

Quarterly update for month ending December 2023

### Investment objective

Aims to deliver a predominantly income based investment return of 2.5% p.a. above inflation over rolling 3 year periods.

### Key information

Code	NTH1020
Manager name	Quilla
Inception date	3 July 2019
Benchmark	RBA Trimmed Mean Consumer Price + 2.5%
Asset class	Diversified
Number of underlying assets	17
Minimum investment horizon	3 years
Portfolio income	Paid to Cash Account
Management fees and costs	'0.96%
Performance fee	'0.15%
Estimated net transaction costs	'0.14%
Estimated buy/sell spread	'0.11%/0.11%
Risk band/label	3/Low to Medium
Minimum investment amount	\$500

### About the manager

#### Quilla

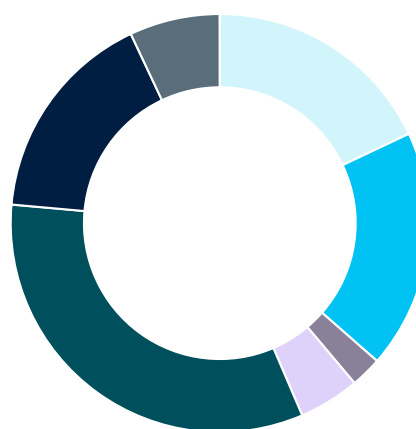
Quilla is an independent investment consultant servicing Financial Advisers and Institutional Investors. They provide off the shelf and customised solutions to meet clients' specific needs. They offer access to a diverse range of investments globally that they blend with a focus on wealth preservation. Their independence means they are free of conflicts and always act in the best interests of their clients. They conduct their own research, build their own systems, and think for themselves to deliver valuable investment insights.

### Returns

as at 31 December 2023

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return <sup>1</sup>	4.35	2.41	3.88	3.83	8.67	5.36	-
Income	4.32	-0.02	1.14	3.37	5.24	4.71	-
Growth	0.03	2.43	2.74	0.46	3.43	0.65	-
Benchmark <sup>2</sup>	6.12	0.75	2.25	4.56	9.25	7.21	-

### Asset allocation



as at 31 December 2023

Growth assets	Allocation (%)
Australian Equities	18.0
International Equities	18.5
Property	2.4
Other	4.7
<b>Total</b>	<b>43.6%</b>
Defensive assets	Allocation (%)
Australian Fixed Interest	32.9
International Fixed Interest	16.6
Cash	7.0
<b>Total</b>	<b>56.5%</b>

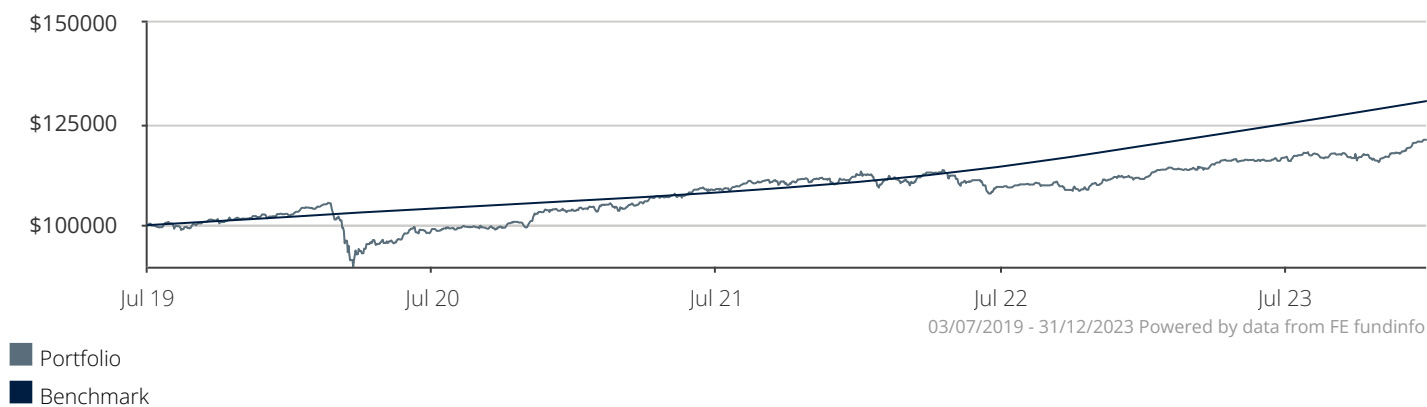
Asset allocation data sourced via Morningstar® from the underlying fund manager.

