

Fund Update

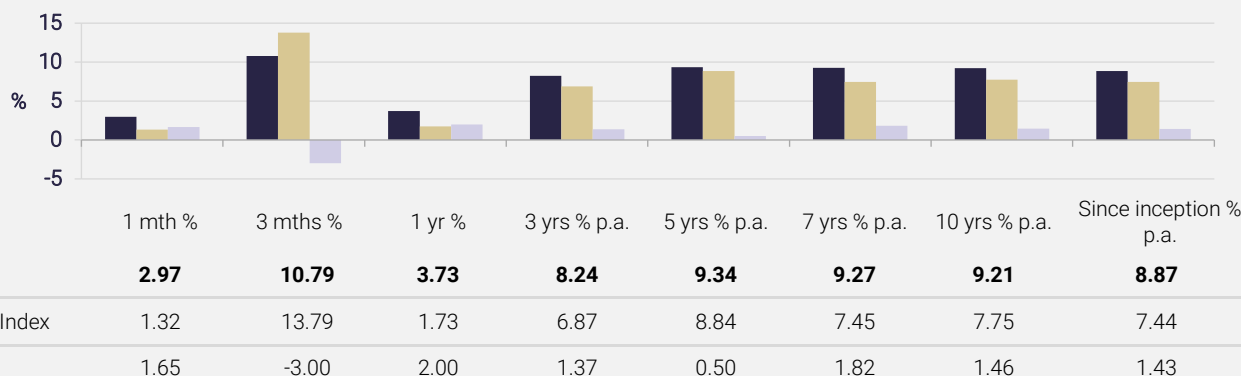
PLATYPUS
ASSET MANAGEMENT



Platypus Systematic Growth Fund

31 December 2020
QUARTERLY

Performance as at 31 December 2020



Performance 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 24 November 2009.

Quarter in Review

The portfolio returned 10.79% in the December quarter and underperformed the benchmark by -3.00%. Notable contributions to relative performance came from Xero (0.2%), Janus Henderson (0.16%) and nil weight in Transurban Group (0.34%). Notable detractors included underweight positions in ANZ (-0.58%), Commonwealth Bank (-0.57%) and nil weight in NAB (-0.5%).

At the sector level positive contributions came from Materials (0.44%), Information Technology (0.07%) and Health Care (0.07%), while notable detractors at sector level were Financials (-2.14%), Real Estate (-0.46%) and Energy (-0.34%).

Sector in Review

The S&P/ASX300 index returned 13.79% in the quarter, neutral with other indices in their respective local currencies. The index grew in all three months of the quarter, with November returning impressive double-digit growth, alongside other global benchmarks.

Negative sentiment that was building amongst the global investment community in the September quarter on the back of a rising number of COVID-19 infections in Northern Hemisphere was shrugged off in November as positive news on the two leading vaccine trials (Pfizer and Moderna) provided optimism that lockdown restrictions will not continue to impede normal economic activity for much longer. This was a catalyst for risk assets including equities to rally. With performance skewed to those stocks that have underperformed expected to benefit from lockdown restrictions easing. A number of major economies, including the US and the UK, have already approved and started administering COVID-19 vaccines; however, as we are writing this report the latest news suggests that the administration of those vaccines (in particular of the Pfizer vaccine that require complex cold supply chain) is proving more difficult than originally anticipated. The progress of mass inoculation is behind

expectations almost everywhere, except in Israel and a number of European countries have reintroduced and extended strict lock down restrictions.

Other major global developments during the quarter included the outcome of the US Presidential Elections, which delivered a win for the Democratic candidate Joe Biden but failed to deliver a much anticipated 'Blue Wave', although at the time of writing run offs in Georgia have gone to the Democrats handing them the control of the upper house. In addition, the stalemate on the latest round of the US stimulus was finally resolved late in the quarter, with the US Senate approving ~\$900b relief package, which included a direct payment of \$600 to those earning less than \$75,000.

