MyNorth Managed Portfolios

DIVERSIFIED ACTIVE BOND STRATEGY

Quarterly update for Month ending March 2024

Investment objective

To achieve a return of at least CPI.

Key information

Code	NTH1067
Manager name	Mercer
Inception date	30 November 2020
Benchmark	Consumer Price Index (CPI)
Asset class	Diversified
Number of underlying assets	9
Minimum investment horizon	1 year
Portfolio income	Default - Paid to Platform Cash
Management fees and costs	'0.49%
Performance fee	'0%
Estimated net transaction costs	'0.02%
Estimated buy/sell spread	'0.05%/0.06%
Risk band/label	2/Low
Minimum investment amount	$500

About the manager

Mercer

Mercer is a multi-national investment manager, using specialised investment tools and strategies to provide robust and diversified portfolios for their clients. The team manages approximately $200 billion worldwide, with approximately $33 billion invested in Australia and New Zealand. With Australian operations commencing in 1972, Mercer's primary driver in portfolio construction is risk management - spreading investments across investment types and different risks to mitigate periods of market volatility and protecting investments from loss. Using a multi-dimensional framework, Mercer uses active management in asset classes offering the greatest opportunity for skilled investment managers to add value while using passive management to manage risk or constructing a portfolio to deliver close to market returns.

Returns

as at 30 April 2024

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return[1]	0.17	0.00	0.47	5.03	2.91	0.30	-
Income	1.75	0.00	0.17	0.76	1.86	1.76	-
Growth	-1.58	0.00	0.30	4.27	1.05	-1.46	-
Benchmark[2]	5.03	-	0.96	1.55	3.62	5.23	-

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

Asset allocation

as at 31 March 2024

Growth assets	Allocation (%)
Australian Equities	0.0
International Equities	0.0
Property	0.0
Other	0.0
Total	**0.0%**

Defensive assets	Allocation (%)
Australian Fixed Interest	41.3
International Fixed Interest	38.5
Cash	20.3
Total	**100.1%**

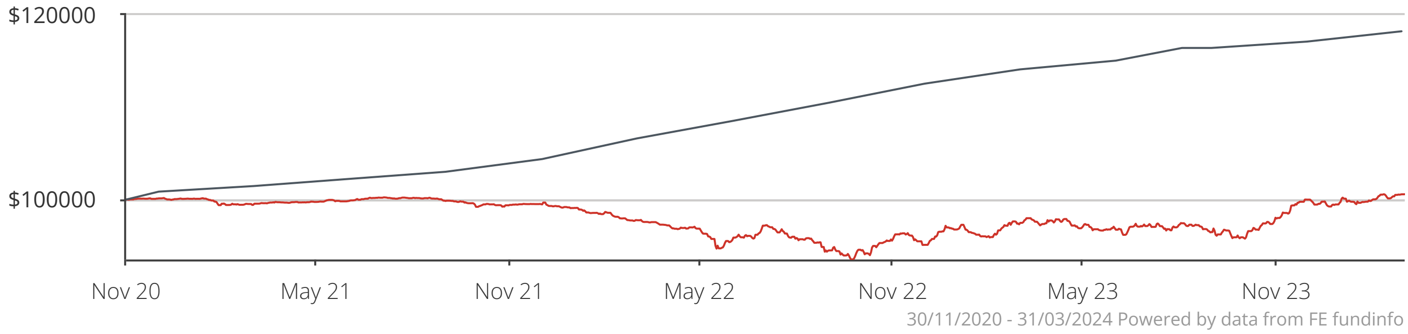
Asset allocation data sourced via Morningstar® from the underlying fund manager.

