MyNorth Managed Portfolios

RESEARCH AUSTRALIAN EQUITY PORTFOLIO

North

Quarterly Update for Month Ending June 2024

Investment objective

Aims to produce a return ~2% above that of the benchmark over rolling five-year periods.

Key information

Code	NTH0258
Manager name	NMMT's Internal Investments Team
Inception date	24 June 2022
Benchmark	S&P/ASX 200 TR Index
Asset class	Australian Equities
Number of underlying assets	28
Minimum investment horizon	5 years
Portfolio income	Default - Paid to Platform Cash
Management fees and costs	'0.39%
Performance fee	'0%
Estimated net transaction costs	'0.12%
Estimated buy/sell spread	'0.00%/0.00%
Risk band/label	6/High
Minimum investment amount	$25,000

About the manager

NMMT's Internal Investments Team

The NMMT's Internal Investments Team has substantial experience in fund manager research and portfolio management. In constructing and managing the portfolios, the team believe that equity markets are inefficient and that shares often trade at significant premiums or discounts to their fair value. They aim to capture these anomalies through a disciplined, research focused approach can generate attractive returns over time.

Returns

as at 30 June 2024

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return[1]	11.67	1.18	-0.59	5.50	11.92	-	-
Income	4.25	0.06	0.61	1.82	3.62	-	-
Growth	7.42	1.12	-1.20	3.68	8.30	-	-
Benchmark[2]	11.83	1.01	-1.05	4.22	12.10	-	-

Sector Allocation

as at 30/06/2024

Financials	33.2
Materials	19.1
Consumer Discretionary	10.8
Health Care	10.8
Energy	5.5
Information Technology	4.9
Real Estate	3.9
Utilities	3.6
Consumer Staples	3.1
~Other~	5.3

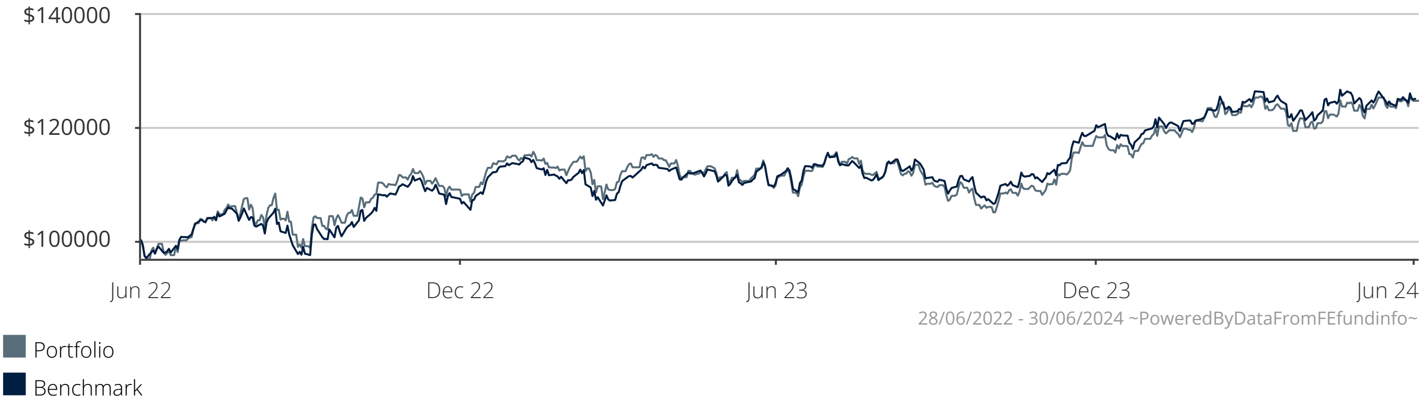
Asset allocation data sourced via Morningstar® from the underlying fund manager.

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 28/06/2022



Managed portfolio holdings[3]

