

Quarterly update for month ending December 2023

Investment objective

Aims to achieve a return of at least 1.5% per annum above the RBA Cash Rate.

Key information

Code	NTH0304
Manager name	Mercer
Inception date	30 September 2022
Benchmark	RBA Cash Rate Target + 1.5%
Asset class	Diversified
Number of underlying assets	11
Minimum investment horizon	1 year
Portfolio income	Paid to Cash Account
Management fees and costs	0.50%
Performance fee	0.00%
Estimated net transaction costs	0.04%
Estimated buy/sell spread	0.10%/0.12%
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.

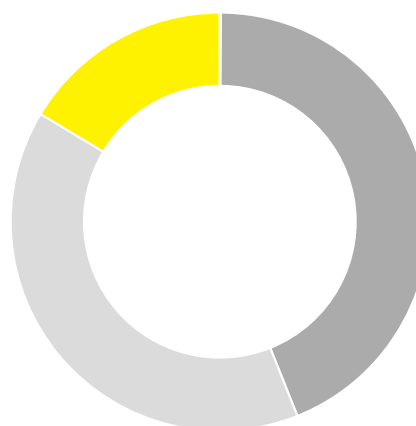
Returns

as at 31 December 2023

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return ¹	5.29	2.28	3.73	4.02	5.69	-	-
Income	2.39	0.11	0.66	1.50	2.69	-	-
Growth	2.90	2.17	3.07	2.52	3.00	-	-
Benchmark ²	5.08	0.44	1.40	2.80	5.32	-	-

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

Asset allocation



as at 31 December 2023

Growth assets		Allocation (%)
Australian Equities		0.0
International Equities		0.1
Property		0.0
Other		0.0
Total		0.1%

Defensive assets		Allocation (%)
Australian Fixed Interest		43.9
International Fixed Interest		39.7
Cash		16.4
Total		100.0%

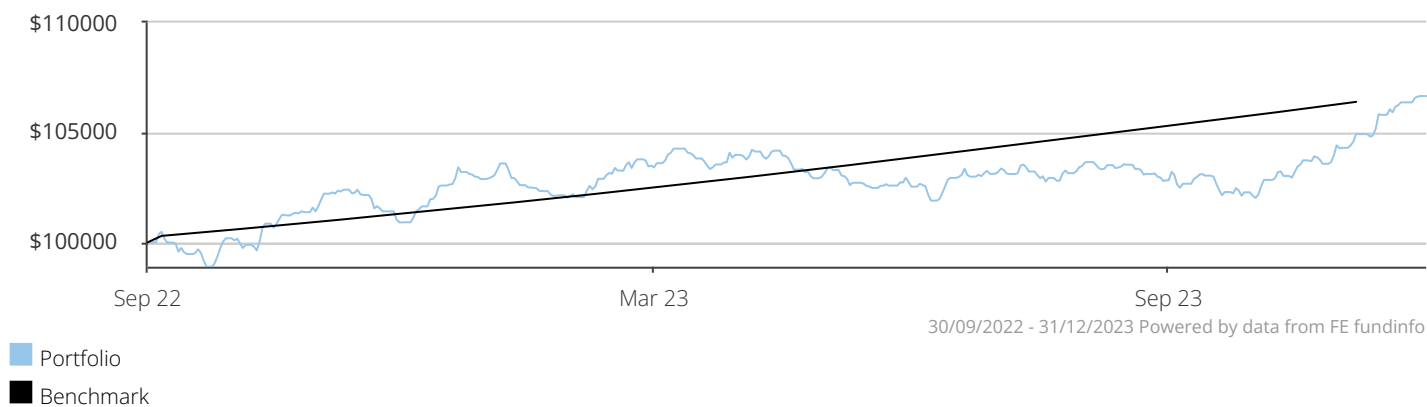
Asset allocation data sourced via Morningstar® from the underlying fund manager.

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 The applicable Benchmark for this portfolio is shown in the Key Information section.

Performance history

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



Managed portfolio holdings³

Holding	Asset class	Allocation (%)
Macquarie True Index Australian Fixed Interest	Australian Fixed Interest	28.1
PIMCO Global Credit Fund - Wholesale Class	International Fixed Interest	12.9
T. Rowe Price Dynamic Global Bond	International Fixed Interest	11.1
Macquarie Income Opportunities No. 1 Fund - Class W	Australian Fixed Interest	11.0
Bentham Professional Global Income Fund - Class C	International Fixed Interest	9.5
Macquarie Cash	Cash	9.2
Colchester Global Government Bond Fund - Class R	International Fixed Interest	9.0
Coolabah Floating-Rate High Yield Fund - Institutional Class	Australian Fixed Interest	8.0
Cash Account	Cash	1.1

Quarterly manager commentary

Market Update

Global equities rose in most regions in the fourth quarter of 2023, primarily driven by a decrease in bond yields. A combination of marginally softer than expected inflationary data across the globe and comments from US Federal Reserve Bank (Fed) Chair Jerome Powell, noting that interest rate cuts in 2024 are now being pencilled in, were the key drivers. Australian shares also followed this trend, rising 8.4% over 4Q23. The lift in risk appetite and lower bond yields led to a strong performance in the Materials, Real Estate, and Healthcare sectors.

