
| d. the development of appropriate technological systems | j. the efficient use of human waste |
| e. the amelioration of wasteful or polluting practices | k. the alleviation of poverty in all its forms |
| f. the development of sustainable land use and food production | l. the development and preservation of appropriate human buildings and landscapes. |

The Fund shall avoid any investment which is considered to unnecessarily:

- | | |
|--|--|
| i. pollute land, air or water | vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments |
| ii. destroy or waste non-recurring resources | viii. entice people into financial over- commitment |
| iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment | ix. exploit people through the payment of low wages or the provision of poor working conditions |
| iv. market, promote or advertise, products or services in a misleading or deceitful manner | x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices |
| v. create markets by the promotion or advertising of unwanted products or services | xi. contribute to the inhibition of human rights generally. |
| vi. acquire land or commodities primarily for the purpose of speculative gain | |

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4 Risks of managed investment schemes

You should read the important information about the significant risks of managed investment schemes before making a decision. Go to Section 4 of the Additional Information Booklet. The material relating to the significant risks of managed investment schemes may change between the time when you read this PDS and the day when you acquire the product.

Investing in a managed fund carries risks, like any investment.

The level of risk and the returns will depend on the assets the Fund invests in. Assets with the highest long-term returns may also carry the highest level of short-term risk.

There are also some risks involved when investing through a managed fund that you may not face if you invested directly. These include the managed fund terminating, fees and expenses changing, the Responsible Entity being replaced, or a change in the investment professionals managing the fund. Additionally, a managed fund may give different results from investing directly because of the treatment of income or capital gains within the managed fund, and as a result of other investors investing in and exiting the fund.

The significant investment risks for the Australian Ethical Australian Shares Fund (Wholesale) are:

Asset class risk: The risk associated with the type of assets the Fund invests in, which behave differently over time. Shares, for example, tend to provide higher returns over the long term, but are more likely to fall in value over the short term when compared to other asset classes. Cash investments are less likely to fall in value over the short term, but tend to offer lower returns than shares over the long term.

Specific security risk: The risk associated with individual investments. For example, the price of a particular share may fall in value or perform below expectations.

Liquidity risk: The risk that the Fund does not have enough 'cash-like' assets or is unable to sell assets (without significant losses) to meet withdrawal requests in a timely manner.

Market risk: The risk that changes in economic, technological and political conditions will affect the value of investment markets and therefore the Fund. Other factors such as a decline in market sentiment and unexpected events can also significantly affect markets.

Currency risk: This is the risk that changes in foreign currency exchange rates will impact the value of the international investments held in the Fund. The Fund is unhedged. As a result, the value of the Fund's international investments in Australian dollars will vary as exchange rates vary. At our discretion we may, in the future, hedge some or all of the currency exposure.

When considering your investment in the Fund, it is important to understand that:

- the value of your investment will go up and down depending on the market prices of the assets held by the Fund;
- investment returns are not guaranteed and will vary;
- you may lose some or all of the money you invest;
- future investment returns may differ from past returns; and
- laws affecting your investment in the Fund may change in the future.

The appropriate level of risk for you will depend on a range of factors, including your age, investment timeframe, where other parts of your wealth are invested, and your tolerance to fluctuations in the value of your investment. If you are unsure about these areas, you should seek professional advice.

5 How we invest your money

You should read the important information about how we invest your money before making a decision. Go to Section 5 of the Additional Information Booklet. The material relating to how we invest your money may change between the time when you read this PDS and the day when you acquire the product.

Warning It is important to consider the Fund's investment objective, risk level, likely investment return and your individual circumstances including your life stage, investment timeframe, and attitude to risk, when considering whether to invest.

Australian Ethical Australian Shares Fund (Wholesale)

Investment objective	To provide long-term growth focusing on Australian companies that meet the Australian Ethical Charter.		
Investors that the Fund may suit	Investors seeking capital growth through an exposure to Australian shares. The Fund is suited to investors with a longer investment timeframe and a higher risk tolerance.		
Recommended minimum investment timeframe	7 years		
Strategy	The opportunity to invest in a diversified share portfolio of companies predominately listed on the ASX and selected on the basis of their social, environmental and financial credentials. The Fund utilises an active stock-picking management style with stocks generally selected for growth rather than income, with a bias towards smaller capitalisation stocks listed on the ASX. All stocks are chosen on the basis of relative value where we deem the risks are being adequately priced.		
Mix of asset classes and strategic ranges*	Asset Class	Growth	Defensive
		Australian & New Zealand Shares	Unlisted Shares
	Ranges	85 – 100%	0 – 5%
			Cash
			0 – 15%
Risk level	Very High		
Performance and portfolio information	We may make changes to the Fund from time to time, including changes to the types of investments. We will notify investors of any significant changes. You can also keep up-to-date with the Fund's unit price, performance and portfolio holdings through our website.		

* These are indicative asset allocation ranges for the Fund. If market movements, investments into or withdrawals from the Fund, or changes in the nature of an investment cause the Fund to move outside these indicative ranges, this will be addressed by us as soon as reasonably practicable.

6 Fees and costs

You should read the important information about the fees and costs before making a decision. Go to Section 6 of the Additional Information Booklet. The material relating to the fees and costs may change between the time when you read this PDS and the day when you acquire the product.

Changes to fees and maximum allowable fees All fees can change. Reasons might include changing economic conditions or changes in regulation. If we were to increase the fees, we would always give you at least 30 days' notice of any proposed increase. Our current fees are lower than the maximum allowed in the constitution for the Fund.

Please note NAB Asset Servicing has been appointed as the Custodian for the Fund. NAB Asset Servicing's role as Custodian is limited to holding the assets of the Fund.