Holding	Allocation (%)
Als Limited Ordinary Fully Paid	2.8
ANZ Group Holdings Limited Ordinary Fully Paid	4.4
ARB Corporation Limited. Ordinary Fully Paid	1.9
Aristocrat Leisure Limited Ordinary Fully Paid	5.0
AUB Group Limited Ordinary Fully Paid	2.1
BHP Group Limited Ordinary Fully Paid	12.3
Block Inc. Cdi 1:1 Foreign Exempt NYSE	1.7
Cash Account	3.0
Challenger Limited Ordinary Fully Paid	3.2
Coles Group Limited. Ordinary Fully Paid	3.1
Commonwealth Bank Of Australia Ordinary Fully Paid	6.1
CSL Limited Ordinary Fully Paid	6.4
Goodman Group Fully Paid Ordinary/Units Stapled Securities	3.9
Idp Education Limited Ordinary Fully Paid	1.2
James Hardie Industries PLC Chess Depositary Interests 1:1	4.7
Lovisa Holdings Limited Ordinary Fully Paid	2.1
Macquarie Group Limited Ordinary Fully Paid	6.0
Mineral Resources Limited Ordinary Fully Paid	2.2
National Australia Bank Limited Ordinary Fully Paid	5.6
Origin Energy Limited Ordinary Fully Paid	3.7
Resmed Inc Cdi 10:1 Foreign Exempt NYSE	2.5
Technology One Limited Ordinary Fully Paid	2.3
Viva Energy Group Limited Ordinary Fully Paid	3.0
Webjet Limited Ordinary Fully Paid	1.5
Westpac Banking Corporation Ordinary Fully Paid	4.3
Woodside Energy Group Ltd Ordinary Fully Paid	2.5
Xero Limited Ordinary Fully Paid	2.5

Quarterly manager commentary

Market Update

The ASX200 reached all time highs during the March quarter end after seeing month on month gains. 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.

The IT sector was the clear standout benefitting from the global AI thematic and strong earnings momentum, with the growth factor being the key driver of share price performance over the quarter. Consumer names also saw largely positive earnings revisions as the spending remained more resilient than expectations. Materials and mining were impacted by weaker commodity prices, particularly in lithium, in part offset by a surge in gold prices, reaching over US$2,000/oz for the first time ever. REITS also benefitted from expectations of lower rates and from improving occupancy prospects.

Portfolio Update

The portfolio delivered a return of -0.59% over the June quarter.

Portfolio changes during the quarter:

COL Description: COL is an Australian retailer offering products from farmers and suppliers through supermarkets, liquor stores, and convenience stores. It provides online services, financial services, and home delivery options.

View:

Topping up existing COL position to now a full position.

The revelation that COL has been able to grow market share and margin despite the theft issues (fessed up to in Aug. 2023) has led us to rethink our position on COL. Over the last 6 months, COL has partially addressed the theft issues (more benefits to come) and is executing more strongly than WOW in the key supermarkets segment. COL looks to have a better handle on both value and the communication of value to customers.

From an investment perspective, we see value as well, with COL trading <20x earnings a 10% discount to the 22x average since 2019. The earnings downgrades of the last result are likely to have been almost completely reversed after the 1H24 Results. Whilst COL is not a high-growth company (we see EPS CAGR ~5% next 3 years), we do see the share price as being mispriced. The addition of COL at 2.0% weighting will also lower the beta of the growth portfolio after a period of strong gains.

Key Risks:

Inflation is the main factor driving prices and customer propensity to spend. If inflation does not fall as quickly as expected, it could dampen volume growth and hamper sales growth. Inflation is always mildly helpful to supermarket sales through higher prices, but the peak has now passed. If COL cannot control its costs on a sustainable basis, this would impede earnings growth. The investment in new delivery capacity needs to be successful or the return on that investment will be detrimental to value.

BHP Description: BHP Group is a global resources company specializing in iron ore, copper, and coal mining, as well as nickel production. It also provides support services and is based in Melbourne, Australia with operations in Asia, Europe, and Americas.

View: Share price has retracted on lower iron ore prices and rotation into the Banks. We are buyers of the weakness. We see the prospects of global cyclical recovery improving through 2024, leading indicators are already suggesting this (including in China).

Key Risks:

Demand and prices for commodities could decline, or operational costs could rise more than expected. There is heightened geopolitical risk currently and inflation is a key operational concern.

S32 Description: S32 is a global commodities producer of bauxite, alumina, aluminium, copper, zinc, and nickel. It has operations in Australia, South Africa, North America and South America. Its focus is base metals.

View: S32's earnings and free cash flow profile are likely to remain pressured over the coming years in the absence of material higher commodity prices. The recent approval for the new Hermosa (US) copper mine committed S32 to a $US2.2bn CAPEX program, with first cash flows not due until 2027. The combination of lower commodity prices and the new mine development has seen S32 cancel the on-market share buyback. In the absence of materially higher commodity prices, the share price is likely unlikely to outperform the market. We see stronger opportunities for the portfolio elsewhere.

