

Quarterly update

June 2023

Profile Preservation Portfolio Review

Economic update

As inflation eased across the major developed economies through the quarter, investor optimism increased around the potential for a 'soft landing' in H2 2023 and beyond. Global equities, as a result, delivered a stellar return over the quarter, returning 7.1% (as measured by the MSCI World Ex Australia – Hedged Index). However, emerging markets heavily lagged developed markets over the period, with Chinese equities starkly returning -9.6%, as measured by MSCI China-A Onshore Net Index (unhedged to AUD) as the post-COVID economic recovery showed signs of slowing.

Locally, the Australian economy expanded by 0.2% quarter-on-quarter in Q1 2023, although this was the lowest growth figure in the last six quarters. Lower household consumption growth due to elevated interest rates and persistent cost pressures, along with a sharp fall in government spending growth, largely contributed to the softening in economic growth over the first three months of 2023. Despite this, unemployment remains close to multi-decade lows, ending the June quarter at 3.6%.

Headline inflation, as measured by the Consumer Price Index (CPI), dropped sharply to 5.6% over the twelve months to May, from 7.0% year-on-year in March, implying that inflation may have peaked and is showing signs of slowing due to tight monetary conditions. Following its decision to hold the cash rate steady at 3.60% in April, the RBA decided to raise interest rates by 25bps each in its May and June meetings, bringing the cash rate to 4.10% by the end of June. The RBA has subsequently kept interest rates on hold in its latest July meeting, noting that the decision was made to allow more time to assess the impact of rate rises to date on the economy before it undertakes any further tightening.

Australian equities delivered a positive absolute return of 1.0% over the quarter, as measured by the S&P/ASX 300 Accumulation Index. Information Technology, Utilities and Industrials came in as the strongest performers, returning 18.5%, 5.5% and 4.3% respectively. The worst performing sectors over the period were Health Care, Materials and Consumer Discretionary, returning -3.1%, -2.6% and -1.7% respectively.

Australian 10-year Government bond yields increased significantly over the quarter by 69 bps, to end June at 4.00%, continuing the upward trajectory after a period of fluctuations. As a result, Australian fixed interest performed poorly over the quarter, returning -2.9% for the period (as measured by the Bloomberg AusBond Composite Bond Index). The Australian dollar depreciated by 0.3% against the USD, ending the quarter at 66.7 US cents.

The American economy saw another quarter of growth, expanding at an annualised 2.0% in the first quarter of 2023. Headline annual inflation declined to its lowest level in May since March 2021, coming in at 4.0%, compared to 5.2% in March, largely driven by

a decline in the cost of food and energy. Core annual inflation (which excludes volatile food and energy) also declined over the period, lowering to 5.3% to May, from 5.6% in March. While the US Federal Reserve (the Fed) increased rates by 25 bps in its May meeting, it kept rates steady in its June meeting, with the federal funds rate ending the period at a range of 5.00%-5.25%. The Fed noted that it will assess the impact of monetary policy on economic activity before hiking rates further and reaffirmed its commitment to returning inflation to its longer-run target of 2%. During the period, US Congress finally brokered an agreement to raise the US debt ceiling. Additionally, the US banking sector crisis slowly started to ease in June, which uplifted investor sentiment further.

Persistently high headline inflation across Europe showed signs of easing over the quarter, with annual inflation decreasing to 5.5% in June (from 6.9% in March) and annual core inflation (excludes volatile items) slightly lowering to 5.4% in June (from 5.6% in March). Following a 50bps hike in its March meeting, the European Central Bank (ECB) hiked rates by 25bps each in May and June, pushing borrowing costs to the highest levels since late 2008. European equities performed well despite rising interest rates, returning 3.7% over the quarter, as measured by the Euro Stoxx 50 Index (in local currency terms). Labour conditions remained tight in Europe, with unemployment remaining at a record low of 6.5% for May. In the UK, the Bank of England (BoE) raised interest rates for 13th consecutive time during its June meeting, with policy makers signalling further tightening would be required if ongoing inflationary concerns persist.

Despite expanding rapidly in the first three months of 2023, China's economic recovery lost momentum over the June quarter. Weaker-than-expected recovery following the removal of COVID-19 restrictions, coupled with ongoing tensions between the US and China, negatively impacted investor confidence. Chinese equities significantly underperformed both developed markets and broader emerging markets, returning -9.6% over Q2 2023, as measured by MSCI China-A Onshore Net Index (unhedged to AUD). Responding to a slowdown in factory output and buying activity in the country, the People's Bank of China (PBOC) cut short-term lending rates for the first time since August 2022 in mid-June to stimulate growth.

