

Monthly Update for Month Ending September 2024

### Investment objective

To deliver outperformance of the benchmark over rolling 3-year periods.

### Key information

<b>Code</b>	NTH0376
<b>Manager name</b>	Morningstar
<b>Inception date</b>	03 October 2023
<b>Benchmark</b>	Morningstar Australia Moderate Target Allocation NR AUD
<b>Asset class</b>	Diversified
<b>Number of underlying assets</b>	14
<b>Minimum investment horizon</b>	3 years
<b>Portfolio income</b>	Default - Reinvest
<b>Management fees and costs</b>	'0.59%
<b>Performance fee</b>	'0%
<b>Estimated net transaction costs</b>	'0.04%
<b>Estimated buy/sell spread</b>	'0.07%/0.08%
<b>Risk band/label</b>	3/Low to medium
<b>Minimum investment amount</b>	\$500

### About the manager

#### Morningstar

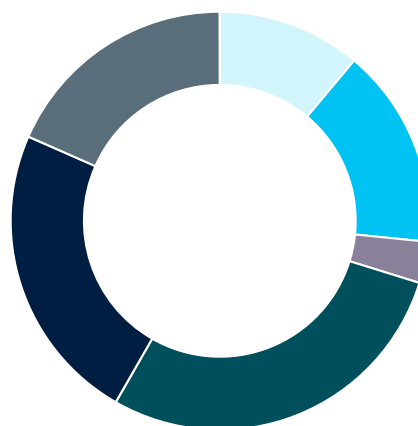
Morningstar is a provider of investment management, asset allocation, portfolio construction and investment research services with over 35 years' experience in the United States, Australia and other international markets. Morningstar advises on, and manages funds for superannuation funds, institutions, platform distributors, financial advisers and individuals.

### Returns

as at 30 September 2024

	Since inception*	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (%)
Total return <sup>1</sup>	10.99	1.04	4.00	3.34	-	-
Income	4.34	0.09	2.17	2.74	-	-
Growth	6.65	0.95	1.83	0.60	-	-
Benchmark <sup>2</sup>	11.87	0.94	4.04	3.60	-	-

### Asset allocation



as at 30 September 2024

Growth assets		Allocation (%)
<span style="color: #ADD8E6;">■</span>	Australian Equities	11.1
<span style="color: #00B0F0;">■</span>	International Equities	15.5
<span style="color: #663366;">■</span>	Property	3.2
<span style="color: #9933FF;">■</span>	Other	0.0
<b>Total</b>		<b>29.8%</b>
Defensive assets		Allocation (%)
<span style="color: #006400;">■</span>	Australian Fixed Interest	28.5
<span style="color: #000080;">■</span>	International Fixed Interest	23.3
<span style="color: #666666;">■</span>	Cash	18.4
<b>Total</b>		<b>70.2%</b>

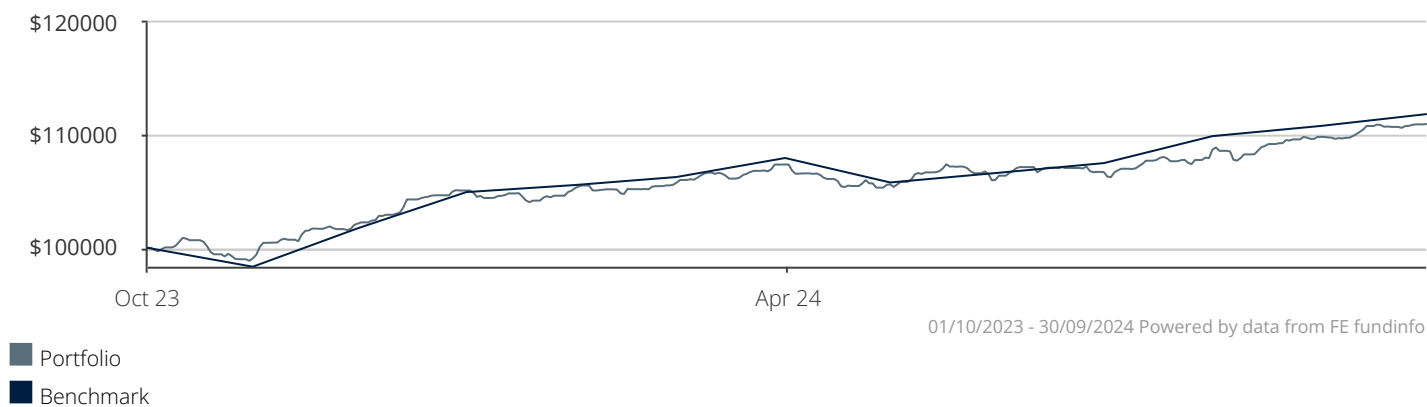
Asset allocation data sourced via Morningstar® from the underlying fund manager.