Domestically, the fiscally supportive 2020 Australian Federal Budget was delivered in October and the Reserve Bank of Australia cut the cash rate to 10bps and provided additional supporting measures in November. Bottom up company news flow was also positive with broadly positive updates from companies during the domestic AGM season. During the quarter, most domestic lock down restrictions had been eased with Australia achieving a number of weeks with negligible to no local transmissions of COVID-19. However, a new outbreak in the Northern Beaches of Sydney in mid-December, followed by new clusters of local transmissions in both NSW and VIC, have seen a reintroduction of some lockdown measures and interstate border closures as the year ended. Trade tension between China and Australia accelerated during the quarter with Chinese government introducing tariffs or enquiries into a range of commodities, including wine, lobsters, barley, coal and timber.

The Australian Dollar appreciated ~7.5% during the quarter against the US Dollar, to \$0.77.

On the commodities front during the quarter the Gold price remained broadly stable, despite the intra-quarter volatility, which saw gold price decline by ~5% in November as risk assets caught a bid. As we write this report, gold price is recovering back to +US\$1940/oz. level on the back of

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the latest bout of COVID-19 related negativity. Iron Ore and Copper remained well bid during this quarter again. Copper was up ~19% in the quarter, while Iron Ore price increased ~32% driven by continued supply disruption out of Brazil and ongoing robust demand from China. Oil price, much like Gold, was volatile in the quarter, delivering a high single digit decline in October, followed by a strong double-digit increase in November. It finished the quarter up ~19%.

In terms of sector returns, Energy (26.11%), Financials (22.77%) and Information Technology (22.77%) led the market higher, with Utilities (-5.41%), Health Care (-0.99%) and Industrials (5.74%) being the notable laggards.

Factor Analysis

We saw strong factor divergence over the quarter. Value outperformed ROE and momentum by a large amount. Size produced a positive return, while our ESG factor model matched the market. The strong rotation to Value occurred after the announcement of positive news regarding the Pfizer vaccine. Stocks that were relatively cheap, such as travel stocks, rallied hard on the news. The portfolio is not designed to account for events such as this, and so produced a negative return over the quarter. However, the risk controls we have in place prevented a larger drawdown, meaning we ended up producing an excess return to the benchmark for the year.

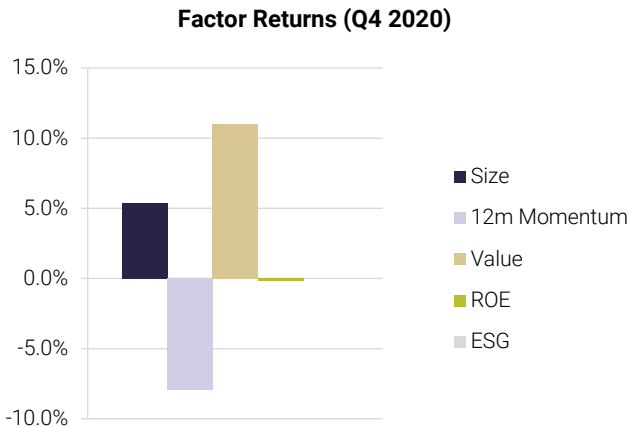


Chart 1: Top quartile factor alphas for the quarter. This is the compounded return obtained from the top 75 stocks in the ASX 300, sorted by size, momentum, value and ROE respectively, compared to the index performance.

The portfolio trades at a premium to the market-cap benchmark as measured by price-to-book (2.78x vs 2.11x) and in-line when measured by forward price-to-earnings (19.30x vs 19.60x). The financials sector weight has been stable through the quarter, while the portfolio is at its largest weight in the materials sector since 2011.

Portfolio weight

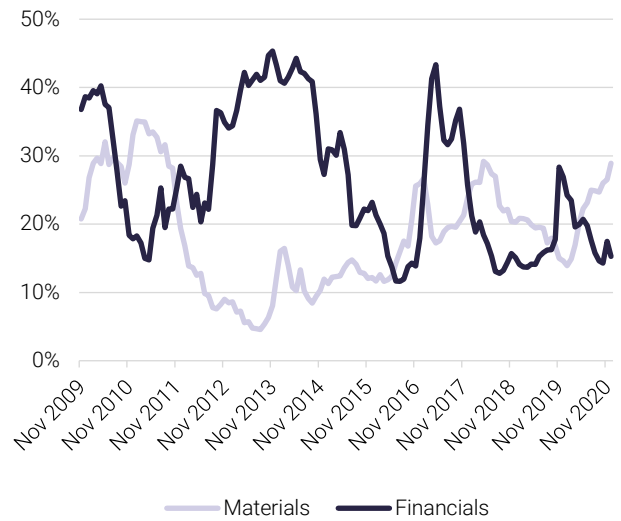


Chart 2: Financials and materials weight through time.

