

Monthly Update for Month Ending September 2024

### Investment objective

To achieve a moderate amount of capital growth along with some income, by investing in a diversified portfolio of growth and defensive asset classes. The portfolio aims to outperform the benchmark over rolling five-year periods.

### Key information

<b>Code</b>	NTH0298
<b>Manager name</b>	Morningstar
<b>Inception date</b>	30 September 2022
<b>Benchmark</b>	Consumer Price Index (CPI) + 2.5%
<b>Asset class</b>	Diversified
<b>Number of underlying assets</b>	32
<b>Minimum investment horizon</b>	5 years
<b>Portfolio income</b>	Default - Reinvest
<b>Management fees and costs</b>	'0.7%
<b>Performance fee</b>	'0%
<b>Estimated net transaction costs</b>	'0.07%
<b>Estimated buy/sell spread</b>	'0.04%/0.03%
<b>Risk band/label</b>	4/Medium
<b>Minimum investment amount</b>	\$25,000

### 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.

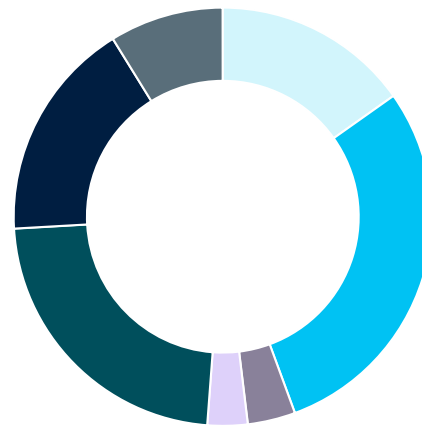
### Returns

as at 30 September 2024

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return <sup>1</sup>	11.77	1.77	5.54	4.85	13.98	-	-
Income	3.44	0.10	1.93	2.49	3.86	-	-
Growth	8.33	1.67	3.61	2.36	10.12	-	-
Benchmark <sup>2</sup>	6.69	0.86	0.86	2.52	5.39	-	-

\* Since inception returns commence from the month end of the portfolio's launch.

### Asset allocation



as at 30 September 2024

Growth assets		Allocation (%)
<span style="color: #00AEEF;">■</span>	Australian Equities	15.2
<span style="color: #00AEEF;">■</span>	International Equities	29.2
<span style="color: #4F4F4F;">■</span>	Property	3.7
<span style="color: #A0A0A0;">■</span>	Other	3.1
<b>Total</b>		<b>51.2%</b>
Defensive assets		Allocation (%)
<span style="color: #004A4A;">■</span>	Australian Fixed Interest	22.9
<span style="color: #002060;">■</span>	International Fixed Interest	17.1
<span style="color: #4F4F4F;">■</span>	Cash	8.8
<b>Total</b>		<b>48.8%</b>

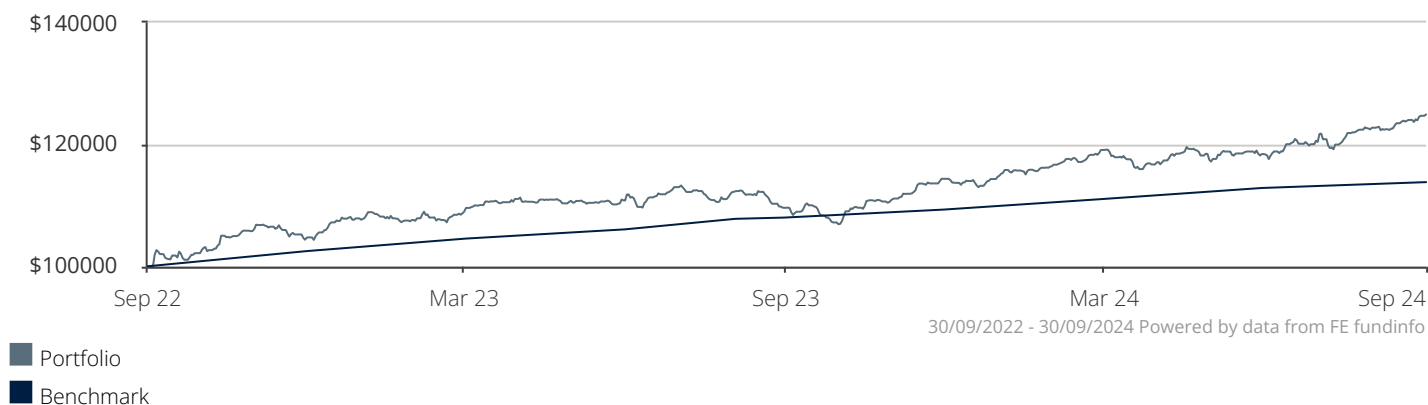
Asset allocation data sourced via Morningstar® from the underlying fund manager.

