

Quarterly update for month ending December 2023

### Investment objective

To provide returns over the medium term, with moderate volatility, consistent with a diversified mix of defensive and growth-oriented assets. The portfolio aims to provide exposure to predominantly sustainable investment strategies and outperform the benchmark, after fees, over a rolling 4 year period.

### Key information

<b>Code</b>	NTH0331
<b>Manager name</b>	Russell Investment Management
<b>Inception date</b>	28 April 2023
<b>Benchmark</b>	Morningstar Australia Balanced Target Allocation NR
<b>Asset class</b>	Diversified
<b>Number of underlying assets</b>	52
<b>Minimum investment horizon</b>	4 years
<b>Portfolio income</b>	Paid to Cash Account
<b>Management fees and costs</b>	0.83%
<b>Performance fee</b>	0.00%
<b>Estimated net transaction costs</b>	0.03%
<b>Estimated buy/sell spread</b>	0.08%/0.07%
<b>Risk band/label</b>	4/Medium
<b>Minimum investment amount</b>	\$25,000

### About the manager

#### Russell Investment Management

With more than 80 years of experience, Russell Investments is a global investment solutions provider, dedicated to helping investors reach their long-term goals. Russell Investments offers investment solutions in 32 countries and manages over A\$413 billion in assets (as of 30 June 2020). Russell Investments specialises in multi-asset solutions and investment and implementation services with a goal of delivering the best investment strategies, managers and asset classes to its clients around the world. Headquartered in Seattle, Washington, Russell Investments operates globally with 20 offices.

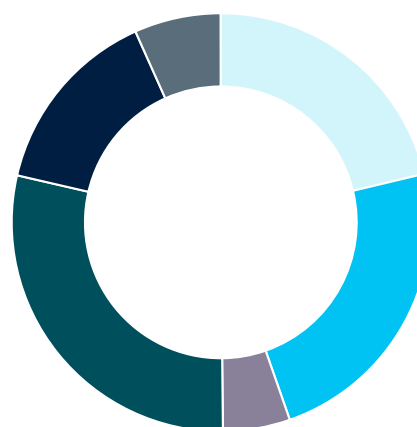
### Returns

as at 31 December 2023

	Since inception*	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (%)
Total return <sup>1</sup>	4.11	3.64	5.76	3.99	-	-
Income	1.79	0.08	0.53	1.52	-	-
Growth	2.32	3.56	5.23	2.47	-	-
Benchmark <sup>2</sup>	4.73	3.66	5.78	4.79	-	-

\* Since inception returns begin from the month end immediately following portfolio launch.

### Asset allocation



as at 31 December 2023

Growth assets		Allocation (%)
	Australian Equities	21.3
	International Equities	23.4
	Property	5.2
	Other	0.0
<b>Total</b>		<b>49.9%</b>

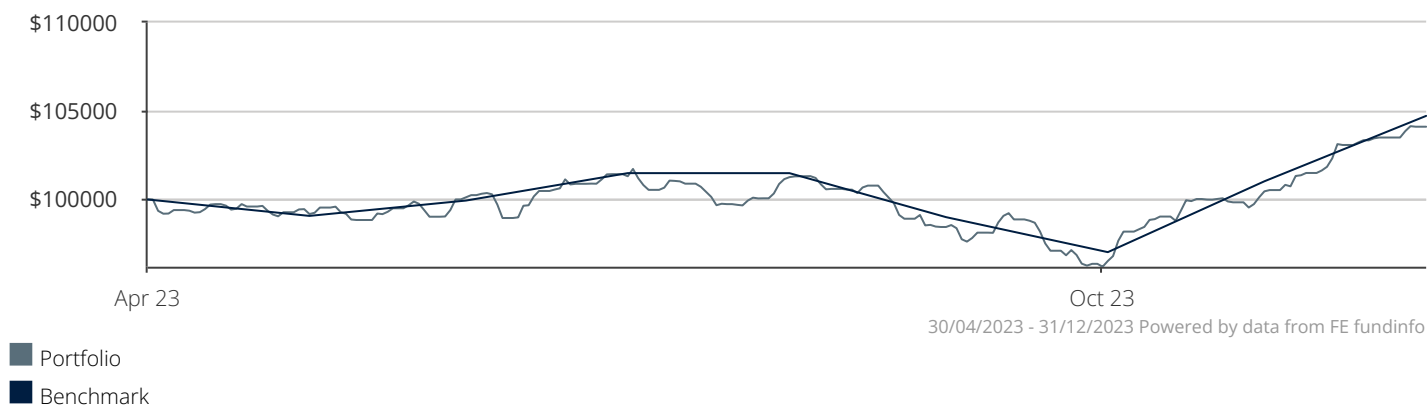
Defensive assets		Allocation (%)
	Australian Fixed Interest	28.8
	International Fixed Interest	14.7
	Cash	6.7
<b>Total</b>		<b>50.2%</b>