<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 03/07/2019



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

Holding	Asset class	Allocation (%)
Alexander Credit Income Fund	Australian Fixed Interest	15.0
Global X US Treasury Bond Etf (Currency Hedged). Global X US Treasury	International Fixed Interest	12.7
Vanguard Australian Government Bond Index Fund	Australian Fixed Interest	11.0
Perpetual Diversified Income Fund	Australian Fixed Interest	7.8
Vanguard Australian Shares High Yield Etf Vanguard Australian Shares H	Australian Equities	7.5
Vanguard International Shares Index Fund (Hedged)	International Equities	6.0
Talaria Global Equity Fund	International Equities	5.5
Ardea Real Outcome Fund - Class P	Australian Fixed Interest	5.0
DNR Capital Australian Equities High Conviction Fund - W-Class	Australian Equities	5.0
Australian Eagle Trust	Australian Equities	4.5
Martin Currie Real Income Fund - Class A	Property	4.0
CC Sage Capital Absolute Return Fund	Cash	3.0
ClearBridge RARE Infrastructure Income Fund - Hedged	International Equities	3.0
Dexus Core Infrastructure Fund	Other	3.0
GuardCap Global Equity Managed Fund	International Equities	3.0
PIMCO Trends Managed Futures Strategy Fund	Other	3.0
Cash Account	Cash	1.0

## Quarterly manager commentary

### Market Update

Market conditions in early October remained challenging, impacting both stocks and bonds for the third consecutive month. The market downturn persisted as robust US economic data led to higher global bond yields. Oil prices fell, despite potential oil supply risks from the Middle East crisis, indicating concerns about reduced demand. Gold emerged as the best-performing asset, rising amid geopolitical tensions, even with increasing real bond yields. The US dollar strengthened, maintaining its safe-haven status and resilience in the face of overall market decline. Geopolitically, surprise attacks by Hamas on Israel escalated into a war. Additionally, the US 10-year bond yield reached 5%, driven by government debt issuance and better-than-expected US GDP.

November brought a significant turnaround for investors, delivering exceptional gains across global financial markets. The anticipation of substantial Federal Reserve rate cuts in 2024 influenced the positive market sentiment. Meanwhile, the Reserve Bank of Australia raised the cash rate by 25 basis points to a 12-year high of 4.35%. Governor Michele Bullock's post-meeting speech emphasised that despite moderating inflation, it remains persistently high, leaving the possibility of another rate increase open, contingent on future data and evolving risks.

The quarter and year concluded on a high note, with stocks and bonds rallying on eased inflation fears and hopes for a soft landing. With inflation under control and the US economy displaying resilience, investors grew more optimistic about the outlook for 2024 despite growing geopolitical tensions erupting in the Middle East. Federal Reserve Chair Jerome Powell's comments, indicating that most committee members believe rates are at or near the peak and no additional rate hikes are expected in 2024, contributed to this positive sentiment. Investors responded by pricing in 140 basis points of rate cuts by the end of 2024. While global stock markets closed the year positively, the US market played a pivotal role in driving returns, outperforming other regions. Notably, the Australian market lagged behind, as banks, resources, and defensive sectors failed to keep pace with the returns on offer in high-performing global sectors.

## Portfolio update

The portfolio delivered a return of 3.88% this quarter, outperforming its CPI + 2.5% long term objective by 1.63%.

The top asset class contributors to total return this quarter were Global Fixed Income, Global Equities and Australian Equities. Alternative holdings in the portfolio were the principal detractors.

At a security/Fund level, Global X US Treasury Bond (Currency Hedged) ETF, Vanguard International Share Index Fund (Hedged), and Vanguard Australian Shares High Yield ETF were the main contributors to quarterly performance. Alternative holding, CC Sage Capital Absolute Return Fund was the principal detractor.

During the quarter, the following portfolio change was made:

Fortlake Real-Higher Income Fund - the fund was redeemed due to ongoing operational concerns and following a period of very strong performance for the fund. Proceeds were placed into cash and to support rebalancing elsewhere across the portfolio.

## Market Outlook

Despite the notable absence of the widely anticipated recession in 2023, our attention remains fixed on potential risks of an economic downturn that could impact major economies and financial markets in 2024. Recent signs of output growth slowdowns in response to tighter monetary policy and rising cost of living pressures are worth noting. Labour markets, while still tight, are gradually easing with declining job vacancies, increasing delinquencies, and a return of personal savings to pre-Covid levels. Central banks have likely delivered the bulk of interest rate hikes this cycle, but the timing and magnitude of rate cuts will be a source of volatility in 2024.

Despite prevailing risks, including ongoing geopolitical tensions, there are opportunities investors can leverage in this uncertain environment. In the bond market our preference leans towards the safety and stability offered by government bonds, expected to exhibit resilience in a potential recession and upside potential when central banks initiate rate cuts. We believe the exceptional equity rally of late 2023 is unlikely to continue due to high valuations and flat earnings growth. Patience is therefore recommended as we climb a new wall of worry and await potential opportunities arising from the onset of a recession and subsequent central bank interventions.

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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