Pro-D | High Growth Fund

Proactive, diversified and fully implemented

Australian Unity

31 March 2019

The Pro-D High Growth Fund is a cost-effective and diversified investment solution with a strategic asset allocation of 95 percent Growth assets and 5 percent 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 returns in excess of inflation plus 5 percent per annum over rolling five-year periods.

Performance as at 31 March 2019

	1 mth %	3 mths %	1 yr %	3 yrs % pa	5 yrs % pa	Since inception % pa
Distribution return	0.00	0.00	9.30	10.23	8.62	7.86
Growth return	1.16	9.84	(0.61)	0.66	(0.47)	1.81
Fund total return	1.16	9.84	8.69	10.89	8.15	9.67
Target return benchmark^	0.59	1.78	6.87	6.96	6.71	6.90
Excess return	0.57	8.06	1.82	3.93	1.44	2.77

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance. Inception date for performance calculations is 31 December 2012. ^The target return benchmark is the Consumer Price Index, all groups, weighted average of 8 capital cities plus 5.0% pa 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.

How investment markets performed

March was a relatively benign month for equity markets, whereas US and Australian Government Bond yields continued to fall, resulting in higher bond prices.

The S&P/ASX 300 Accumulation Index gained in March posting a total return of 0.73 percent. International share markets also performed strongly; the MSCI World Ex Australia Index returned 1.66 percent (hedged to the Australian dollar) while a relatively steady AUD saw the unhedged index post a comparable return of 1.49 percent. Listed Australian REITs rose strongly during the month, achieving a total return of 6.04 percent. Australian REITs have now returned 25.92 percent over the past year.

The Australian dollar gained marginally by 0.03 percent to close at 0.7096 USD. A range of positive and negative data prints, together with minimal change in the spread between Australian and US bond yields, has seen the Australian dollar trade in a tight band this month.

At the March US Federal Reserve (Fed) policy meeting rates were left unchanged, and the Fed implied no further rate hikes would be appropriate in 2019. This marked a significant change from the two rate hikes that were expected by the Fed back in December 2018. This change in stance resulted in the yield curve inverting during the month, historically a precursor to recession, with the US 10 year yield of 2.34 percent per annum dropping below the US one year yield of 2.38 percent per annum.

Australian 10 year bond yields fell by 32 basis points to 1.78 percent per annum and two year yields fell by 24 basis points to 1.46 percent per annum. US bond yields has similar falls; the 10 year yield decreased 31 basis points to 2.41 percent per annum and the two year yield fell by 25 basis points to 2.26 percent per annum.

In Europe, Brexit continues to create headlines. The UK Prime Minister Theresa May's various proposed options to leaving the European Union have not gained enough votes in British parliament and the original March 29 deadline has been extended to April 12. If a proposed deal is not agreed upon, a "hard" Brexit is more likely to occur as is the likelihood of a UK general election.

Fund returns

The Fund achieved strong gains in the March quarter, and has outperformed its performance objective (CPI inflation +5 percent per year) over all periods since inception.

The March quarter's return was assisted by strong returns on the Australian share market (including listed Australian REITs), and across global share markets. The Fund's unlisted property exposures also benefited from some upward revaluations.

Over longer periods, the Fund has generated strong returns across all underlying asset classes – since inception the Fund has achieved double-digit returns across its international share and property holdings, and around nine percent per year on its Australian share exposures.

Fund portfolio management

The Fund has continued to build allocations to preferred investment managers during the quarter. It added to actively-managed international share exposures, and continued to build its exposure to Australian small cap manager Lennox Capital.

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

Australian shares – we expect that this asset class will offer solid returns over the medium to long term. The Fund holds a blend of large and small-cap exposures diversified across different industries and investment styles, to improve the consistency of returns.

International shares – we believe most global share markets continue to offer investors solid returns over the medium to long term. The US looks expensive at current prices, and so the Fund maintains a significant underweight exposure to the USA and higher-than-market exposures to other share markets.