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 30/04/2023



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

Holding	Asset class	Allocation (%)
Pendal Sustainable Australian Fixed Interest Fund	Australian Fixed Interest	11.7
Vanguard Ethically Conscious Glb Agg Bond Index (Hedged) Etf Vanguard	International Fixed Interest	10.9
Altius Sustainable Short Term Income Fund	Australian Fixed Interest	8.5
Russell Investments Low Carbon Global Shares Fund - Class A	International Equities	6.1
Mirova Global Sustainable Equity No. 2 Fund - Class I	International Equities	5.7
Russell Investments Low Carbon Global Shares Fund - Class AUDH	International Equities	5.6
Altius Green Bond Fund	Australian Fixed Interest	4.9
Impax Sustainable Leaders Fund	International Equities	4.6
Perpetual ESG Australian Share Fund	Australian Equities	3.5
Robeco SDG Credit Income Fund (AUD Hedged) - Class C	International Fixed Interest	3.5
Ishares Core Cash Etf Ishares Core Cash Etf	Cash	3.1
Regnan Credit Impact Trust	Australian Fixed Interest	3.0
Alphinity Sustainable Share Fund	Australian Equities	2.7
Ausbil Active Sustainable Equity Fund	Australian Equities	2.7
Russell Intl Property Securities \$A Hedged Class A Fund	Property	2.3
Vanguard Australian Property Securities Index Etf Vanguard Australian	Property	2.3
Ardea Real Outcome Fund	Australian Fixed Interest	2.0
Cash Account	Cash	2.0
First Sentier Responsible Listed Infrastructure Fund	International Equities	2.0
Commonwealth Bank Of Australia Ordinary Fully Paid	Australian Equities	1.3
CSL Limited Ordinary Fully Paid	Australian Equities	1.0
National Australia Bank Limited Ordinary Fully Paid	Australian Equities	0.8
Westpac Banking Corporation Ordinary Fully Paid	Australian Equities	0.7
Telstra Group Limited Ordinary Fully Paid	Australian Equities	0.7
Wesfarmers Limited Ordinary Fully Paid	Australian Equities	0.6
ANZ Group Holdings Limited Ordinary Fully Paid	Australian Equities	0.6
Fortescue Ltd Ordinary Fully Paid	Australian Equities	0.6
Transurban Group Fully Paid Ordinary/Units Stapled Securities	Australian Equities	0.5

Holding	Asset class	Allocation (%)
Macquarie Group Limited Ordinary Fully Paid	Australian Equities	0.5
Goodman Group Fully Paid Ordinary/Units Stapled Securities	Property	0.4
Woolworths Group Limited Ordinary Fully Paid	Australian Equities	0.4
Bluescope Steel Limited Ordinary Fully Paid	Australian Equities	0.4
Wisetech Global Limited Ordinary Fully Paid	Australian Equities	0.4
Coles Group Limited. Ordinary Fully Paid	Australian Equities	0.4
Sonic Healthcare Limited Ordinary Fully Paid	Australian Equities	0.3
Brambles Limited Ordinary Fully Paid	Australian Equities	0.3
Iluka Resources Limited Ordinary Fully Paid	Australian Equities	0.3
Amcor PLC Cdi 1:1 Foreign Exempt NYSE	Australian Equities	0.3
James Hardie Industries PLC Chess Depository Interests 1:1	Australian Equities	0.3
Ansell Limited Ordinary Fully Paid	Australian Equities	0.3
Northern Star Resources Ltd Ordinary Fully Paid	Australian Equities	0.3
IGO Limited Ordinary Fully Paid	Australian Equities	0.2
JB Hi-Fi Limited Ordinary Fully Paid	Australian Equities	0.2
Mineral Resources Limited Ordinary Fully Paid	Australian Equities	0.2
Computershare Limited. Ordinary Fully Paid	Australian Equities	0.2
Scentre Group Fully Paid Ordinary/Units Stapled Securities	Property	0.2
Evolution Mining Limited Ordinary Fully Paid	Australian Equities	0.2
Lynas Rare Earths Limited Ordinary Fully Paid	Australian Equities	0.2
Pilbara Minerals Limited Ordinary Fully Paid	Australian Equities	0.2

## Quarterly manager commentary

### Market Update

Global share markets made strong gains in the December quarter, driven by expectations the world's major central banks will cut interest rates sooner (and faster) than anticipated. In the US, the Federal Reserve (Fed) kept interest rates unchanged throughout the period but shifted to a slightly more dovish stance on monetary policy in December, saying it now expects to lower interest rates by 0.75% in 2024. That's more than the 0.50% it forecast in September. The market, though, moved to price in a far more aggressive rate-cut path, betting that the Fed will lower rates six times, or 1.50%, over the next 12 months; the first of which is expected as early as March. We saw a similar theme in Europe and the UK, with investors betting that easing inflation will see the European Central Bank (ECB) and the Bank of England (BoE) both cut interest rates six times in 2024. The ECB is expected to move first in either March or April, with the BoE seen following in May. Rate cut expectations also contributed to a sharp decline in government bond yields, providing further support for stocks. Australian shares also performed well.

