

Future of Healthcare Fund

Wholesale units

Fund Update
31 December 2023



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 demand.

Fund Snapshot*

Wholesale units			
APIR code	AUS9268AU	Management fee	0.95% p.a. (excl GST) of the Gross Asset Value
Inception date	8 April 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	\$1.1430 exit price as at 31 December 2023	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 December 2023

All classes of units			
Gross Asset Value	\$68.7m	Unlisted investments made to date	14 investments
Minimum investment	\$50,000 (wholesale investors only)	Unlisted investments liquidity events	5 investments

Performance as at 31 December 2023

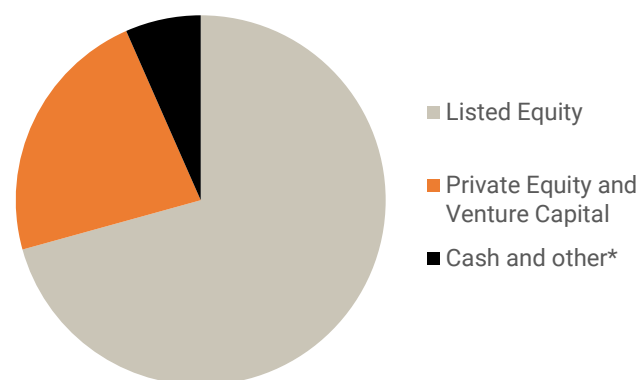
Wholesale units	3 mth %	6 mth %	1 year %	2 year % p.a.	Since inception % p.a.
Distribution return	0.00	0.00	1.94	0.89	0.65
Growth return	6.32	10.28	15.08	5.72	4.96
Total return	6.32	10.28	17.02	6.61	5.61

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 8 April 2021.

Key portfolio statistics as at 31 December 2023

Asset Sectors	\$m	Number	Actual %
Listed Equity	48.6	39	70.7
Private Equity and Venture Capital	15.6	9	22.7
Cash and other*	4.5		6.6
Total	68.7	48	100.0

* Includes cash and cash equivalents, weights include committed investments not yet settled.



Financials	
Gross assets	\$68.7m
Total debt	\$0.0m
Other liabilities [^]	\$0.3m
Net assets	\$68.4m

[^]accrued management fees and tax provision

Listed Investment Performance

Clarity Pharmaceuticals (ASX: CU6) again produced a solid return during the quarter contributing a further +3.5%. The company produced several positive updates on its drug pipeline, including an update on the first patient to receive two doses of Cu-67 SAR-bisPMSA, the first in the trial and the second as requested by the patient's physician under the expanded access program. Pleasingly, the patient with metastatic prostate cancer had an almost complete response with prostate-specific antigen (PSA) levels (a measure of prostate cancer activity) almost undetectable. Interest in the radiopharmaceutical space remains high with Point Bio (a US based radiopharmaceutical company, not owned) acquired by Eli Lilly during the quarter for US\$1.4bn.

Altimune (NASDAQ: ALT) soared during the quarter up over triple its September close. The contribution to the Fund was +1.9%. During the quarter, the company released its top-line results of Pemvidutide showing a mean weight loss of 15.6% over 48 weeks. The data is solid compared to its much bigger rivals of Eli Lilly and Novo Nordisk with Altimune shaping up to be a good entry point for a large pharmaceutical company to enter the sector.

Immutep (ASX: IMM) gained ground +0.8% during the quarter following the release of results in metastatic non-small cell lung cancer. While the trial is still ongoing, the data continues to appear promising. In addition, the stock was likely buoyed along by the general small biotech sector performance.

Argenx (NASDAQ: ARGX) detracted by (0.2%), Argenx's Phase III pemphigus trial failed to meet its endpoint during the quarter. Whilst this autoimmune indication is small relative to the total opportunity, the company has had a recent run of setbacks in trials to expand the use of key asset efgartigimod (Vyvgart).

Pfizer (NYSE: PFE) detracted (0.3%) from returns for the period. This dip in performance was primarily attributed to Pfizer's downward revision of its earnings outlook for 2024. The revision was rooted in the company's realisation that its initial expectations for sustained Covid-19 vaccination sales were overly optimistic. Additionally, the integration of Seagen, an oncology company recently acquired by Pfizer, played a role in shaping the adjusted outlook. Seagen, an oncology company was acquired by Pfizer setting the company up for future growth.

Sanofi (EPA: SAN) detracted by (0.9%) as a result of a reshuffle of priorities. The company, which historically has disappointed the market with its Research and Development announced it has increased spending on R&D at the expense of near-term profitability. 2024 and 2025 profitability numbers were downgraded significantly. Whilst disappointing in the near term, the move suggests confidence in the internal pipeline and following an appointment of a new head of R&D in September 2023 could be a prudent move for future profitability.

Portfolio Impact

Crispr Therapeutics received FDA approval during the quarter for Casgevy which along with a rival drug (Lyfgenia) offers the first gene therapy option to patients with Sickle Cell Disease (SCD). The disease causes severe pain and organ damage leading to life-long disabilities or early death. While promising the potential for an effective cure, the level of access, gruelling conditioning regime and manufacturing time frames will likely hinder the uptake of the drug. Nevertheless, the approval represents a scientific milestone for the CRISPR technology and offers a beacon of hope to SCD patients.