<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> Benchmark is based on the Consumer Price Index (CPI) published by the Australian Bureau of Statistics (ABS) as of the current reporting period.

## Performance history

\$100,000 invested since 30/09/2022



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

Holding	Asset class	Allocation (%)
Morningstar International Bonds (Hedged) Fund - Class Z	International Fixed Interest	16.3
Ishares Core Composite Bond Etf	Australian Fixed Interest	13.8
Morningstar International Shares Active Etf (Managed Fund) Morningstar	International Equities	8.6
Morningstar Global Opportunities Fund	International Equities	6.6
Vanguard Australian Fixed Interest Index Etf	Australian Fixed Interest	6.2
Morningstar Multi Asset Real Return Fund - Class Z	Other	6.0
Ishares Core S&P/ASX 200 Etf	Australian Equities	5.6
Ishares Core Cash Etf	Cash	5.5
Ishares Core Msci World EX Australia Esg Etf	International Equities	3.4
iShares Core FTSE Global Infrastructure (AUD Hedged) ETF	Other	2.7
Cash Account	Cash	2.6
Betashares Australian Investment Grade Corporate Bond Etf	Australian Fixed Interest	2.5
Vaneck Ftse International Property (Aud Hedged) Etf	Property	2.3
Ishares Core Msci World EX Aus Esg (Aud Hed) Etf	International Equities	2.1
Westpac Banking Corporation Ordinary Fully Paid	Australian Equities	1.4
Ishares China Large-Cap Etf	International Equities	1.4
Ishares Msci South Korea Etf	International Equities	1.3
Morningstar Australian Share Fund	Australian Equities	1.2
ANZ Group Holdings Limited Ordinary Fully Paid	Australian Equities	1.2
CSL Limited Ordinary Fully Paid	Australian Equities	1.0
Betashares Ftse 100 Etf	International Equities	0.9
Brambles Limited Ordinary Fully Paid	Australian Equities	0.9
Resmed Inc Cdi 10:1 Foreign Exempt NYSE	Australian Equities	0.9
Vanguard Ftse Emerging Markets Shares Etf	International Equities	0.9
BHP Group Limited Ordinary Fully Paid	Australian Equities	0.8
Ishares Msci Japan Etf	International Equities	0.8
Woodside Energy Group Ltd Ordinary Fully Paid	Australian Equities	0.7
GPT Group Fully Paid Ordinary/Units Stapled Securities	Property	0.7

Holding	Asset class	Allocation (%)
Dexus Fully Paid Units Stapled Securities	Property	0.6
James Hardie Industries PLC Chess Depository Interests 1:1	Australian Equities	0.6
Ramsay Health Care Limited Ordinary Fully Paid	Australian Equities	0.6

## 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:

Throughout much of 2024, markets have continued to show elevated levels of uncertainty; valuations are high, the political landscape complex, and dealing with inflation and the appropriate path for interest rates remain front of mind for policy makers. In amongst this backdrop, the portfolios continue to hold up well. We continue to monitor the positions carefully, and post an Australian reporting season review, several portfolio adjustments have been made.

Broadly speaking, the Australian market is fairly valued; there are sectors both above and below our fair value estimates, and our recent portfolio changes were made to capitalize on pockets where valuation upside is most attractive. Three noteworthy themes emerging across the market include commodity price weakness – specifically iron ore – and its impact on the earnings of mining companies, the strength of the domestic borrower in the wake of higher interest rates and how bank loan books have fared as a result, and the path of Australian retail consumption given lower levels of disposable income across the board.

Overall, our conviction in Australian equities remains, however, based on stock price performance and how best to position the portfolio, several changes were made. We have taken profits on CSL, Resmed, and Newmont on the back of positive relative performance to the market and rotated into securities with more valuation upside including Ramsay Healthcare. The position in Newmont was exited post its outperformance to better align the direct Australian securities with the benchmark. The trades in CSL, Resmed and Ramsay resulted in a lower weight to healthcare stocks overall, though Healthcare is still our largest overweight sector position within Australian equities.

We also initiated a position in BHP, taking advantage of the fall in commodity prices throughout 2024. While the near-term outlook is for relatively steady iron ore production (but with unit costs rising), BHP continues to pivot to commodities most likely to benefit from reducing carbon emissions, led by copper, and invest in growth sectors like potash. Although forward looking payout ratios may be somewhat lower than the past, we believe this reflects a more diversified company whose capital management record and balance sheet are both very high quality.

### 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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