In addition to global rate cut expectations, the local market benefited from speculation domestic interest rates have peaked and a sharp decline in Australian government bond yields.

Both global and domestic bonds made good gains over the period.

### Portfolio update

The portfolio achieved strong positive returns in the December quarter. Our exposures to global equities, US small caps and the direct Australian equity ESG portfolio contributed positively to performance over the period. The portfolio's global and Australian fixed income exposures also added value, with traditional fixed income assets benefiting from a sharp decline in government bond yields. Our exposures to global listed infrastructure and Australian and global listed property added further value, with interest rate sensitive assets generating strong returns in the final quarter.

The direct Australian equity ESG portfolio significantly outperformed its benchmark, benefiting in part from underweights to the energy and utilities sectors. An overweight exposure to financials also added value, with the likes of Commonwealth Bank of Australia, Westpac and Macquarie all recording strong gains for the quarter. Stock selection amongst financials and materials added further value over the period; the latter including overweights to James Hardie Industries and iron ore major Fortescue. James Hardie Industries benefited from upwardly revised earnings guidance and strong housing numbers out of the US, while Fortescue rose on the back of higher iron ore prices.

Mirova's Global Sustainable Equity No.2 Fund outperformed its benchmark. Stock selection within the materials and industrials sectors contributed positively to performance. An underweight to the consumer staples space also added value; the sector underperforming the broader equity market as investors tended to favour growth names over quality and value stocks.

The Russell Investments Low Carbon Global Shares Fund outperformed its benchmark, driven in part by a structural underweight to the poor-performing energy space. An overweight to the information technology sector also added value over the period, including our holdings in US heavyweights Apple and Microsoft.

The Impax Sustainable Leaders strategy outperformed its benchmark, benefiting from a material overweight to the industrials space. Industrials

performed well as investors tended to favour more cyclical names over defensive stocks. An underweight to consumer staples and positive stock selection within the healthcare sector also added value over the period.

Pendal's Sustainable Australian Fixed Interest Fund outperformed its benchmark, benefiting in part from its non-government positioning; notably the Fund's exposures to industrials and financials.

There were no material positional changes in the December quarter.

## Market Outlook

2023 saw strong returns from both equities and bonds, as the market priced in a soft (or no) landing scenario off the back of cooling inflation and a less hawkish Federal Reserve. Whilst the market has rallied higher, we are not as confident that the all clear can be sounded on recession risks. Corporations and households built strong defences against Fed tightening following the pandemic, accumulating large cash reserves and locking in low interest rates on 30 year mortgages and longer term corporate bonds. These positive buffers, however, are declining. Households will soon exhaust their excess savings, while significantly higher interest rates which have become a constraint on new borrowing will create refinancing issues. We think this cycle may be a case of this time is longer rather than this time is different with regards to the lagged impact of aggressive Fed tightening on the U.S. economy. Recession in 2024 might be avoided, but the risks are elevated.

Slowing jobs growth and declining inflation are signs the economy has begun to cool. The good news is that the Fed has probably finished lifting interest rates and may likely contemplate easing during the first half of the year. It also means, however, that we are entering a period of heightened uncertainty as investors debate whether recession can be avoided. It may appear for a time that the U.S. economy has achieved a soft landing, but this could be a waypoint on the path to a mild recession later in 2024.

Slower economic growth and the threat of recession provide a cautious equity market backdrop. The S&P 500 Index is expensive with a forward price to earnings ratio of close to 20 times as of December 2023 and has priced a soft landing cycle view based on double digit earnings growth expectations. Asymmetry seems the best description of the outlook, with significant upside only if both the economy and earnings beat already optimistic expectations. Our concerns about elevated recessions risks make us worried about downside potential. The likelihood, however, of rapid Fed easing in the face of recession fears should limit the magnitude of market declines and set the stage for an eventual rebound.

We expect that 2024 will be the transition year that the consensus anticipated for 2023. The over pessimism about 2023 has become over optimism for 2024. We are in a twilight zone between slowdown, possible recession, and recovery where nothing is likely to be quite what it seems.

We retain the same themes as recent months, i.e. a cautious view on risk assets, a preference for government bonds, and a preference for less expensive equity markets versus US equities.

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.

### Important Information

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