Market commentary

Following a tumultuous October, global markets rebounded strongly, propelled by small caps. This performance coincided with a significant drop in bond yields in the United States, signalling potential control over inflation. Notably, labour markets have shown resilience, suggesting underlying strength of the US economy. This revised economic outlook sharply contrasts with the uncertainty prevalent among market participants in the previous quarter. Looking ahead, we anticipate that macroeconomic factors will continue to exert influence on equity markets throughout 2024, with geopolitical risks and ongoing uncertainties in inflation and interest rate outlooks.

During the quarter, US 10-year government bond yields retreated from 4.6% to 3.9%, marking a notable shift in market sentiment regarding interest rate expectations. While the Federal Reserve paused interest rate hikes, the Reserve Bank of Australia opted for an increase over the quarter. The Australian dollar strengthened from 0.64 AUD/USD to 0.68 AUD/USD.

In USD terms (which removes the impact of AUD/USD volatility), the MSCI World Healthcare Index exhibited a 6.6% increase over the quarter, lagging behind the broader MSCI World Index, which saw a 12.1% climb. Industries sensitive to interest rates experienced significant gains, particularly in the Medtech sector

following more attractive valuations. Life Sciences, Tools, and Biotech sub-industries also outperformed the broader healthcare index. Healthcare Services and Pharmaceuticals showed solid performance, albeit trailing the overall sector.

Despite the volatility induced by the SELECT trial, Medtech outperformed its counterparts over the 12 months, while the broader healthcare sector underperformed general market indices. Biotech IPOs, while slightly up from 2022 levels, still lag behind long-term averages. The number of small to mid-cap Biotechs (US\$250m to US\$10bn) trading below net cash remains elevated compared to historical averages.

In a notable shift from a year ago, the Russell Global 3000 Healthcare Growth Index outperformed the Russell Global 3000 Healthcare Value Index in the previous quarter and over the 12-month period. Smaller company indices, including smaller healthcare companies, delivered a remarkable quarterly return, with the Russell Microcap Index – Healthcare posting a 25.9% increase in USD, outperforming the MSCI World Healthcare Index and concluding the year on a strong note.

Portfolio activity for this quarter

Listed equities positioning

During the quarter we were rotated the portfolio slightly based largely on stock specific moves, taking profits where valuations appeared stretched and deployed into underappreciated stocks.

Private equity and venture capital transactions

The Fund did not participate in any unlisted transactions this quarter.

Revaluations

During the quarter Venstra Medical and IQ Endoscopes were revalued in accordance with the valuation policy requirement for at least an annual valuation. The combined valuation change was insignificant.

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 recently outperformed their smaller counterparts, though the last quarter witnessed robust performances among smaller companies. 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.

In the realm of private equity and venture capital, valuations have stabilised, accompanied by increased access to capital for specific prospects. However, our current preference leans towards listed markets. In most cases, valuations within the unlisted sector do not yet reflect our desired illiquidity risk premium. We continue to assess opportunities on a case-by-case

basis, considering 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 December 2023

Asset Details					
	Notes	Description	Current Valuation (\$m) ¹	Current Holding (%)	Valuation Date
Listed Equity					
Clarity Pharmaceuticals		Biopharmaceutical focused on prescription medicines	5.5	8.0	
Eli Lilly and Company		Diabetes and metabolic syndrome pharmaceutical company	4.6	6.7	
Sanofi		Leaders in life-changing treatments and the protection of life-saving vaccines	3.2	4.7	
Novo Nordisk		Diabetes and metabolic syndrome pharmaceutical company	2.7	3.9	
Immunetep		Global leader in LAG3 immunotherapy	2.3	3.3	
Other Listed		Various	30.3	44.1	
Total Listed Equity			48.6	70.7	
Private Equity and Venture Capital					
Venstra Medical	1	Development of the next generation percutaneous ventricular assist device (pVAD)	4.9	7.1	Nov 2023
Immvirx	1	Development of novel oncolytic viruses to create powerful cancer immunotherapy combinations.	3.1	4.5	May 2023
Oncores Medical	1	Medical probe to detect margins of tumours	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			4.1	6.0	
Total Private Equity and Venture Capital			15.6	22.7	
Cash and Cash Equivalents					
Cash and Cash Equivalents			4.5	6.6	
Total Cash and Cash Equivalents			4.5	6.6	
Total Portfolio			68.7	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 independent valuers 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.

Contact us

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Important information

The Australian Unity Future of Healthcare Fund (Fund) comprises stapled security of units in the Australian Unity Future of Healthcare Fund No.1 (Trust No.1) and the Australian Unity Future of Healthcare Fund No. 2 (Trust No.2). Units are issued by Australian Unity Funds Management Limited (AUFM) ABN 60 071 497 115, AFS Licence No. 234454 as Trustee for Trust No.1 and Trust No. 2. The Fund is only available to wholesale investors. The information in this document is general information only and is not based on the objectives, financial situation or needs of any particular investor. You should obtain financial and legal advice relevant to your circumstances before making investment decisions. In deciding whether to acquire, hold or dispose of the product, investors should obtain the latest Information Memorandum (IM) for the Fund to consider whether the product is appropriate for them. Copies of the IM are available at australianunity.com.au or by calling our Investor Services team on 13 29 39. Investment decisions should not be made upon the basis of its past performance or distribution rate because past performance is not indicative of future performance. The information provided in the document is current at the time of publication.