1 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

2 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 30/11/2020



Managed portfolio holdings[3]

Holding	Asset class	Allocation (%)
Macquarie True Index Australian Fixed Interest	Australian Fixed Interest	28.4
Macquarie Cash	Cash	19.2
PIMCO Global Credit Fund - Wholesale Class	International Fixed Interest	14.5
Colchester Global Government Bond Fund - Class R	International Fixed Interest	14.0
Coolabah Floating-Rate High Yield Fund - Institutional Class	Australian Fixed Interest	10.0
Franklin Australian Absolute Return Bond Fund - I Class	Australian Fixed Interest	7.5
AB Dynamic Global Fixed Income Fund	International Fixed Interest	5.3
Cash Account	Cash	1.1

Quarterly manager commentary

Market Update

In the March quarter, financial markets saw strong gains, driven by sound earnings results both in the US and Australia, and a view that central banks would cut interest rates over 2024. Supporting this view was the US labour market, which was strong and economic growth, which benefitted from very buoyant government spending in that country. However, in most other geographies, economic growth was slowing when compared to last year. Japan's central bank raised rates, after a decade of aggressive interest rate stimulus that led to negative interest rates for an extended period. The Chinese economy faced structural challenges, including falling economic growth, property company debt and broad regulatory concerns.

In Australia, the economic picture was clouded. The economy showed modest growth of 1.5% for the 12 months to March quarter-end, the slowest rate in 23 years, while per capita growth remained negative due to high immigration levels. Consumer sentiment remained weak amid cost-of-living pressures and a rapidly rising income tax burden in an environment of generally weak wage increases. At the corporate level, earnings for the second half of 2023, reported in the March quarter, were slightly above expectations although the outlook for 2024 earnings is patchy with banks and resources likely to be record negative earnings growth over the financial year to June, while Industrial companies are likely to see some growth, around mid-single digits.

Australian shares

The ASX300 reached all-time highs during the March quarter, with equities up 5.3%. This was driven by increased investor confidence following a mostly positive February reporting season where companies generally produced more earnings beats than misses, coupled with takeover announcements and economic data which suggested central banks may cut interest rates in the latter half of the year.

Turning to the equity market sectors, IT was the clear standout, benefitting from the global AI (Artificial Intelligence) thematic and strong earnings momentum. Consumer names also saw largely positive earnings revisions as the spending remained more resilient than expectations as savings balances continue to be drawn down. Materials and mining were impacted by weaker commodity prices, particularly in lithium and iron ore, in part offset by a surge in gold prices, which reached over US$2,000/oz, a record high. The weak $A also assisted in maintaining earnings for the mining and energy companies (as well as other exporters), as their products were sold in US$. REITs also benefitted from expectations of lower rates and from improving occupancy prospects.

International shares

Global equities posted robust returns in the first quarter of 2024, up 14.1% unhedged, driven by widespread gains across most sectors. US shares benefitted significantly from the anticipation of interest rate cuts, optimism over demand for AI-related technologies and positive US corporate earnings reports. This buoyancy was despite investors moving to price in a less aggressive rate cutting cycle than was the case previously. In Europe and Japan, equities recorded strong returns despite a weaker growth outlook, returning 8.3% and 19.1% respectively, when measured in local currency terms. The strong rally in Japan was fuelled by investor's optimism on better-than-expected corporate earnings reporting, strong earnings outlook, and a weaker Yen.

Globally, the Information Technology, Communication Services and Industrials equity sectors were the leading sectors in performance, while other sectors also posted positive returns during the first quarter. Defensive sectors such as Consumer Staples and Utilities lagged, while Materials has also underperformed, driven by the softness in commodity prices (excluding energy).

Fixed Income

US Treasuries lead the fall in International fixed interest markets, down -0.3% over the first quarter of 2024 (measured by the Bloomberg Global Aggregate hedged to AUD) as yields increased due to higher-than expected US inflation data. In Australia, the bond market was up 1.0% (measured by the Bloomberg AusBond Composite 0+ yr index) as the local economy saw investors inch towards an easing cycle and the RBA signalled a potential shift away from policy tightening. This view has changed into April, with investors now pricing in a potential interest rate increase.

Global credit markets performed well in general given the receding macro risks and better-than-expected corporate earnings however remains a risk given changed perceptions for interest rate cuts and some potential for an economic slowdown.

