AUSTRALIAN GOVERNANCE MASTERS Index Fund

QUARTERLY UPDATE
March 2018

The Australian Governance Masters Index Fund invests in the best governed Australian companies within the S&P/ASX 100 Index, as ranked by the company's corporate governance analysis.

The Company pursues an index style of investing with an active corporate governance bias, providing exposure to a diversified portfolio of Australian equities at a low total expense ratio of 0.19% p.a. (incl. GST net RITC).

AQF also seeks to promote adherence to corporate governance best practice in its portfolio companies by voting its proxies and participating in shareholder meetings.

Portfolio Commentary

AQF's net investment portfolio return (as measured by the change in pre-tax NTA) was down 2.6% (including the reinvestment of gross dividends via the AQF DRP policy). This compared favourably to the S&P/ASX 100 Accumulation Index which fell 3.5% over the same period. AQF paid a dividend of 3 cents per share and a special dividend of 2 cents per share – both fully franked – to shareholders on the last day of the first quarter (Q1).

The most significant positive contributor to relative performance (when compared to the S&P ASX 100 Index) over Q1 included the overweight positions of a2 Milk (up 55.5%) and CSL (up 10.0%), in addition to the exclusions of Westfield (down 10.2%), Ramsay Healthcare (down 11.1%) and CIMIC Group (down 13.6%). Meanwhile, the largest detractions over the period came from the overweight positions in Newcrest Mining (down 14.3%) and Star Entertainment (down 13.0%), as well as the exclusions of ResMed (up 12.5%), Evolution Mining (up 14.3%) and Goodman Group (up 0.1%).

Governance Update

Post-quarter end, the ASX Corporate Governance Council released for consultation a revised set of ASX Corporate Governance Principles and Recommendations – the benchmark by which many corporations are measured regarding corporate governance practices. Most notably, the proposed changes seek to place further emphasis on the ethical and social responsibilities of an organisation, and outline a commitment to "instil and continually reinforce a culture across the organisation of acting lawfully, ethically and in a socially responsible manner".

The new focus on culture is perhaps unsurprising, given the focus of key regulators such as APRA, ASIC and the government over the past year – in addition to increasing evidence of the broader long-term detrimental impact that prioritising profits over the interests of other stakeholders (such as customers) can have on an organisation.

COMPANY FACTS

ASX ticker	AQF
Asset class	Australian equities
Structure	Listed investment company
Inception	February 2010
Share Price	$1.91
NTA before tax	$1.89
Market capitalisation	$47.4 million
Gross Assets	$46.5 million
Shares outstanding	24.8 million
Number of holdings	79
Fully franked dividends (1-year trailing)	11.0c
Fully franked dividend yield (1-year trailing)	8.23%

Ongoing fees	
Investment Management fee	0.19% p.a.*
Performance fee	Nil

*Inclusive of GST net of RITC

INVESTMENT MANAGER AND BOARD OF DIRECTORS

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

Performance as at 31 March 2018

	3 months	6 months	1 year	3 years	5 years	Since Inception
Share price return*	2.7%	4.4%	8.5%	4.5%	8.0%	8.1%
AQF net investment portfolio return*	-2.6%	4.1%	2.7%	3.9%	8.7%	8.6%

*Performance figures are total returns, with gross dividends reinvested via the AQF DRP policy. All returns beyond one year are annualised. Net investment returns are after fees, expenses and taxes paid.

Governance Update (CONT.)

The proposed changes also seek to address other factors, including the social licence to operate, whistle-blower policies, anti-bribery and corruption policies, gender diversity (with a proposed 30% minimum female director quota guideline for S&P/ASX 300 companies), environmental risk, and cyber risks.

The expansion of the guidelines to place greater emphasis on social and environmental risks in developing a governance framework recognises the financial impact these factors can have on a firm. Contemporary issues regarding some of the largest organisations both domestically and abroad (as evidenced by the Royal Commission into Financial Services, Facebook's miss-handling of data, Wells Fargo's credit miss-selling and Volkswagen's emissions testing scandal) has highlighted the need for organisations to consider more broadly both overall corporate social responsibility and whether the maximisation of short-term profit over the pursuit of sustainable operating practices is in the best interests of shareholders over the long term.

Australian Market Review

The domestic equity market finished the first quarter of 2018 on a softer note, with the S&P/ASX 100 Accumulation Index losing 3.5% over the period. Investors lost confidence when US President Donald Trump sparked fears of a trade war after announcing the intention to impose tariffs on imports into the US from China, and the Financial Services Royal Commission completed the first sessions of public hearings regarding misconduct.

Healthcare (up 7.1%) was the top performer, with several sector heavyweights seeing their share price advance following the latest reporting season. CSL (up 10.0%) released a strong set of first half results in February, while ResMed (up 12.5%) announced its latest quarterly result, which saw a 13% increase in revenue compared to the previous corresponding period due to stronger device sales in the US.