Following significant volatility in March, global developed market bond yields rose on the back of resilient economic data over the quarter. Quarter-to-quarter, the US 10-year Government bond yield increased by 33 bps to 3.82%, UK's 10-year Government bond yield rose significantly by 90 bps to end the quarter at 4.39% and the German 10-year Government bond yield increased by 9bps to 2.39%.

Global listed infrastructure posted a return of -0.9% over the quarter, as measured by the FTSE Developed Core Infrastructure 50/50 Index (AUD hedged), underperforming global listed property which returned 0.9% as measured by the FTSE EPRA/NAREIT Developed Rental Net TRI Index (AUD hedged).

Portfolio update

The Profile Preservation Portfolio (“PPP”) had a positive quarter, returning +0.5%. Positive contributions from both ‘Equities’ and ‘Alternatives’ drove portfolio returns over the quarter. ‘Property’ and ‘Cash and Fixed Interest’ detracted, as did PPP’s exposure to foreign currency.

PPP’s active global equity portfolio posted a return of +9.5% (in AUD unhedged terms) over the quarter, outperforming its benchmark by +2.0%. Contribution from ‘Equities’ was largely driven by the returns from broad emerging markets manager GQG, returning +11.2% (in AUD unhedged terms), outperforming its benchmark by +9.7%. Within Australian equities, concentrated growth manager Hyperion performed well, returning +2.9% exceeding the benchmark return of +1.0%.

‘Alternatives’ also added value over the quarter with systematic macro hedge fund manager AHL Dimension returning +7.8%, driving returns for the sector. The portfolio’s exposures to diversifying alternative beta and alternative credit strategies delivered positive returns over the quarter further contributing to the overall positive return.

The contribution from ‘Property’ was slightly negative over the quarter, driven predominantly by institutional healthcare manager Barwon who delivered a return of -2.3%. Global listed infrastructure manager Maple-Brown Abbott returned -0.1%, which was 0.4% below the market index, whilst the forest climate solutions fund New Forests added some value to returns over the quarter.

‘Cash and Fixed Interest’ also detracted from returns. PPP’s leveraged global government bond exposure (via manager Insight), was negatively impacted by rising yields. Exposure to Australian inflation linked bonds also detracted value, with Ardea delivering a return of -2.8%. Australian fixed income manager Macquarie returned -2.9%, outperforming the benchmark return for the quarter whilst global government bonds manager Colchester returned -0.2% (AUD hedged), albeit above benchmark return of -0.7%.

Outlook and portfolio positioning

The quarter ended with declining inflation across major developed economies. and we have seen softer interest rate rises by several Central Banks, which re-energised optimism around a positive economic outlook. We expect policy rates to peak soon and then fall, and inflation to fall to central bank targets towards the end of this year. While equity prices and credit spreads are most consistent with an economic “soft landing”, recession concerns remain. The banking crisis in the US earlier in 2023 reminded us that some stresses have emerged following a period of such rapid tightening.

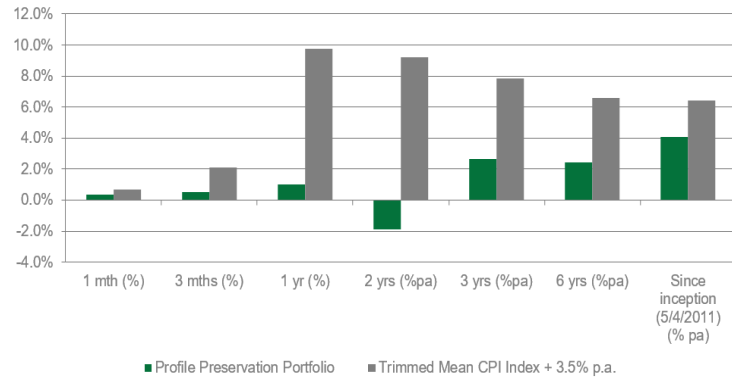
Demand and supply conditions in the major advanced economies remain out of balance; intensified geopolitical risks, uncertainties around inflation and weak growth means that markets are likely to remain volatile in 2023/24. We believe that sufficient diversification, downside protection strategies and active management continues to be the best way to protect the portfolio from a period of volatility.