Government bond yields ended the December quarter lower on the back of these dovish signals from the Fed, as well as the US Treasury announcing a lower-than-expected increase in the issuance of longer-dated bonds. The US 10-year government bond yield declined by a substantial 71bps to 3.87% p.a. over the period. Similarly, the Australian 10-year yield decreased by 59bps to 3.90% p.a., as local investors began to anticipate RBA interest rate cuts in 2024. Weaker 3Q23 GDP data and a moderation in business confidence also contributed. The Australian dollar (AUD) appreciated against the weakening US dollar (USD), with the Fed's rhetoric shifting expectations across currency markets.

Commodity markets showed a mixed performance over the final quarter for 2023. Oil prices remained on a downward trajectory, dropping 18.6% to a six-month low of US\$77.69/barrel at end-December. A performance attributed to weakening global demand and strength in non-OPEC oil supply. On the flipside, Industrial Metals prices were stronger over the quarter. Iron Ore gained 19.2%, driven by positive sentiment towards the recent developments in the Chinese economy. Similarly, copper prices rose 3.8% during the quarter, fuelled by optimism for further Chinese stimulus and signs of improvement in manufacturing activities in the country. The precious metals sector saw gold prices rise 11.2% to US \$2,065.45/oz, a return aligned to USD weakness and growing anticipation of interest rate cuts in 2024.

Portfolio Update

The portfolio delivered a return of 3.73% for the December quarter compared to its benchmark return of 1.40%.

Global sovereign bond performance was mostly positive over the December quarter. After a rough start, where the US 10-year bond yields peaked at ~5.0% mark in October, yields declined sharply from early November. A combination of softer inflation and economic data fed through to a distinct change in tone from the US Fed, leading to a downswing in market expectations for interest rate cuts in the upcoming year.

Credit spreads widened in early October due to risk-off sentiment on the back of elevated government bond yields and global uncertainty in the context of an emerging Middle East conflict. However, spreads tightened later in the quarter, as market participants shifted expectations towards a soft-landing scenario for the US economy. Higher demand and lower levels of issuance for higher yielding investment-grade bonds was also supportive.

Domestically, bond yields across maturities declined in line with the global bond markets. Consequently, the Bloomberg Ausbond Treasury Index gained 4.0%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains with a rise of 3.2% over the quarter.

The PIMCO Global Credit fund returned 6.1%, outperforming its benchmark. The strategy offers investors high-yield global corporate bond exposures, which diversifies the growth asset and core fixed interest positions in the portfolio. As such, the fund's overweight to Australian duration and exposure to Agency MBS contributed positively to performance, as rates rallied over the period. The Colchester Global Government Bond fund returned 6.5% over the quarter with its overweight bond exposure to Mexico, New Zealand and Colombia being the key contributors to performance. The T. Rowe Price Global Dynamic Bond fund returned -0.4% over the quarter with its duration management a key detractor to performance, as the sharp rally in risk and duration over November and December offset gains posted in October.

Portfolio changes during the quarter:

Over the quarter, Mercer introduced the Coolabah Floating-Rate High Yield fund to improve the breadth of the portfolio's Fixed Income manager suite. The strategy focusses on generating higher income than other traditional fixed income investments by investing in a portfolio of investment-grade Australian floating rate notes (FRNs) issued by Australian banks and insurance companies with enhanced yields.

In line with Mercer's Dynamic Asset Allocation views, the nominal duration position of the portfolio was increased by lifting allocations to the T. Rowe Price Dynamic Global Bond fund and Colchester Global Government Bond fund. This was funded from Cash and exiting the Pandal Short Term Income Securities fund.

Finally, the allocation to the UBS Cash Fund was removed from the portfolio and switched into the Macquarie Cash Fund due to its more competitive fee.

Market Outlook

Australian economic growth has proven resilient in recent quarters with several supporting factors. Households spending excess savings, population growth via immigration, a significant proportion of mortgages on (low) fixed rates and government expenditure have all been complementary. However, we expect growth to moderate as these stimuli diminish and the impact of higher interest rates flows through. Further, whilst inflation is expected to ease, the pace of decline is unlikely to be at the rate in other developed economies due to residential rental market pressures. We note that risks point towards a sharper slowdown in economic activity compared to expectations. Therefore, market pricing for two interest rate cuts in 2024 may prove to be fewer, and potentially slower, than what will ultimately occur.

Globally, we anticipate resilient growth, although it may vary across regions. Developed economies are expected to experience a moderation in economic performance due to tighter financial conditions. On the other hand, China is expected to see stronger growth driven by supportive fiscal, monetary and regulatory policies, as well as a turnaround in the manufacturing inventory cycle and a potential stabilisation in the housing sector. Other emerging economies are also expected to benefit from the current easing cycle in their central bank monetary policy settings.

In terms of asset class perspectives, we maintain a cautious view on developed markets due to high valuations and an optimistic earnings outlook. We hold a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. Domestically, considering the relative risks associated with interest rate expectations, we find Australian sovereign bonds attractive, despite the persisting risks posed by volatility in global sovereign bond 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.

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