Warning Additional fees may be payable directly to your ASX broker (or your financial adviser who uses a stockbroking service on your behalf) for accessing the Fund through mFund. You should consider the financial services guide provided by your ASX broker (or adviser) and the Statement of Advice provided by your adviser. Different fees and costs may apply if you are a retail investor. You should read the Australian Ethical Australian Shares Fund PDS for further information.

6 Fees and costs continued

Did you know? Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your account balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (moneysmart.gov.au) has a managed funds fee calculator to help you check out different fee options.

This section provides information on the fees and other costs that you may be charged for investing in the Fund. These fees and costs may be deducted from your investment, from the returns on your investment, or from the assets of the Fund as a whole.

You should read all the information about fees and costs because it is important to understand their impact on your investment. You can also use this information to compare this product with other managed funds.

If you consult a financial adviser, additional fees may be payable to the adviser. You should refer to the adviser's Statement of Advice for details.

Type of fee or cost	Amount
Fees when your money moves in or out of the fund*	
Establishment fee	Nil
Contribution fee	Nil
Withdrawal fee	Nil
Exit fee	Nil
Management costs	
The fees and costs for managing your investment	1.10% per year
Indirect cost^	Nil

* The buy-sell spread for the Australian Ethical Australian Shares Fund (Wholesale) is 0.15% as at 29 March 2018. This amount is subject to change without notice.

^ The indirect costs are calculated at 30 June each year based on the previous 12 months. These may change from year to year.

Example of annual fees and costs for the Australian Ethical Australian Shares Fund (Wholesale)

The table below gives an example of how the fees and costs in the Fund can affect your investment over a one year period.

You should use this table to compare this product with other managed investment products.

Management costs are included in the unit price for the Fund and are inclusive of GST.

The management costs shown in the table are calculated on the initial balance of \$50,000.

The example does not show the impact of taxation, which will vary for each investor depending on their personal circumstances.

EXAMPLE - Australian Shares Fund (Wholesale)		Balance of \$50,000
Contribution fees	Nil	
PLUS Management Costs	1.10% per year	For every \$50,000 you have in the Fund you will be charged \$550 each year.
EQUALS Cost of Fund		If you had an investment of \$50,000 at the beginning of the year you would be charged fees of: \$550.* What it costs you will depend on the managed fund you choose and the fees you negotiate with the Fund or your financial adviser.

* Amounts are rounded to the nearest dollar. Additional fees may apply. If you have agreed to pay your adviser a service fee, it will be deducted from your account balance. Percentages expressed to one or two decimal places may have been rounded.

Please refer to Section 6 of the Additional Information Booklet for information on Adviser Service Fees that may be payable if you agree to pay a financial adviser.

7 How managed investment schemes are taxed

You should read the important information about how managed investment schemes are taxed before making a decision. Go to Section 7 of the Additional Information Booklet. The material relating to how managed investment schemes are taxed may change between the time when you read this PDS and the day when you acquire the product.

Warning Investing in a registered managed fund is likely to have tax consequences. As each investor's circumstances are different, we strongly recommend you seek professional tax advice before investing.

The following summary tax information is based on the tax laws that were current when this PDS was issued. Refer to the Australian Taxation Office (ATO) website ato.gov.au for further details.

The information should not replace professional taxation advice and should not be relied on as a complete statement of the law.

Generally, managed funds do not pay tax on your behalf. You are assessed for tax on any income and capital gains generated by the managed fund in which you invest, even if you reinvest that income.

At the end of each financial year, we will send you a consolidated statement of all income we have paid you and the tax components.

A guide to help you transfer this information to your tax return is available at australianethical.com.au/tax-guide/

If you decide to sell or transfer units in the managed fund, you may also be liable for tax on the capital gains realised.

Quoting your tax file number

It is recommended that you provide your Tax File Number (TFN) when you invest in the Fund. If you do not provide us with your TFN (or claim an exemption from doing so), tax must be withheld from an Australian investor's distribution at the highest marginal tax rate plus any levies, such as the Medicare levy.

8 How to apply

You should read the important information about how to apply before making a decision. Go to Section 8 of the Additional Information Booklet. The material relating to how to apply may change between the time when you read this PDS and the day when you acquire the product.

To invest in the Australian Ethical Australian Shares Fund (Wholesale), please either:

1

Direct investors: Read this Product Disclosure Statement and complete the Application Form. The Application Form is a separate booklet that is available on our website or in hard copy on request.

If you are making an investment by cheque, please make it payable to: "Australian Ethical Applications on Trust".

Please send your signed Application Form, with the supporting documents to:
Australian Ethical Investment Ltd, Reply Paid 3993, Sydney NSW 2001

OR

2

mFund investors: Speak to your licensed broker about applying for units via the ASX mFund Settlement Service. You will need to provide your initial application money directly to your licensed broker.

New Zealand investors

The offer made in this Product Disclosure Statement is available only to persons receiving this statement in Australia and in New Zealand. The offer is available in New Zealand only to people who have received the Important Information for New Zealand Investors, which is available on our website at www.australianethical.com.au/nz/

Cooling off period

If you change your mind there is a 14-day cooling off period. You will need to tell us in writing if you no longer wish to invest. The 14-day period starts on the earlier of receiving confirmation that you are invested or five business days after we issue units to you.

If you exercise your right to cool off, your money will be returned to you, adjusted for the increase or decrease in the value of the investment at the date we received notification, and reasonable transaction or administrative costs.

Complaints

If you feel we are not dealing with you as you would like, please contact our Client Services Team on 1800 021 227 so we can make every attempt to resolve the matter. Alternatively you can email us at investors@australianethical.com.au

If you are not satisfied with our response to the matter, you may be able to refer the matter to the Financial Ombudsman Service on 1300 780 808 or fos.org.au