Key Risks:

Changes to commodity prices, operational efficiency (volumes and unit costs), foreign exchange and interest rates plus relevant regulation and legislation in each geography present the key risks to earnings.

ALQ Description: ALQ is a global testing, inspection, and certification business. It operates under three segments: Commodities, Life Sciences, and Industrial.

View: Offshore major drilling peers continue to report strongly which is driving an earnings upgrade cycle for the industry. This is despite soft equity capital raisings globally which typically help support drilling activity. In our view, ALQ should be able to see similar trends. ALQ trades at low double-digit PER discount to peers. Part of that reason is the 49% stake in the Nuvisan business they purchased in 2021. This acquisition is not performing as well as it should, raising the prospects that ALQ walk away (sell back the 49% stake). Should they move to 100%, the profitability should be much easier to manage as margin performance can be controlled. ALQ has $100m buy-back in place, albeit they are moving slowly.

Key Risks:

Growth in commodity companies' exploration may not be as robust and enduring as expected. Changes to regulations in testing may affect growth in volumes.

AUB Description: AUB is an insurance company in Australia and New Zealand providing insurance broking, advisory services, and technology solutions to SME clients.

View: AUB continues to be a strong operating business. Tysers (UK acquisition) continues to perform below expectations, but we expect this shall improve over the medium term.

Strong operating conditions continue to drive margin expansion in most business segments. This comes as a strong positive and displays the strength in the earnings base in each segment.

The balance sheet remains in a good position with leverage ratio at ~2x. AUB is trading in-line with its long-term average PER. We continue to see upside given the strength in segment earnings and the prospects of future growth.

Key Risks: Slower than expected organic growth across broking and agencies divisions; a deterioration across Australian insurance markets, which leads to declines in insurance premiums; lower than expected investments in non-organic growth opportunities; execution and integration risks of acquired businesses, unfavourable findings in relation to the ongoing review into volume based incentives and commission payments, and greater than indemnified regulatory risks / financial penalties in relation to Tysers acquisition.

ARB Description: ARB makes and sells accessories for vehicles and metal engineering works. They sell items like bull bars, canopies, roof racks, and suspension systems. They have stores in many countries and serve vehicle dealers and fleet operators.

View: Profit taking/portfolio rebalancing following a period of strong share price outperformance. We remain favourably disposed to ARB given track record, new vehicle sales outlook in AUS, and US opportunity which we believe could provide a multi-year growth runway for the business.

Key Risks: ARB is going through a period of management transition and more expansion into the US market. This brings both opportunity and risks. The advance of electric vehicles, and the regulatory policies that may penalise ICEs, could eventually restrict the target market for ARB's products. Demand for SUVs could fall if economic conditions worsen or if government policy places barriers in front of the traditional vehicle market.

CSL Description: CSL Limited (CSL) is a biotechnology company engaged in developing and delivering biotherapies and influenza vaccines that treat people with serious diseases and chronic medical conditions.

View: We have moved CSL to a market weight position. We have lingering question marks around the Vifor acquisition, and with near growth optionality of CSL's 112 product now removed, it's difficult to see where the material acceleration of CSL's earnings growth profile can come from. Relative to global healthcare leaders, CSL organic growth looks subdued.

Key Risks: The Vifor acquisition is now complete and its integration with CSL is underway. Progress on this will reveal any challenges or changes to views of the benefits and costs. Global blood products markets have been impacted (plasma collections) and this may also present challenges if further variants emerge causing disruptions. Regulatory approvals of new products also remain a risk to future growth prospects.

IEL Description: IEL is a global organisation that helps international students find and apply to study at universities and schools around the world. It also distributes the International English Language Testing System (IELTS).

View: The long-term structural growth of the international student placement business remains unchanged, though recent government crackdowns on immigration to help slow inflation has added pressure to the short-term share price. We are therefore de-risking our overweight position as there will be additional short-term volatility.

Key Risks: Competition increasing in language testing may impact growth. Further government policy tightening on immigration remains the key risk, though the opposite is true if/when policies begin to ease.

LOV Description: Lovisa Holdings is a specialist fast fashion jewellery retailer. The Company is primarily engaged in the retail sale of fashion jewellery and accessories.

View: Profit taking/portfolio rebalancing following a period of strong share price outperformance. We remain favourably disposed to LOV given track record, global store rollout opportunity.

