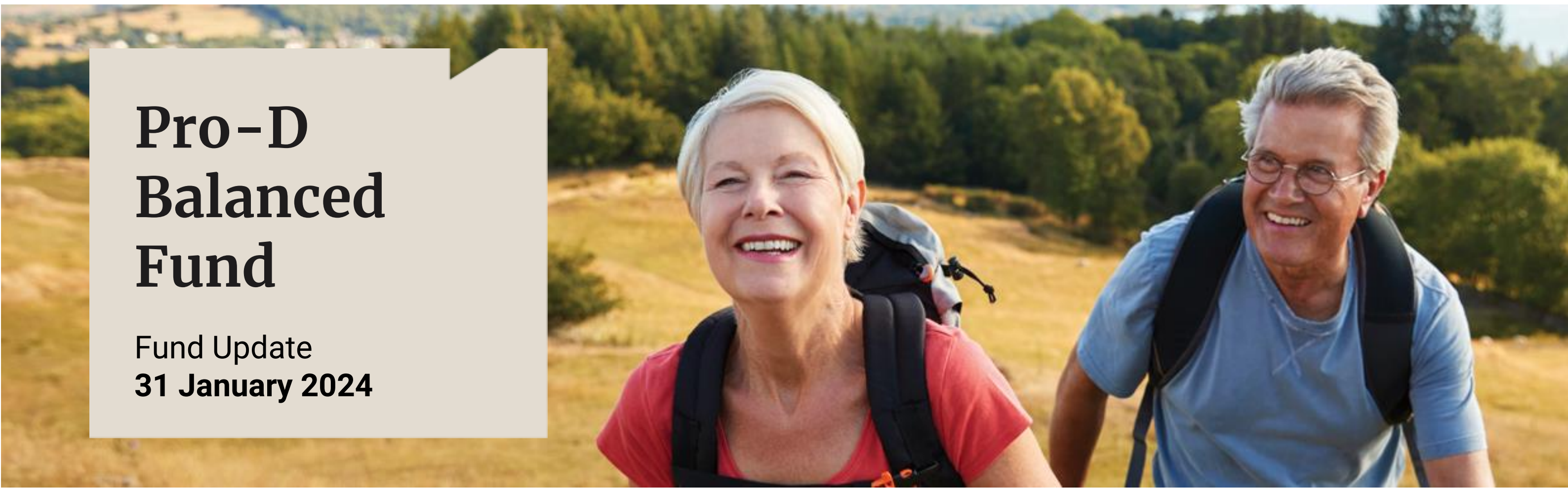
Australian Unity
Real Wellbeing



Pro-D Balanced Fund

Fund Update
31 January 2024

The Pro-D Balanced Fund is a cost-effective and diversified investment solution with a strategic asset allocation of 50 percent Growth assets and 50 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 post-fee returns in excess of inflation plus 3.0% per annum over rolling five-year periods.

Performance as at 31 January 2024

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	0.00	0.79	2.77	3.78	3.54	4.16	4.52	4.48
Growth return	0.59	7.03	3.98	0.13	1.22	0.81	0.82	1.25
Fund total return	0.59	7.82	6.75	3.91	4.76	4.97	5.34	5.73
Target return	0.44	1.32	6.76	8.11	6.75	6.32	5.95	5.99
Excess return	0.15	6.50	(0.01)	(4.20)	(1.99)	(1.35)	(0.61)	(0.26)

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 3.5% p.a., until 31 March 2020 and 3.0% 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. Past performance is not a reliable indicator of future performance.
Inception date for performance calculations is 31 December 2012.

Fund returns

Share markets extended gains in January, following a strong US GDP print (+3.3% annualised in Q4 2023 vs 2.0% expected) and further signs in both the US and Australia of moderating inflation. Australian retail sales were flat year-over-year to December and declined (-2.7%) versus the prior month, indicating that consumers are feeling the impacts of tight monetary policy. Major global central banks elected to keep interest rates on hold.

Australian shares gained 1.1% in January, led by the Energy, Financials, Health Care and Consumer Discretionary sectors. Currency-hedged international equities gained 1.8%, driven by strong returns in US Technology shares. Unhedged international equities returned 4.5%, bolstered by the Australian dollar which declined in value against the US dollar and Euro.

The Australian 10-year government bond yield rose by 0.06% to 4.01% pa and the US 10-year government bond yield rose by 0.03% to close at 3.91% pa.

