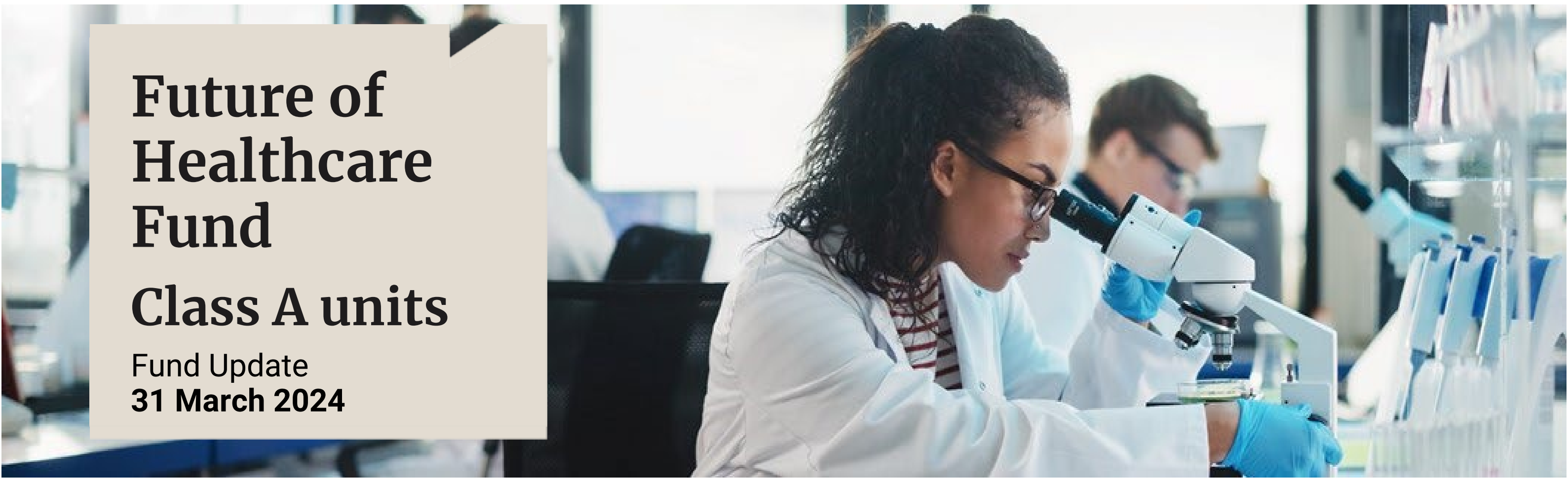


Future of Healthcare Fund

Class A units

Fund Update
31 March 2024

For more than 180 years, Australian Unity has invested in the wellbeing of our members. Through the Australian Unity Future of Healthcare Fund (Fund) issued by Australian Unity Funds Management Limited (ABN 60 071 497 115) as trustee, wholesale investors obtain a blend of listed, private equity, and venture capital healthcare assets, to provide a unique exposure to the growing healthcare demands.

Fund Snapshot*

Class A units			
APIR code	AUS4572AU	**Management fee**	0.75% p.a. (excl GST) of the Gross Asset Value
Inception date	31 March 2021	**Performance fee**	15% (excl GST) of gross returns above an IRR hurdle of 9% p.a. subject to a high-water mark
Unit price	$1.2608 exit price (ex-distribution) as at 31 March 2024	**Distributions**	1.75 cents per unit as at 30 June 2023 Assessed half yearly

*Recoverable expenses and indirect costs may also be charged by the Fund, please refer to the Information Memorandum for further details.

Facts as at 31 March 2024

All classes of units			
Gross Asset Value	$67.8m	**Unlisted investments made to date**	14 investments
Minimum investment	$50,000 (wholesale investors only) into the Wholesale class of units	**Unlisted investments liquidity events**	5 investments

Performance as at 31 March 2024

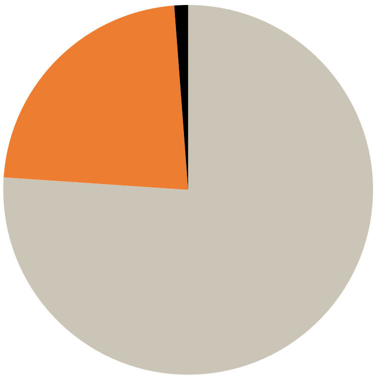
Class A units	3 mth %	6 mth %	1 year %	2 years % p.a.	3 years % p.a.	Since inception % p.a.
Distribution return	0.00	0.00	2.12	0.97	0.60	0.60
Growth return	10.07	17.02	25.23	15.36	7.97	7.97
Total return	10.07	17.02	27.35	16.33	8.57	8.57

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance. The inception date for performance calculations is 31 March 2021.