Outlook

To describe 2020 as an "extraordinary year" would be an understatement. In drafting this commentary, we reviewed our outlook for 2020 to find that this time last year, while we were worrying about the timing of the next US recession and outcome of trade negotiations between US and China, the worst global pandemic in 100 years completely sideswiped us. Therefore, with greater humility we attempt to put our thoughts for 2021 on paper.

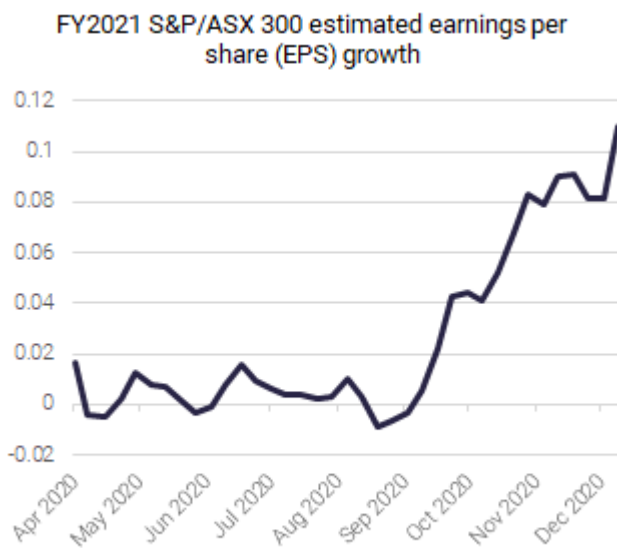
This year an unusually strong consensus appears to have emerged for a 2021 outlook, which goes along the following lines:

- The global economy will recover strongly in 2021, supported by the unprecedented level of fiscal support provided in 2020 that has come on top of the expanded monetary stimulus. The US government is said to have spent approximately 10% of its GDP in pandemic support measures and the Federal Reserve balance sheet is nearing US\$10 trillion. In other major economies around the world the numbers are not too dissimilar;
- Equity markets will provide handsome returns as earnings recover sharply in a favourable operating environment. Many strategists are calling for returns in the range of 10-20% from equities in 2021;
- Bonds and other safe haven assets will be sold as investors add risk to their portfolios. Most experts expect the US 10-year bond yield to rise from the current 1.12% to between 1.25% and 2.0%. Likewise many have called a top in the price of gold for the current move;
- The US dollar being a counter cyclical currency will remain under pressure and commodities will remain strong; and,
- 'Reopen' or 'vaccine' beneficiaries will outperform 'COVID-19' winners.

A weak and almost inaudible counter argument to the above narrative points to the possibility that Northern Hemisphere second wave of the virus is likely to see global economy weaken in Q4 2020 and Q1 2021. This minority is also concerned about valuations being stretched and that the stimulus measures that underpin the consensus view may be

unwound sooner than expected. For example, momentum in China's money supply growth has peaked and may be a lead indicator of tighter policy settings for 2021.

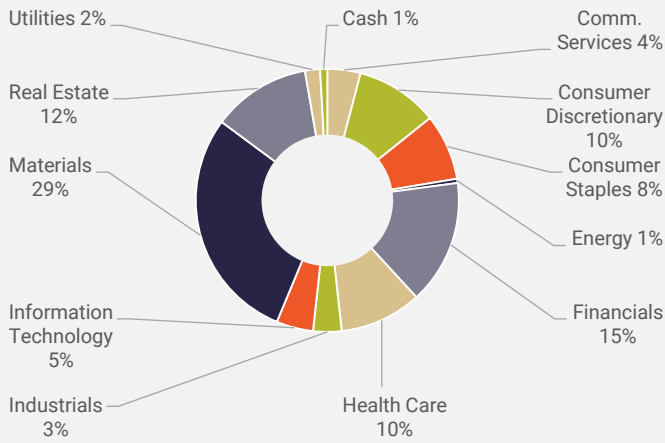
We lean firmly towards the consensus view in terms of our outlook for 2021 and therefore we are bullish. Whilst we acknowledge that there are near term headwinds to the economy, we believe that the market will look through this weakness now that pathway for an effective and scalable vaccine(s) has become clearer. On the valuation argument, again we acknowledge that the market has priced quite a bit of the recovery already, but the operating environment is very supportive for businesses and analyst earnings expectations are clearly in a catch up mode. This is visible on the chart below therefore earnings recovery could materially surprise to the upside. The trickiest one to handicap of course is the path that monetary policy takes towards normalisation, which, if ever achieved, will have a profound impact on asset prices. Again, we are happy to back the consensus that this is not a 2021 problem, by simply taking the majority of the central bankers at face value that they are in no rush to remove support.