Property and Infrastructure

In the March quarter, global property securities markets saw a slight loss in hedged Australian Dollar terms with the FTSE EPRA/NAREIT Developed Index down a marginal 0.10% The best performing region was Australia, where AREIT's returned a remarkable 16.2%. Global infrastructure assets delivered a 2.0% return in Q1 2024, trailing the global equities rally. This was due to changed investor perceptions for interest rate cuts in 1H24 which weighed on yield-sensitive sectors.

Portfolio Update
The portfolio delivered a return of 0.58% over the past quarter.

Global government bond yields ended the quarter higher as recent economic data came in a little stronger against market estimates. This resulted in a modestly negative return (-0.3%) for global government bonds (Bloomberg Global Treasury Hedged). Market participants have lowered expectations for near-term interest rate cuts, with the market pricing in less than three cuts from the Fed as of the end of March quarter, compared to almost five cuts expected at the start of the year. Against this backdrop, credit spreads broadly contracted over the quarter aided by the more supportive economic backdrop, with the result being a modest +0.1% return from the Bloomberg Global Credit (hedged).

Australian government bond yields were more mixed, with longer-dated yields rising less than their global counterparts driven in part by the RBA's comments around future changes for interest rate softening from "a further increase in interest rates cannot be ruled out" to be one where the RBA is "not ruling anything in or out". This resulted in Australian Government Bonds (Bloomberg AusBond Treasury 0+ year) returning +0.9% for the quarter.

The Colchester Global Government Bond Fund delivered a negative return (-0.9%) over the March quarter. The fund's underweight US, Europe and UK bond exposures were key detractors from performance. The strategy offers currency-hedged exposure to global sovereign bonds and provides diversification from high-yield fixed income. In contrast, the Coolabah Floating Rate Note strategy returned 2.1% over the March quarter. Key contributors included (1) strong ongoing overall yields exceeding on average 8% pa across the portfolio, (2) compression in credit spreads for senior-ranking bank bonds (driving strong capital gains), and (3) ongoing active trading exploiting mispriced primary bond issues. The strategy focusses on generating higher income than traditional fixed income instruments, investing in a portfolio of investment-grade, Australian Floating-Rate Notes with enhanced yields.

AB Dynamic Global Fixed Income Fund returned 1.4%. Security selection in Eurozone and US banks, particularly in the corporate investment grade space, contributed to performance. The strategy continues to generate a positive return through diversified exposures to fixed income assets, such as high yield and securitised assets in both developed and emerging markets.

Portfolio changes during the quarter:
No changes were made to the portfolio over the quarter.

Market Outlook
Whilst economic conditions in Australia have remained broadly resilient of late, as can be seen in labour market data, Mercer expects growth to slow in time. Previous supportive factors, such as population growth, (low) fixed rate mortgages and savings accrued over the Covid pandemic period, are fading and the impact of tightened monetary conditions growing in influence. Company insolvencies have also been rising led by cost pressures across the building construction sector. Inflation is also likely to slow, albeit less than other developed economies with pressures from residential rental markets, in particular, a key driver.

Globally, Mercer expects growth to remain resilient but may exhibit regional divergences. As the lingering impact of higher interest rates and tighter financial conditions take their toll in the US, economic activity is likely to marginally slow over the next few quarters. In contrast, we anticipate stronger growth for the Eurozone as manufacturing activity picks up and inflation eases. Conditions in Japan are likely to strengthen as it emerges from a prolonged period of deflation. China is also likely to experience stronger growth in part driven by supportive fiscal, monetary, and regulatory policies, as well as a recovery in the manufacturing inventory cycle and potential stabilisation in the housing sector. Stronger growth is also expected in other emerging economies with their central banks better positioned to lower interest rates having raised interest rates earlier and more aggressively this cycle than their developed economy counterparts.

From an asset class perspective, Mercer favours emerging markets over developed markets. A view based on the more promising economic prospects and attractive valuations in emerging markets.

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.