Property – following the strong gains in the listed Australian REIT market (up around 26 percent in the year to March), we see this sector as fair value, expecting reasonable returns for both listed and direct assets over the medium to long term.

Outlook

The extent of the "bounce" across share and property markets in the March quarter brings the Fund's view of markets to "fair value", rather than "cheap". Expected medium-to-long term returns remain well above risk-free returns, and so the Fund remains fully invested across most growth asset classes.

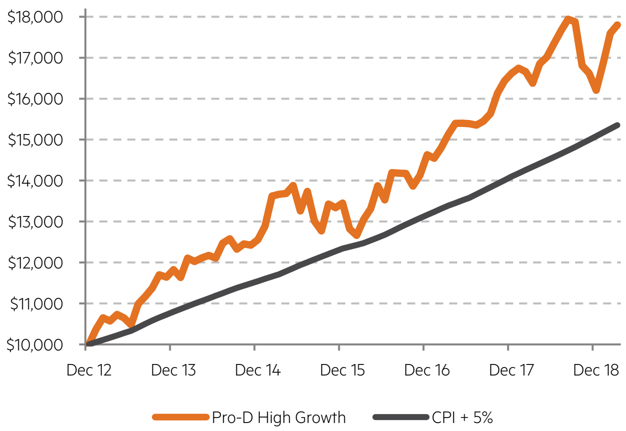
The key exception in our view is the US share market. We expect low returns – broadly in-line with risk-free assets over the medium-to-long term and consequently maintain a small US share exposure.

Fund snapshot

APIR code	AUS0064AU
Funds under management	$20.66m
Distribution frequency	Half-yearly
Minimum initial investment	$5,000
Entry / Exit fee	Nil
Management fee*	0.75%
Buy / Sell spread	0.30% / 0.30%
Advice fee	Available

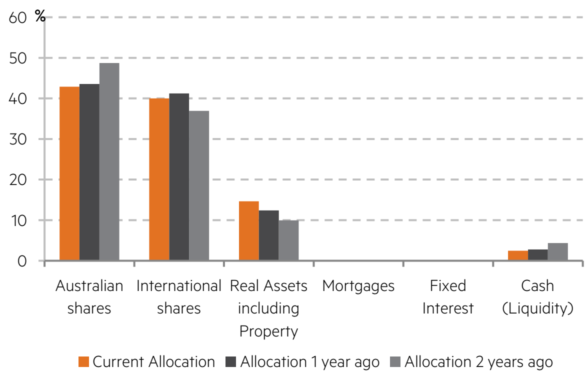
*Refer to the Fund's Product Disclosure Statement for more details on the Fund's management costs which also include recoverable expenses and indirect costs. Total management costs may vary.

$10,000 invested since inception



Fund portfolio as at 31 March 2019

Asset allocation over time



Turnover

Turnover is calculated in accordance with the FSC Guidance Notes, Industry Terms and Definitions. We report turnover of growth assets (e.g. shares and real assets) only, as individual investors and superannuation funds may be eligible for a capital gains tax concession on these assets if held for more than 12 months; such concessions do not apply for defensive assets such as fixed interest and cash.

Period	%
Past 12 months (%)	7.16
Past 3 years (% pa)	12.69
Past 5 years (% pa)	11.44

Manager allocation

Fund manager	Range	Approach	%
Australian shares	**0 - 100**		**42.87**
iShares		Index	21.46
Platypus		Growth	6.70
Nikko		Value	6.34
Investors Mutual		Small Caps	4.66
Lennox		Small Caps	3.71
International shares	**0 - 100**		**40.00**
iShares		Index	22.47
Vanguard		Index excl. USA	8.94
State Street		Value / Quality	4.61
Antipodes		Concentrated	3.98
Real assets including property	**0 - 100**		**14.66**
Renaissance		Listed A-REITs	6.36
Australian Unity		Hybrid	4.45
Australian Unity		Direct Healthcare	3.85
Cash (Liquidity)	**0 - 100**		**2.47**
Australian Unity			2.47

Important Information

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