Key portfolio statistics as at 31 March 2024

Asset Sectors	$m	Number	Actual %
Listed Equity	51.6	34	76.0
Private Equity and Venture Capital	15.4	9	22.7
Cash and other*	0.8		1.2
Total	67.8	**43**	100.0

* Includes cash and cash equivalents, values and weights are post redemptions



Financials	
Gross assets	$67.8m
Total debt	$0.0m
Other liabilities^	$0.7m
Net assets	$67.1m

^accrued management fees and tax provision

Listed Investment Performance

Clarity Pharmaceuticals (ASX: CU6) produced its third quarter of gains over 30%, contributing +3.6% to the Fund’s return. The company continues to gather interest in its pipeline, in particular its bisPSMA asset for prostate cancer. Furthermore, the acquisitive interest in radiopharmaceutical companies continues with Fusion Therapeutics agreeing to be acquired by AstraZeneca in March for US$2 billion upfront. This follows Point Biopharma being acquired by Eli Lilly and RayzeBio being acquired by Bristol Myers Squibb within the last six months. Clarity entered the ASX All Ordinaries Index in March and raised a further AUD$121 million in late March. This provides significant strength to the company’s balance sheet and provides funding to continue its current pipeline of products.

Eli Lilly (NYSE: LLY) contributed +2.7% to the portfolio’s return. The company produced a solid set of results demonstrating that it is executing on the Mounjaro launch for obesity (known as Zepbound in the US). Analysts have continued to raise earnings expectations, particularly beyond 2026 as the evidence builds for the drug class use cases and ability to gain reimbursement from payers.

Zealand (CPH: ZEAL) contributed +2.4% to the quarterly return of the portfolio. Confidence in the company’s pipeline was bolstered during the quarter of its survodutide Phase 2 trial readout in February. The glucagon / GLP-1 dual agonist could be critical in metabolic diseases. The Phase 2 trial showed that 83% of adult MASH (metabolic dysfunction-associated steatohepatitis) patients achieved improvements in liver fibrosis. The different mechanism of action and clinical results provide a potentially differentiated treatment to mature players Eli Lilly and Novo Nordisk.

Alnylam Pharmaceuticals (NASDAQ: ALNY) detracted (0.4%) during the quarter. All eyes have been on the HELIOS-B data for ATTR-CM (a heart condition). The data that was expected to read out this quarter is now expected in late-June / early-July due to changes in the statistic plans which will result in three months of additional data. While market participants interpreted this adjustment as the company having less confidence in the study, the additional data should assist the company in reaching a definitive conclusion for this asset.

Curvebeam (ASX: CVB) detracted (0.6%) from the portfolio’s performance during the quarter. The company increased the number of purchase orders for the HiRise, a weight-bearing CT scanner. The next generation device, the enhanced HiRise is expected to provide clearer images for a broader range of patient body types required for custom protocols for hip and robotic surgical systems, the company expects this next generation to deliver a step change in US placements.

Baymatob (unlisted) was repriced during the period resulting in a (0.7%) impact to the portfolio. The company continues to prove out its technology and the new capital raised in a Series-A2 round will assist it in continuing in its quest to modernise the maternity ward beginning with its device for post-partum haemorrhage.

Portfolio Impact

The GLP-1 drug landscape continues to see exciting progress. Zealand Pharmaceuticals recently reported positive results from their MASH trial, demonstrating improvements in liver fibrosis. Additionally, Novo Nordisk's large-scale trial (3,533 patients) yielded promising data, with a 24% reduction in the risk of kidney disease-related events for patients with type 2 diabetes and chronic kidney disease.

However, the most significant news comes from Wegovy, a GLP-1 drug by Novo Nordisk. Wegovy recently received US approval for cardiovascular risk reduction in overweight or obese patients with established cardiovascular disease. This approval broadens patient access to Wegovy considerably. While current supply constraints remain a challenge, Novo Nordisk is actively working to increase production capacity. We anticipate a resolution to these supply issues in the medium term.

Market commentary

The strength of global markets continued into 2024 with the first quarter of returns being the strongest in five years for the Australian unhedged investor (as measured by the MSCI World Index). This impressive performance was driven by two key factors; robust corporate earnings from leading companies and renewed optimism on the economic outlook. Looking ahead, we expect macroeconomic factors to remain influential throughout 2024. While geopolitical risks persist, there are signs of stabilisation in the inflation and interest rate environment.

During the quarter, US 10-year government bond yields rose from 3.9% to 4.2%, reflective of a slight uptick in the break-even inflation rate expectations. The Federal Reserve and Reserve Bank of Australia have paused interest rate hikes. The Australian dollar retreated from 0.68 AUD/USD to 0.65 AUD/USD.

In USD terms (eliminating the impact of currency fluctuations), the MSCI World Healthcare Index grew 7.7%, trailing the broader market (MSCI World Index) which gained 9.0%. Within the healthcare sector, Pharmaceuticals and Healthcare Technology led the pack, while Medtech and Life Sciences kept pace with the market average. Although lagging behind, both Biotech and Healthcare Services sub-sectors still managed to eke out positive returns.

