MyNorth Managed Portfolios

MYNORTH SUSTAINABLE BALANCED MANAGED PORTFOLIO

Quarterly update for month ending December 2023

Investment objective

This managed portfolio seeks to provide moderate to high returns over the medium to long term through a diversified portfolio of growth and defensive assets.

Key information

Code	NTH1053
Manager name	Pendal
Inception date	20 May 2020
Benchmark	Morningstar Australian Multisector Growth Average Category
Asset class	Diversified
Number of underlying assets	12
Minimum investment horizon	5 years
Portfolio income	Reinvested
Management fees and costs	'0.85%
Performance fee	'0.00%
Estimated net transaction costs	'0.04%
Estimated buy/sell spread	'0.15%/0.15%
Risk band/label	5/Medium to high
Minimum investment amount	$500

About the manager

Pendal

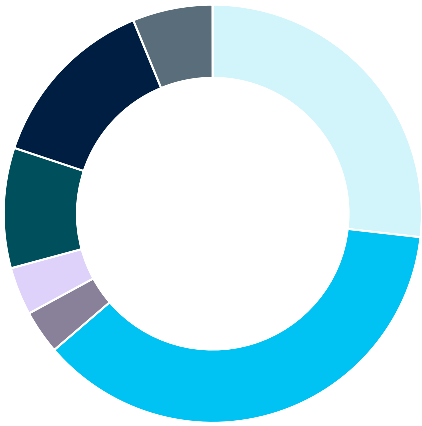
Pendal is a global Investment Manager offering investors a range of Australian and international investment choices. As of December 2020, Pendal has $97.4 billion in funds under management. Pendal's core asset allocation process is expected to generate the bulk of the return for each portfolio over the long term. Portfolios are built using longer term investment insights and various proprietary quantitative tools, as well as medium term active asset allocation. Longer term investment insights also takes into account ESG insights and preferences. Pendal has more than 35 years' experience managing dedicated ethical and sustainable strategies.

Returns

as at 31 December 2023

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return[1]	7.59	4.28	6.81	4.36	11.71	4.76	-
Income	2.31	0.02	0.27	0.95	1.64	2.17	-
Growth	5.28	4.26	6.54	3.41	10.07	2.59	-
Benchmark[2]	8.07	3.77	5.58	4.51	10.85	5.29	-

Asset allocation



as at 31 December 2023

	Growth assets	Allocation (%)
	Australian Equities	26.8
	International Equities	36.9
	Property	3.4
	Other	3.7
	Total	**70.8%**

	Defensive assets	Allocation (%)
	Australian Fixed Interest	9.3
	International Fixed Interest	13.7
	Cash	6.2
	Total	**29.2%**

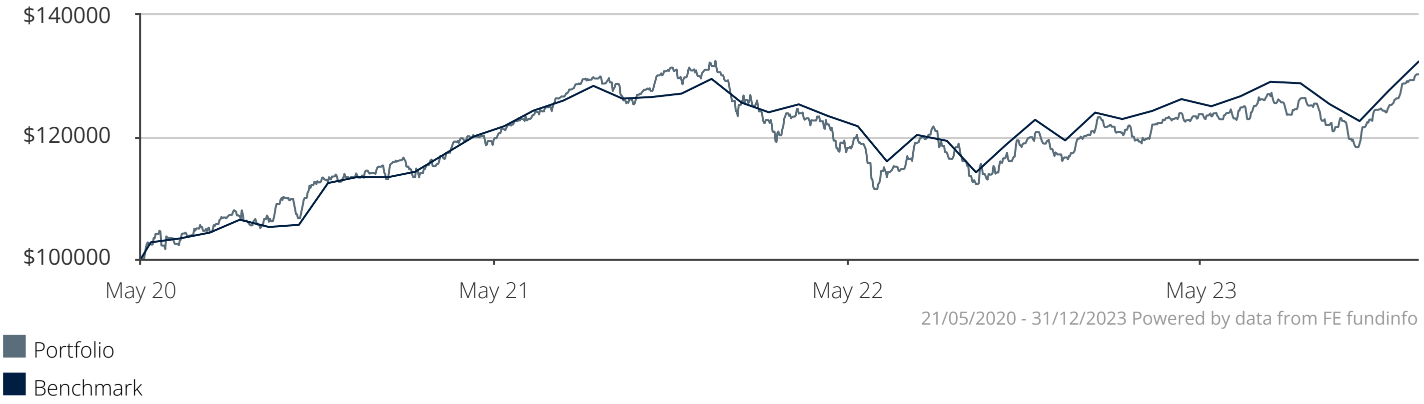
Asset allocation data sourced via Morningstar® from the underlying fund manager.