In March, we reduced the exposure to the Insight levered bond strategy to crystallise profits on the fall in nominal yields from beginning of year levels, with the expectation to re-apply this exposure again if yields moved back towards previous attractive levels. In early June, yields were at an attractive position and thus we reallocated back to this strategy. During the June quarter, the Diversifying Strategies Fund team (alternative beta strategy) made a proposal to wind down the fund. As of June 2023, the fund was closed following a majority vote from shareholders. As aspects of the fund are illiquid, capital is expected to be returned in increments over the next six months. This means the portfolio will continue to have exposure until all capital is returned.

Performance Comparisons*

Investment objective*

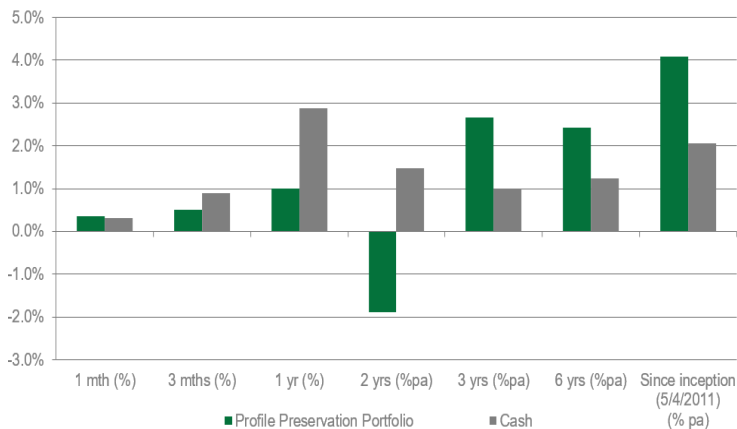
The Portfolio aims to achieve a return of CPI[#] plus 3.5% per annum (after fees and expenses) over rolling 3 year periods (with volatility of 3-8% p.a.)



*Past performance is not a reliable indicator of future performance.

Cash*

To earn a performance fee in any month, the Portfolio must exceed the cash return for that month (as well as the High Water Mark and the Objective hurdle).



*Past performance is not a reliable indicator of future performance; Cash is measured by the Ausbond Bank Bill Index (from June 2019) and the 30 day Bank Accepted Bills prior.

Growth of \$100 (net of fees)*



*Past performance is not a reliable indicator of future performance.

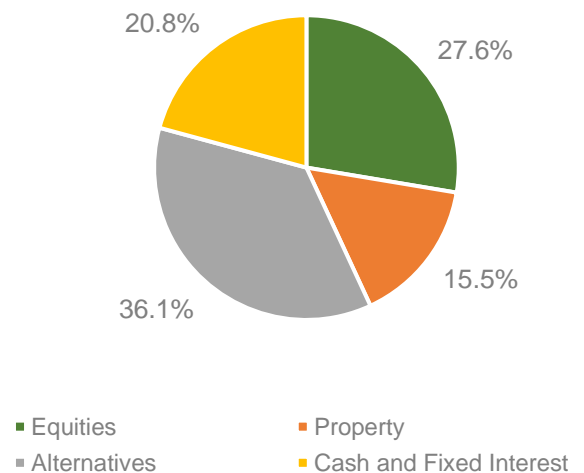
Portfolio summary¹

Monthly return	0.3%
3 months	0.5%
1 year	1.0%
2 year (annualised)	-1.9% p.a.
3 year (annualised)	2.7% p.a.
5 year (annualised)	2.1% p.a.
6 year (annualised)	2.4% p.a.
Total return since inception (5 Apr 11)	63.3%
Average annual return since inception (5 Apr 11)	4.1% p.a.
Risk since inception (standard deviation)	4.1% p.a.
FUM	\$55.7m

Key Sector Holdings²

Fixed Interest	Equities	Property	Alternatives
Ardea ILB	GQG EM	Resolution	Ardea
Macquarie	Yarra	MBA	AHL
Colchester	First State	Palisade	Stepstone
Insight	GQG DM	Barwon	Systematica
	Veritas	New Forests	Crabel

Asset Allocation³



¹Inception is 5 April 2011. Past performance is calculated pre-tax and after fees and expenses, assumes distribution reinvestment but does not take into account inflation. Past performance and volatility are not reliable indicators of what may happen in the future. Neither capital nor returns are guaranteed.