Against this backdrop, the Fund returned +0.6% for the month. The Fund achieved gains on its Australian share, international share, and property exposures, while its global listed infrastructure and longer-duration international fixed interest holdings declined in value. The Fund's one-year return sits at +6.8%, reflecting double-digit returns on its international shareholdings and Australian share gains of almost 10% over the past year.

The Fund has achieved robust returns over longer periods. The return since inception is slightly below objective (currently inflation + 3.0% pa), impacted by COVID's emergence in 2020 and the share and bond market losses in calendar 2022. Over the past five years, the Fund's strongest contributors include the iShares Indexed International Equity Fund (Unhedged) at +14.0% pa, Australian Unity Healthcare Property Trust at +13.4% pa, and the Antipodes Global Fund at +10.6% pa.

Fund portfolio management

The Fund trimmed its Australian and international shareholdings after gains in recent months pushed these exposures above our target. We added to the Fund's global listed infrastructure exposure toward month-end.

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

Australian shares – The Fund expects to achieve an adequate return premium versus risk-free assets over the medium-to-long term, bolstered by franking credits. We hold a blend of underlying managers that provide diversification across company size, industry exposure, and investment styles, to improve the consistency of returns.

International shares – Even after recent gains, we believe most global share markets offer reasonable long-term returns for the risk being adopted. US equities (and in particular the largest companies) appear expensive and may deliver poor performance in coming years - the Fund is significantly underweight to the US while maintaining significant exposure to other markets.

Real assets – The different return drivers for real assets versus listed equities provide diversification benefits for investors. We currently prefer listed assets, particularly infrastructure, as these trade at a significant discount to direct/unlisted holdings, have greater liquidity, and offer robust prospective returns. Accordingly, we hold an overweight position to these assets.

Defensive assets – Currently long-dated bond yields are close to the returns available on (zero-duration) cash, offering outperformance if central banks cut cash rates in coming years. Fixed interest also offers diversification benefits versus equities, and so we maintain moderate duration exposure.

Credit spreads offer adequate but not outstanding compensation for the risk being assumed. Accordingly, the Fund holds exposures to domestic and international credit managers.

Outlook

Investors remain keenly focused on global central banks' efforts to control inflation through tight monetary policy and are watching to see whether this sends economies and vulnerable industries into recession. We believe most central banks are near or at the end of their current tightening cycles, however, investment markets now expect rapid rate cuts – a pace that may not eventuate.

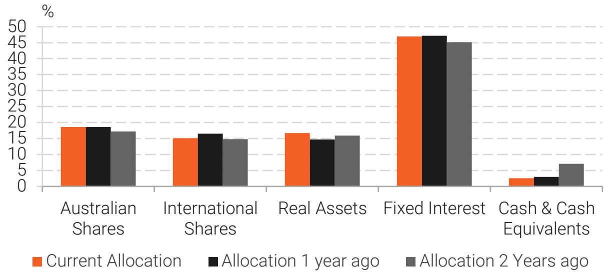
On a medium-to-long-term view most growth assets (with the exception of US shares) continue to offer a reasonable or attractive return premium versus risk-free assets, leading the Fund to adopt a "neutral" overall risk position.

Fund snapshot

APIR code	AUS0066AU
Funds under management	$83.41m
Distribution frequency	Half yearly
Minimum initial investment	$5,000
Entry/exit fee	Nil
Management fee*	0.65%
Buy/Sell spread	0.10%/0.10%
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	0-55		50.39
Australian Shares	0-55		18.58
iShares		Index	14.12
Lennox		Small Caps	1.80
Investors Mutual		Small Caps	1.77
Platypus		Large/Mid Growth	0.77
Tyndall		Large Value	0.11
International Shares	0-55		15.10
Vanguard		Index excl. USA	5.34
iShares		Index Global	4.87
iShares		Index Unhedged	3.91
State Street		Value / Quality	0.53
Antipodes		Concentrated	0.45
Real Assets	0-55		16.71
iShares		Index Global Infra.	7.83
iShares		Index A-REITS	3.85
Australian Unity		Healthcare Property	3.57
Australian Unity		Hybrid Property	1.46
Defensive	45-100		49.61
Fixed Interest	0-100		46.99
iShares		Index Global Govt & IG	11.62
Barings		Global Non-Govt IG	8.97
iShares		Index Aust Govt & IG	8.48
Pimco		Global Non-Govt IG	6.53
Australian Unity		Aust Govt Inflation-Linked Bonds	5.30
Bentham		Global High Yield Loans	3.60
Australian Unity		Enhanced Cash	2.50
Cash & Cash Equivalents	0-100		2.62
Australian Unity		Cash	2.62

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