

Pro-D High Growth Fund

Fund Update
31 January 2021

The Pro-D High Growth Fund is a cost-effective and diversified investment solution with a strategic asset allocation of 95% Growth assets and 5% Defensive assets. Combining the expertise of Farrelly Research & Management and Australian Unity, the Fund seeks to improve the tax-effectiveness of returns by investing across a range of active and indexed investment strategies. The Fund aims to deliver post-fee returns in excess of inflation plus 4.25% per annum over rolling five-year periods.

Performance as at 31 January 2021

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception % p.a.
Distribution return	0.00	0.51	2.78	5.68	7.72	7.33	7.04
Growth return	(0.15)	8.81	(2.16)	0.86	1.85	0.91	2.08
Fund total return	(0.15)	9.32	0.62	6.54	9.57	8.24	9.12
Target return	0.62	1.88	5.43	6.32	6.51	6.53	6.70
Excess return	(0.77)	7.44	(4.81)	0.22	3.06	1.71	2.42

Returns are calculated after fees and expenses and assume the reinvestment of distributions.

The target return objective is the Consumer Price Index, all groups, weighted average of 8 capital cities plus 5% p.a., until 31 March 2020 and 4.25% p.a. from 1 April 2020, and is an estimate only. It is based on the most recently released quarterly data from the Australian Bureau of Statistics, which typically lags by up to three months. No guarantee or assurance is provided as to the achievement of this target.

Inception date for performance calculations is 31 December 2012.

Fund returns

The start of 2021 saw investment markets trade sideways albeit with significant day-to-day swings, consolidating on the bumpy year that was 2020. The ASX advanced +0.4% for the month while global share markets retraced -0.5% in local currency terms, and a marginally stronger Australian dollar led to a -0.8% return for currency-unhedged investors. Listed REITs and small caps returned -4.1% and -0.3% respectively for the month.

The Australian yield curve continued to steepen in January with the 10-year government bond yield rising 16bps to 1.13%, and US 10-year government bonds also rose by 16bps to close at 1.07%. Credit spreads continued to tighten during the month.

Against this backdrop the Fund declined marginally during January. Positive returns were achieved on the Fund's international fixed interest holdings, with syndicated loan manager Benthams and low-duration credit manager Barings performing particularly strongly in the month. Australian share managers Nikko (large cap value style) and Lennox (small cap) also achieved strong results in January. The Fund's international share and property exposures detracted from returns.

Longer-term returns are positive, at or above the Fund's inflation-relative objective for periods of 2 years and beyond. A range of underlying investment managers have achieved particularly strong returns in the past year, with Lennox's small-cap strategy, Australian Unity Healthcare Property Trust, and on the Fund's indexed hedged international share exposure each achieving double-digit gains. These earnings are partly offset by weakness

in listed Australian REIT and global listed infrastructure markets in the past year.

Fund portfolio management

The Fund added a little to its infrastructure exposure late in the month, after price falls improved the sector's prospective returns.

At month-end, the Fund's asset allocation can be summarised as:

Australian shares – the Fund retains a significant allocation to Australian shares, based on our view that this asset class offers an appropriate return premium versus risk-free assets over the medium-to-long term. The blend of underlying managers provides diversification across company size, industry exposure and investment styles, to improve the consistency of returns.

International shares – similar to Australian shares, we believe that most global share markets are fairly priced and offer attractive returns for the risk being adopted. Accordingly, the Fund retains a significant exposure to global shares. International share exposures are mostly unhedged; we expect this will reduce the Fund's return volatility, as the Australian dollar has generally moved in the same direction as share markets in recent years. The US share market remains more highly priced than most other markets, with the S&P500 10% above its pre COVID-19 highs and the higher-technology NASDAQ composite up 33% over the same period (and 90% above its March 2020 lows), and accordingly the Fund maintains a significant underweight exposure to the US technology sector.

Real assets – The different return drivers for real assets versus listed equities have provided the Fund with useful diversification and improved consistency of returns. We expect this to persist into the future. The Fund currently prefers listed real assets to direct/unlisted assets, based on valuation/capitalisation rate metrics.

Outlook

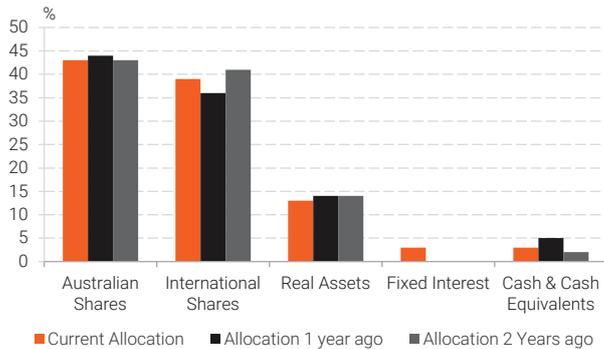
Despite rising COVID-19 infections across significant parts of the Northern hemisphere, positive US election and COVID vaccine outcomes improve the global economic outlook. There are risks to investment markets from government/central bank stimulus withdrawal as COVID-19 comes under control, however we still see positive medium-to-long term value across most share and real asset markets and, accordingly, the Fund remains fully invested.

Fund snapshot

APIR code	AUS0064AU
Funds under management	\$23.56m
Distribution frequency	Half yearly
Minimum initial investment	\$5,000
Entry/exit fee	Nil
Management fee*	0.75%
Buy/Sell spread	0.20%/0.20%
Advice fee	Available

*Refer to the Fund's Product Disclosure Statement for more details on the Fund's management costs which also include recoverable expenses and indirect costs. Total management costs may vary.

Asset allocation over time



Manager allocation

Fund Manager	Range %	Approach	%
Growth	0-100		94.27
Australian Shares	0-100		42.67
iShares		Index	20.99
Platypus		Growth	7.27
Nikko		Value	6.44
Investors Mutual		Small Caps	3.99
Lennox		Small Caps	3.98
International Shares	0-100		38.74
iShares		Index	21.55
Vanguard		Index Excl. USA	7.68
Antipodes		Concentrated	4.94
State Street		Value / Quality	4.57
Real Assets	0-100		12.86
Vanguard		Index Global Infra.	4.02
iShares		Index A-REITS	3.24
Australian Unity		Healthcare Property	2.90
Australian Unity		Hybrid Property	2.70
Defensive	0-100		5.73
Fixed Interest	0-100		2.80
Bentham		Global High Yield Loans	1.48
Barings		Global Investment Grade Credit	0.91
Pimco		Global Investment Grade Credit	0.41
Cash & Cash Equivalents	0-100		2.93
Australian Unity		Cash	2.93

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