²The current exposures include the underlying asset allocations of each investment.

³Manager allocations are presented on a look-through basis.

⁴Return objective is CPI+5% p.a. for PAP (reduced from CPI+6% p.a. from 1/6/2019). The numbers shown take into account this staggered objective.

[#]The CPI is the trimmed mean Consumer Price Index published by the Reserve Bank of Australia.

Reports have been prepared and issued by Profile Financial Services.

About the portfolio

The Profile Preservation Portfolio (the Portfolio) aims to preserve and grow investors' wealth relative to the cost of living, with low to medium volatility. The Portfolio can invest in all the major asset classes including local and international fixed interest, property, equities, alternative investments and cash. The skills of specialised investment managers are used, together with selected listed investment vehicles and direct investments. It is diversified, being exposed to a broad range of individual investments, managers, strategies, themes, geographic areas and asset classes.

Investment objective

The Portfolio aims to achieve the following objectives over rolling three year periods:

- ◆ returns of CPI[#] plus 3.5% per annum (after fees and expenses), and
- ◆ volatility of 3-8% per annum (as measured by the annualised standard deviation*)

About Profile

Profile Financial Services (Profile) is a firm of financial and investment strategists, with an over 30-year history of delivering quality advice and measurable value to the lifestyles of its clients and their families. Profile provides strategic advice on approximately \$560m in FUA, and actively manages ~\$210m in FUM on behalf of clients (as at 30 June 2019). Profile is the Investment Manager for the Portfolio.

Investment philosophy

Profile's objectives based investing philosophy is at the core of the way the Portfolio is managed. Profile is focused on constructing the Portfolio in a way that, when used appropriately, has a high probability of meeting investors' goals in the appropriate timeframes. The asset allocation approach is flexible enough to cope with rapidly moving markets and is designed to reduce the impact of short-term market volatility on investors.

Investment process

The investment process has the following key features:

- ◆ emphasis on short-term downside protection while still providing the capacity to achieve superior absolute returns over the long-term,
- ◆ proprietary analysis to facilitate investment decisions that meet portfolio objectives while remaining aligned with broader risk parameters,
- ◆ forward looking dynamic asset allocation underpinning transparent, simple, and effective portfolio and risk management,
- ◆ a search for fundamental (as opposed to relative) value across all asset and sub-asset classes, geographies and investment strategies,
- ◆ diversification across investment opportunities and 'best value for money' ideas,
- ◆ a rigorous and comprehensive manager and security due diligence process, and
- ◆ use of investment managers which have a degree of flexibility across their investment mandate, which looks for opportunities within their field of expertise, and are often not constrained by benchmarks.

[#]The CPI is the trimmed mean Consumer Price Index published by the Reserve Bank of Australia

*A measure of the degree of variation of returns around the mean (average) return. Increasing levels of dispersion around the mean leads to higher standard deviations, indicating a higher degree of volatility and risk.

Reports have been prepared and issued by Profile Financial Services.

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[^]Please refer to the Portfolio PDS for a detailed description of fees and fund facts.

FACTS AT A GLANCE[^]

TYPE

Actively managed diversified portfolio using specialised investment managers and selected listed investment vehicles and direct investments

INVESTMENT MANAGER

Profile Financial Services

ASSET CONSULTANT

Willis Towers Watson

RESPONSIBLE ENTITY

The Trust Company (RE Services) Limited

STRUCTURE

Open ended Australian registered unit trust

OBJECTIVE

Returns of 3.5% above the rate of inflation over rolling 3 year periods

SUGGESTED INVESTMENT TIMEFRAME

Minimum 3 years

LEVEL OF RISK (VOLATILITY)

Low to medium

MINIMUM INVESTMENT

\$25,000

FUND START DATE

April 2011

APPLICATIONS & WITHDRAWALS

Weekly and monthly

DISTRIBUTIONS

If payable, semi-annually

MANAGEMENT COST

0.85% p.a. (excluding GST)

PERFORMANCE FEE

10.25% (including GST)

PERFORMANCE BENCHMARK*

Bloomberg AusBond Bank Bill Index

*The objective hurdle must also be met in any given month

ENTRY/EXIT FEE

None

BUY/SELL SPREAD

0.10% both sides (to the Portfolio)

UNIT PRICES

Weekly and monthly

APIR CODE

SLT0019AU

ARSN

149 249 052