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 benchmark is calculated based on the average performance from peers in the same multi sector category, as compiled and sourced from Morningstar Direct in December 2023.

Performance history

$100,000 invested since 21/05/2020



Managed portfolio holdings[3]

Holding	Asset class	Allocation (%)
Vanguard Ethically Conscious International Shares Index	International Equities	16.0
Pendal Multi Asset Target Return Fund	International Fixed Interest	15.0
Impax Sustainable Leaders Fund	International Equities	11.0
Alphinity Sustainable Share Fund	Australian Equities	10.0
Pendal Horizon Sustainable Australian Share Fund	Australian Equities	10.0
Vanguard Ethically Conscious Global Aggregate Bond Index Fund	International Fixed Interest	9.0
Pendal Sustainable Australian Fixed Interest Fund	Australian Fixed Interest	8.0
Ausbil Active Sustainable Equity Fund	Australian Equities	7.0
Vanguard Ethically Conscious Int. Shares Index Fund (AUD Hedged)	International Equities	7.0
Macquarie Cash	Cash	3.0
Macquarie Global Listed Real Estate Fund - Class A Units	Property	3.0
Cash Account	Cash	1.0

Sustainable investment

The portfolio employs a responsible and sustainable framework for investing.

The underlying managed funds forming part of the managed portfolio have been selected on the likelihood of meeting their investment objectives and how the relevant fund manager integrates environmental, social and governance (ESG) considerations into their decision making. We invest in underlying managed funds that, based on the information provided by the relevant fund managers, avoid investing in companies with material involvement in activities we consider to have a negative impact on the environment or the community.

The assessment is centred around the following sustainability principles:

1.Transitioning to a low carbon economy.
2.Avoid material investments in thermal coal, tobacco, gambling, pornography and controversial weapons.
3.Encourage positive sustainable social and environmental outcomes for the community.

Assets are considered on a case-by-case basis, and we do not apply a particular weighting system or metrics when taking into account labour standards or environmental, social or ethical considerations. Other considerations in selecting an underlying fund include whether the relevant fund manager is a signatory to the United Nations Principles for Responsible Investment (UNIPRI) or is certified by Responsible Investment Association Australasia (RIAA).

Currently, we do not take ESG considerations into account in selecting Cash assets. The underlying funds are reviewed on an on-going basis, however on an annual basis we reconfirm whether the underlying fund continues to be consistent with our sustainability principles. If we form that view (based on information provided by the relevant underlying fund manager) that the underlying fund no longer meets our selection criteria from either a sustainable or investment perspective, we will generally take steps to remove and replace that underlying investment as soon as practicable.

Quarterly manager commentary

Market Update

Despite a sluggish start to the quarter, slowing US inflation and dovish signals from the Fed saw a shift in narrative to a greater chance of a “soft-landing” without driving the economy into recession, leading to a risk-on environment. Expectations for rate cuts in the US in 2024 were increased and brought forward, driving bonds & equities higher. The improvement in sentiment for equities was super-charged by an unwinding of large underweight positions in equities by systematic investment strategies.

The MSCI World Developed Markets index (local currency terms) gained double digits (10.0%) in the quarter driven by strong performance in the US. The MSCI Emerging Markets index also posted a strong quarter, gaining 5.6% in the calendar year's final quarter. The strength in the US was seen across the S&P500 (11.2%), Nasdaq (14.6%), and Dow Jones (12.5%), where each posted strong quarterly gains. In regard to style factors, as one might expect "growth" outperformed "value" amidst the bullish wave of optimism. Small caps, that are typically more leveraged to the economic cycle and often more indebted, outperformed their larger counterparts.

Improved sentiment in the US buoyed Australian equities as the S&P/ASX 300 finished up 8.4%. Sectors seen to benefit from the potential for lower interest rates performed best. Real Estate (+18.6%) and Health Care (+14.0%) were the top performing sectors while Energy (-9.0%) and Utilities (-2.06%) lagged most.

US and Australian 10-Year benchmark bond yields rallied materially as they fell -69bps and -53bps, respectively. This was largely driven by US bond markets and the expectation that the Fed will begin cutting rates at their March 2024 meeting as inflation settles nearer their target. The Bloomberg Global Aggregate AUD (Hedged) index as a result climbed 5.4%.

Commodities on aggregate sold off, with the Bloomberg Commodity Index closing the quarter down -4.6%, driven by the Energy subsector. OPEC+ output cuts did little to prop up oil prices as Brent Crude fell -19.2% in the quarter. Gold reached all-time highs in December, cementing its move above $2000 and returning 11.6% for the quarter. The VIX unsurprisingly dropped sharply to close out the quarter ~5 points lower in the risk-on dynamic, at a pre Covid pandemic low of 12.5 points.