The Biotech sector witnessed a glimmer of hope with seven US companies raising a total of US$1.35 billion through initial public offerings (IPOs) in Q1 2024. This suggests a potential release of pent-up demand following a sluggish 2023, where only 15 US Biotech IPOs secured US$1.96 billion.

The trend of growth outperforming value continued in the healthcare sector. The Russell Global 3000 Healthcare Growth Index bested its Value counterpart in the previous quarter and over the past year, with a staggering 20.1% outperformance by growth stocks, although much more muted over the past three years. Additionally, smaller healthcare companies, represented by the Russell Microcap Index – Healthcare, delivered a strong 14.3% return in USD terms, surpassing the broader MSCI World Healthcare Index.

Portfolio activity for this quarter

Listed equities positioning

During the quarter we selective in taking profits exiting positions in Roche and Acadia

Private equity and venture capital transactions

The Fund added to its position in Baymatob during the quarter with a capital raise occurring. The capital raise was on more attractive terms than the prior round with the technology development continuing to advance.

Revaluations

During the quarter Baymatob was repriced to reflect current market conditions.

Outlook

The healthcare sector stands resilient and adaptable, well-prepared to navigate diverse macroeconomic scenarios, with the returns expected to be primarily steered by stock-specific factors. In line with broader market trends, larger healthcare entities have outperformed their smaller counterparts over the last two years, though smaller companies have played catch up in the past 6 months. While macro drivers for healthcare small caps show improvement, encompassing a stabilising discount rate, robust primary capital markets, and an uptick in mergers and acquisitions, the key to returns remains astute stock selection.

Despite the recent increase, valuations remain attractive within the biotech, life sciences, and MedTech sub-industries, offering selective investment potential. Notably, large-cap Pharma and Biotech companies are well-positioned to navigate rising costs linked to potential inflation. We anticipate market fluctuations may result in 2024 for Pharmaceuticals as insights are gained from the Medicare drug price negotiations (a result of the Inflation Reduction Act). Furthermore, the impending US elections may inject volatility into the healthcare markets, particularly Pharma as candidates amplify rhetoric around the healthcare sector reform.

In the realm of private equity and venture capital, we see more realistic valuation expectation from companies, accompanied by increased access to capital for specific prospects. We continue to assess unlisted opportunities on a case-by-case basis, where the valuation reflects our desired illiquidity risk premium and how potential prospects align with the portfolio.

Zooming in on the market's sub-sector level, the portfolio strikes a balanced tone. We have an overweight position in biotech (inclusive of some smaller names with extended cash runways), a neutral stance in Medtech (excluding unlisted investments; inclusive of unlisted investments, the Fund maintains an overweight position), and an underweight position in pharmaceuticals, life sciences, services, and health IT. By adopting these strategic positions, investors can capitalise on prevailing opportunities within the healthcare sector while positioning themselves adeptly to withstand any future macroeconomic challenges that may emerge.

Assets as at 31 March 2024

Asset Details	Notes	Description	Current Valuation ($m)[1]	Current Holding (%)	Valuation Date
Listed Equity					
Clarity Pharmaceuticals		Biopharmaceutical focused on prescription medicines	7.7	11.4	
Eli Lily and Company		Diabetes and Metabolic Syndrome pharmaceutical company	7.1	10.4	
Zealand Pharma		Diabetes and Metabolic Syndrome pharmaceutical company	3.5	5.1	
Novo Nordisk		Diabetes and Metabolic Syndrome pharmaceutical company	3.4	5.0	
Sanofi		Leaders in life-changing treatments and the protection of life-saving vaccines	3.3	4.9	
Other Listed		Various	26.6	39.2	
Total Listed Equity			51.6	76.0	
Private Equity and Venture Capital					
Venstra Medical	1	Development of the next generation percutaneous ventricular assist device (pVAD)	4.9	7.2	Nov 2023
Immvirx	1	Development of novel oncolytic viruses to create powerful cancer immunotherapy combinations.	3.1	4.6	May 2023
Oncores Medical	1	Medical probe to detect margins of tumors	2.0	2.9	Jun 2023
Planet Innovation Holdings Limited	1	Medical device contract development company	1.5	2.2	Jun 2023
Other Private Equity and Venture Capital			3.9	5.8	
Total Private Equity and Venture Capital			15.4	22.7	
Cash and Cash Equivalents					
Cash and Cash Equivalents	2		0.8	1.2	
Total Cash and Cash Equivalents			0.8	1.2	
Total Portfolio			67.8	100.0	

Notes

1. Valuation Policy - Regular valuation of private equity and venture capital is an important aspect of managing the Fund. Valuations are conducted by qualified independentvaluers or our internal framework where appropriate. We have a policy of generally conducting valuations at least once a year. Additionally, as part of our active management approach, we may test asset values on market.
2. Post redemptions which became effective on the 28th March 2024

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