<sup>1</sup> The managed portfolio performance represents total return for the periods. Returns have been calculated using the time-weighted method, they assume distributions are reinvested and are after investment management fees and indirect costs. Total and growth returns include accrued distributions, while income return includes paid distributions only. Returns do not take into account tax payable. Individual client returns may vary based on the contributions, withdrawals, and timing differences within the managed portfolio

<sup>2</sup> The applicable Benchmark for this portfolio is shown in the Key Information section.

## Performance history

\$100,000 invested since 01/10/2023



## Managed portfolio holdings<sup>3</sup>

Holding	Asset class	Allocation (%)
Vanguard Australian Fixed Interest Index Etf Vanguard Australian Fixed	Australian Fixed Interest	21.7
iShares Global Bond Index Fund - S Class	International Fixed Interest	19.7
Ishares Core Cash Etf Ishares Core Cash Etf	Cash	15.0
Bentham Professional Global Income Fund - Class C	International Fixed Interest	6.6
Fidelity Australian Equities Fund	Australian Equities	5.7
Janus Henderson Tactical Income Fund	Australian Fixed Interest	5.5
Schroder Australian Equity Fund	Australian Equities	5.2
Capital Group New Perspective Fund (AU)	International Equities	5.0
MFS Global Equity Trust II - I Class Hedged	International Equities	3.4
iShares Global Listed Property Index Fund (Hedged S Class)	Property	3.0
Barrow Hanley Global Share Fund - Class S	International Equities	2.8
GQG Partners Global Equity Fund (AUD Hedged Class)	International Equities	2.7
MFG Core Infrastructure Fund	International Equities	2.3
Cash Account	Cash	1.5

## Quarterly manager commentary

### Market Update

Stocks and bonds delivered strong returns in the third quarter of 2024, defying the expectations of many investors. Major equity Indexes continued their ascent, while bonds—measured by the Bloomberg US Aggregate Bond Index—had their second-best quarterly return in over two decades. As a result, multi-asset portfolios are comfortably in positive territory for the year.

Value stocks outperformed growth stocks, small caps outpaced large caps, and non-U.S. stocks outperformed US stocks. From a sector perspective, utilities, financials, and industrials were among the top four performing sectors, while technology landed in the middle of the pack.

Strength in non-US stocks was a major development this quarter. The broad MSCI EAFE Index gained 7.3%, ahead of the S&P 500's 5.9% return. Emerging markets performed even better, advancing 8.7% in dollar terms. China, the largest component of the Index, soared by 23.5% during the quarter.

The US Aggregate Bond Index returned 5.2% in the third quarter. Emerging-market bonds and US high-yield bonds also gained, increasing by 6.1% and 5.3%, respectively. The most significant story in the bond market has likely been the actions taken by the Federal Reserve. The third quarter saw the first Fed rate cut in more than four years. The cut was widely expected, and markets have reacted positively so far, suggesting further Fed easing through year-end and into 2025.

The local market also surged to record highs in the September quarter of 2024, with the S&P/ASX 200 benchmark closing at 8,270, up 6% in three months. Financials led the charge for most of the quarter, rising despite rich valuations, although retreated somewhat in late September.