Portfolio update

The MyNorth Sustainable Balanced Managed Portfolio delivered an excellent quarterly return of 6.81%. Strong performance was seen across the board, with bonds & equities responding positively to moderating global inflation and monetary policy expectations. Markets increased the number of US Federal Reserve and RBA rate cuts priced in for 2024 and accelerated the timeliness of these to sooner than previously expected bolstering stocks and bonds into year end.

In regard to benchmark outperformance, it was driven by security selection from the underlying managers in Alternatives and Equities. Overall, it was a good quarter for sustainable strategies. Typical underweights for sustainable strategies are the energy sector and also authoritarian nations within emerging markets, with both groups underperforming over the quarter. More specifically, outperformance from the Pendal Australian shares strategy was assisted by an underweight to energy stocks such as Woodside Energy, as well as overweights to iron ore stocks which followed the spot iron ore price higher over the quarter. Whilst within International shares, the Impax strategy added value driven by support for companies offering sustainable energy solutions, such as Schneider Electric, Siemens, and Vestas Wind Systems.

Returns from active asset allocation were slightly negative for the quarter as the underweight position in Global Listed Property (GREITs) negatively contributed on the back of a broad-based surge in listed property. Our underweight to GREITs reflected our view it is expensive vs much higher current bond yields. We also held concerns from a cash flow perspective as the secularly low rates of the past, which had provided cheap financing costs, have mean reverted. In addition, we view the potential for the covid pandemic to expedite some longer-term trends that likely structurally lowers demand for certain types of property leases e.g., work from home vs office, retail clicks vs bricks, etc.

Changes to the portfolio during the period reflected changes to our longer-term strategic asset allocation (SAA) process. First, we incrementally favoured traditional assets at the expense of non-traditional assets and as such decreased Alternatives. As displayed by our Capital Market Assumptions (CMA), we view traditional asset classes are likely to provide attractive long term expected returns, and more so than over the last decade. Bonds can again provide defensiveness with yields now close to normal equilibrium type levels. Likewise, equity valuations have adjusted from high absolute valuations as fundamentals have been strong leading to reasonable starting dividend yields. Second, funded by the reduced Alternatives allocation, we increased our equity home bias as Australian shares has increased in relative attractiveness compared to international shares from both a qualitative and quantitative perspective. Third, we increased Australian fixed income mainly to match the allocation to Australian equities to promote diversification through same region exposure. Finally, we reduced Global Listed Property (GREITs) reflecting their reduced attractiveness relative to much higher bond yields, in addition to growing secular and structural headwinds facing the asset class.

The portfolio finished the quarter with an overweight Alternatives position and underweight GREITs position. We maintain our concerns around the lagging effects of substantial cumulative global interest rate hikes. The economic environment has been supported by the services sector, whilst the manufacturing sector has been in contraction, and a dulled interest rate transmission mechanism. We view the risk is more that the services sector could turn towards the manufacturing sector, as opposed to the other way around. This current uncertain economic environment and modest investment signals, results in our cautious and patient stance for now.

Market Outlook

In the US, the chance of achieving the "soft landing" of bringing inflation under control without a deep recession has increased. Savings buffers and fiscal excesses built up during the COVID crisis, pent-up demand for services, and "termed-out" fixed rate debt at both a corporate level and on private mortgages, have blunted the typical interest rate transfer mechanism and acted to reduce / delay the impact of higher interest rates on the broader economy. However, the risk of mild recession in 2024 can't be excluded, given the potential combination of the lagged effects of tighter monetary policy, waning fiscal spending and the run-down of excess savings. Whilst economic data so far has been supportive of the "soft landing" narrative, history is not.

The risk to Australia is more that of persistent inflation leading to the RBA leaving rates higher than expected in the short term, which could lead to a market de-rating. The new RBA governor has taken a hawkish tone. Furthermore, unlike the rest of the world, the nominal cash rate is below the inflation rate which suggests it may not be high enough to slow demand and lower inflation.

Whilst we still view equity market valuations are generally close to fair in aggregate, US equities remain expensive driven by excitement around AI. Although economic conditions have been remarkably resilient in the face of rapid interest rate increases, risks remain skewed to the downside, and while we are currently flat equities overall, there are a number of attractive relative value opportunities available between markets. For bonds, yields are broadly in line with our estimates of fair value, as attractive yield levels are offset by unattractive curve shapes. Whilst bonds yields are only priced at fair value, their higher levels vs the last decade means bonds would be expected to provide their traditional "risk off" portfolio benefits in the event of an equity market downturn.

Overall, we remain cautious on the near-term outlook as we face a potential turning point in the economic and market environment. Despite some attractive relative value trades, our positioning across the funds is slightly defensive as we prefer at this point in time to be patient and wait for more attractive opportunities.

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.