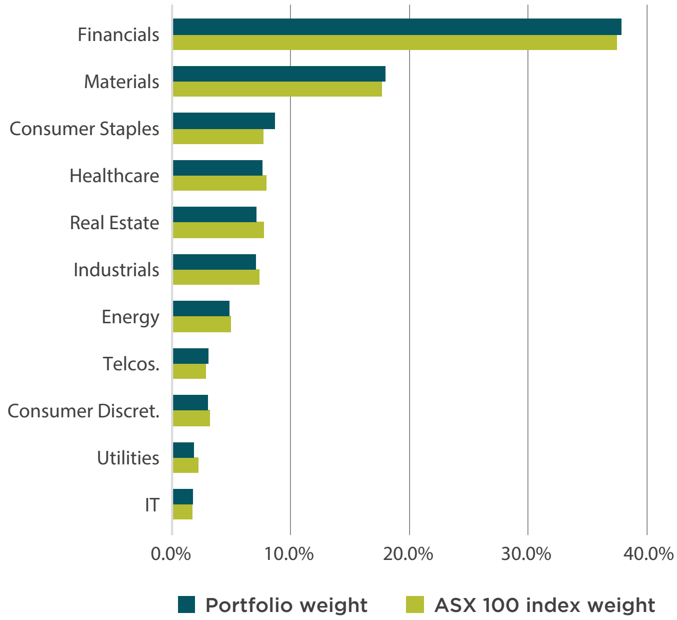
Infant formula manufacturer A2 Milk (up 55.5%) supported the Consumer Staples sector (up 1.6%), as the company saw its share price surge following a strong set of first half results and the announcement of intentions to expand the business into the US market. In comparison, stock performance for the two largest domestic supermarket owners was uninspiring, as both Woolworths (down 2.2%) and Wesfarmers (down 4.1%) finished the quarter lower. In March, Wesfarmers announced its intention to demerge Coles, which was well received by the market.

Finally, on the largest two sectors of the domestic market, both Materials (down 3.0%) and Financials (down 5.8%) recorded losses over the quarter. The biggest performance detractor from Materials was the country's largest gold miner, Newcrest Mining (down 14.3%). At NCM's Cadia operation, production was suspended in March due to a tailings dam wall failure, which saw investors rotate into other gold miners, including Evolution Mining (up 15.7%). Within Financials, the Royal Commission weighed heavily on the sector as numerous acts of misconduct were brought to light. Also weighing on the outlook for banks was a spike in offshore funding rates which, coupled with the Royal Commission revelations, saw the "big four" finish the quarter in negative territory, recording losses from NAB (down 3.7%) to WBC (down 8.7%).

TOP 10 HOLDINGS

Company	Weight
Commonwealth Bank of Australia	9.0%
Westpac Banking Corporation	6.9%
BHP Billiton Limited	6.4%
CSL Limited	5.6%
Australia and New Zealand Banking Group Limited	5.6%
National Australia Bank Limited	5.5%
Wesfarmers Limited	3.3%
Telstra Corporation Limited	3.0%
Woolworths Limited	2.8%
Rio Tinto Limited	2.5%

SECTOR ALLOCATION



The company has excluded 21 ASX 100 companies within its investment universe from its investment portfolio due to relative governance concerns. The following are the largest companies by market capitalisation excluded.

TOP 10 EXCLUSIONS	
Westfield Corporation	Fortescue Metals Group Limited
Goodman Group	ResMed Inc.
QBE Insurance Group Limited	Crown Resorts Limited
Oil Search Limited	CIMIC Group Limited
Ramsay Health Care Limited	Evolution Mining Limited

Investment Objective

AQF aims to achieve long-term capital appreciation while reducing risk, preserving the capital of the Company and investing in a diversified portfolio of Australian equity securities.

Investment Strategy

AQF invests only in what it considers to be the best governed Australian companies within the S&P/ASX 100 Index, as ranked by the Company's corporate governance analysis and third-party research. The Company pursues an index style of investing with an active corporate governance bias and expects to hold securities of approximately 75 to 85 Australian entities within the S&P/ASX 100 at any time.

The Company believes that boards and management that show relatively high levels of corporate governance tend to outperform companies with relatively lower levels of corporate governance over the long term. The Company also seeks to promote adherence to corporate governance best practice recommendations in its investments by voting in shareholder meetings.

Risks

Like all investments, an investment in AQF carries risks that may result in the loss of the invested income or principal. In addition to the general risks of investing, specific risks associated with investing in AQF include, but are not limited to, market risk, liquidity risk and equity risk. For further information about the risks of investing in the product, please see Section 4 in the Prospectus.

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.

Contact

Adam Coughlan
Head of Distribution
T (02) 8662 9792
E adam.coughlan@walshandco.com.au

QLD/WA
Emmanuel Vergara
Key Account Manager
T (02) 9432 3023
E emmanuel.vergara@walshandco.com.au

VIC/TAS/SA
Charlie Wapshott
Key Account Manager
T (03) 9411 4066
E charlie.wapshott@walshandco.com.au

NSW
Reuban Siva
Business Development Manager
T (02) 8662 9790
E reuban.siva@walshandco.com.au

Important Information