The Chinese authorities' plan for monetary and fiscal stimulus lit a fire under the materials sector, which had been the biggest underperformer in 2024. Emboldened by a potential benefit to resources demand, investors poured back into our miners, with banks funding a rotation.

The materials sector rallied hard on the stimulus news. Iron ore leaped to USD 110 per metric ton at the end of September, from USD 90 only weeks earlier and well above our long-term assumption of USD 70 per metric ton.

### **Portfolio changes during the quarter:**

The portfolio rebalanced to an equal weight between defensive and growth assets relative to its SAA benchmark.

The portfolio maintains a mild overweight in both Australian and international fixed interest due to attractive yields on offer and for the portfolio diversification benefits. No changes to the allocations inside these asset classes were made over the period. Cash is maintained at underweight relative to the SAA and is funding the fixed interest exposures that also increases the portfolio's interest rate duration and equity market diversification.

The portfolio's equity allocation maintains a preference to global over local stocks due to diversification and relative valuation within the managers themselves. Following the financial year end fund distributions and the subsequent buildup in cash, both Fidelity Australian Equities (Gold) and Schroder Wholesale Australian Equity (Gold) were increased, as was MFS Global Equity Trust II - I Hedged (Gold), Capital Group New Perspective Fund (Gold), and Barrow Hanley Global Share Fund – Class S (Gold). Both Australian and international allocations are maintained slightly underweight to the SAA given their relatively unattractive valuations.

The property and infrastructure overweight allocation is being maintained given the asset class's relative valuation and interest rate sensitivity. Our preference remains with global property over infrastructure.

### **Market Outlook**

Australia's economy is progressing toward a soft landing. Annual inflation of 2.7% in August 2024, down from 3.5% in July, was the lowest reading in three years. Temporary energy bill relief was a factor, reducing annual inflation by 0.3 percentage points on our estimates. The moderation was broader than electricity, with annual inflation falling in eight of the 11 Consumer Price Index categories. Nonetheless, monthly inflation indicators are volatile, and we look to the September 2024 quarterly inflation update, due on Oct. 30, to confirm this progress.

Restrictive monetary settings are curtailing inflation, but economic growth is anemic. Real gross domestic product rose 1% in the year to June 2024, the slowest pace since lockdown-affected 2020. Household consumption is lagging and accounts for almost 60% of economic activity. It rose only 0.5% in the year to June 2024. Interest payments weigh on consumers, and in per capita terms, June marked the sixth consecutive quarter of real GDP decline. We expect spending to pick up through fiscal 2025 as stage 3 tax cuts take effect, however, much depends on households' propensity to spend rather than save the windfall.

Despite progress on inflation, RBA Governor, Michele Bullock has made it clear the board doesn't foresee a cut before Christmas. Given the debacle of former Governor Lowe's perceived "commitment" to no hikes before 2024, it's surprising to see the RBA test the waters of forward guidance again.

The market isn't convinced by the Governor's rhetoric. Cash rate futures price a 25% chance of a cut at the November meeting and almost a 90% chance in December, the year's final meeting. The market and the Governor can't both be right. Presumably, markets are getting a steer from other central banks, many of whom have begun monetary easing. The most influential, the US Federal Reserve, did so emphatically with a 50-basis point cut in September.

Risks to global growth abound, including a possible United States recession or further turbulence in China. While the US recession is not our base case, and planned stimulus assuages near-term concerns in China, rapid deterioration on either front could force the RBA to pivot. But another hike can't be ruled out either.

Inflation is cooling, but the RBA's preferred 'trimmed mean' measure, which strips out volatile items, including fuel and electricity, is still above target at 3.4% in August 2024. Observing the experience offshore, the last mile of the inflation battle is the hardest, and any stubborn stickiness could test the market's narrative for cuts this year.

3 A significant percentage of assets comprising this portfolio are only available through the managed portfolios and therefore can't be transferred out of the MyNorth Managed Portfolio Scheme. For more information relating to restrictions that may apply to asset transfers, refer to the 'Transferring assets in and out of your Portfolio' in Part 1 of the MyNorth Managed Portfolios PDS.

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