Source: FactSet, Platypus

In summary, we think that Australian equity market has a very good chance of making new all-time highs in 2021.

Sector Allocation



| GICS Sector | Portfolio% | Benchmark% | Active% |
|------------------------|------------|------------|---------|
| Communication Services | 4.08 | 4.05 | 0.03 |
| Consumer Discretionary | 10.17 | 7.68 | 2.49 |
| Consumer Staples | 8.12 | 5.88 | 2.25 |
| Energy | 0.51 | 3.76 | -3.25 |
| Financials | 15.28 | 27.12 | -11.84 |
| Health Care | 10.09 | 10.61 | -0.52 |
| Industrials | 3.49 | 7.18 | -3.69 |
| Information Technology | 4.53 | 4.64 | -0.11 |
| Materials | 28.90 | 20.48 | 8.42 |
| Real Estate | 12.10 | 7.26 | 4.84 |
| Utilities | 1.85 | 1.35 | 0.50 |
| Cash | 0.88 | 0.00 | 0.88 |

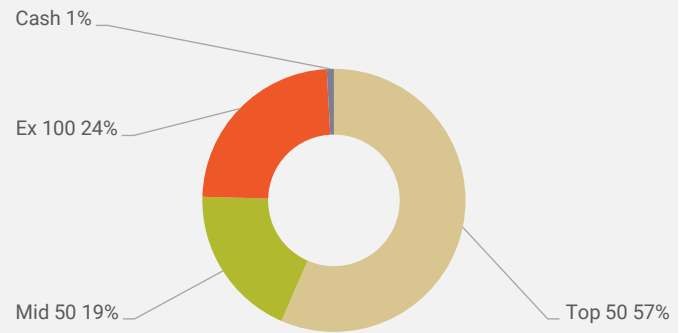
Asset Allocation

| Asset Class | Portfolio% |
|-------------------|------------|
| Australian Shares | 99.12 |
| Cash | 0.88 |

Top 5 Holdings

| Company | Portfolio% | Benchmark% | Active% |
|-------------------------|------------|------------|---------|
| BHP Group Limited | 8.22 | 6.56 | 1.66 |
| CSL Limited | 8.03 | 6.76 | 1.27 |
| Wesfarmers Limited | 4.83 | 3.00 | 1.83 |
| Macquarie Group Limited | 4.41 | 2.47 | 1.94 |
| Rio Tinto Limited | 3.39 | 2.22 | 1.17 |

Market Capitalisation



| Market Cap Band | Portfolio% | Benchmark% | Active% |
|-----------------|------------|------------|---------|
| Top 50 | 56.54 | 73.83 | -17.30 |
| Mid 50 | 18.90 | 13.54 | 5.36 |
| Ex 100 | 23.68 | 12.62 | 11.06 |
| Cash | 0.88 | 0.00 | 0.88 |

Fund Snapshot

| Wholesale Units | |
|--------------------------------|--|
| APIR Code | AUS0036AU |
| Inception date | 24 November 2009 |
| Fund size (net asset value) | \$201 m |
| Minimum initial investment | \$5,000 |
| Management Fees | 0.4124% p.a |
| Estimated Recoverable Expenses | 0.12% of net asset value of the Fund for each financial year ending 30 June. |
| Buy/Sell spread | 0.20%/0.20% |
| Distributions | Half yearly |
| Advice fee | Available |

Important Information

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