Key Risks: Accelerated store rollout, new geographies', higher same store sales trends. Slow sales, or delayed store rollout or lower returns could weigh on LOV. LOV's move in China presents largely opportunity but is not without risks. Key person risk CEO Victor Herrero, whilst any sell-down of Brett Blundy (40% shareholder) would be poorly received by investors.

JHX Description: JHX Industries is a building products manufacturer that sells fiber cement, fiber gypsum, and other products for interior and exterior construction in the US, Australia, Europe, New Zealand, Philippines, and Canada.

View: Profit taking/portfolio rebalancing following a period of strong share price outperformance. We remain favourably disposed to JHX given track record, continued underbuild in the US and prospect for interest rate cuts mid-year in the US.

Key Risks: The recovery in North America Fibre Cement may be slower than expected while the Australian and European divisions could also take longer to recover. If higher interest rates persist, this may impact demand for building products in JHX's markets. Competitive responses may challenge JHX's market share position, forcing a response. EBIT margins may fall below the target of 25% for North America and Australia which could affect earnings.

ILU Description: ILU is an Australian company that produces and markets mineral sands products including zircon, titanium dioxide, ilmenite, activated carbon, and iron concentrate. They also explore rare earth elements and have operations globally.

View: Removed from portfolio. Soft demand conditions for ILU core products are likely to remain place over 1H24. The move into Rare Earths will also constrain free cash flow over 2024/25 period.

Key Risks: Demand for mineral sands and rare earths may not reach anticipated levels or may be supplanted by other materials and technologies. ILU is subject to operational risks and costs that might rise more quickly than expected.

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View:

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WDS Description: WDS is now Australia's largest oil and gas producer after its merger with BHP Petroleum on 1 June 2022. Producing assets include the North West Shelf, Pluto, Wheatstone, Australian oil and Gulf of Mexico oil and gas.

View: The WDS share price has been weighed down by lower LNG prices, questions around strategy i.e. merger talks with Santos (STO), and debate around its organic growth strategy and capital allocation settings. In our view the share price has been unfairly punished. CEO Meg O'Neill (Aug 2021) is beginning to build a reputation for execution and focus, aspects which have been missing from WDS investment case.

The recent sell down of the Scarborough (WA) development to JERA (Japan's largest utility) will bring ~$A1bn to the balance sheet and will further underpin offtake volumes. In our view, parts of the market remain too bearish on WDS cash-flow profile over the medium term. We see a pathway whereby WDS can deleverage, fund both planned developments and pay a higher dividend.

Key Risks:

Global oil and gas prices are being buffeted by geopolitical disturbance and a soft demand environment. The transition to renewable energy is placing fossil fuels in the firing line, but the transition will take decades and require a slower decline in oil and gas supply than activists would like.

WDS carries plenty of development risk within its portfolio and delays or cost overruns are possible. Regulatory interference is always a potential risk as has been the case recently at Scarborough over its Environmental Approvals.

S32 Description: S32 is a global commodities producer of bauxite, alumina, aluminium, copper, zinc, and nickel. It has operations in Australia, South Africa, North America and South America. Its focus is base metals.

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Key Risks:

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STO Description: STO is a natural gas company that explores, produces, and sells gas, oil, and LNG. It operates in several regions including Australia, PNG, Timor-Leste and Alaska. The main products are natural gas and LNG sold domestically and globally.

View: STO is left in a quandary. There remains a further 2 years before FCF meaningfully accelerates, as development projects come online. The LNG assets (particularly PNG) remain stars in an otherwise mixed bag of assets spread across the country. Long-standing CEO Kevin Gallagher, who is highly incentivised to generate value in STO, has tried strategic sales and more recently M&A with Woodside (WDS). Both processes have run their course, without any transaction being formalised. This raises the question if the industry does not recognise value in Santos, are investors better informed to recognise value?

We see a clearer path to value creation with WDS.

Key Risks:

Global oil and gas markets are in a state of flux as geopolitical tension mixes with the larger supply (particularly non-OPEC growth versus OPEC+ production cuts) and demand shifts.

Australian domestic energy policy has become more challenging for fossil fuel companies. Further changes to policy could impact future earnings and the long-term value of STO.

Market Outlook

Though tighter policy is beginning to temper global growth, we expect falling inflation, a strong jobs market and resilient consumer to see the US and Australia avoid a recession. A soft landing is now largely the consensus view, with interest rate cuts set to follow towards the end of 2024, though further evidence of falling inflation will need to be seen before cuts can begin.

We maintain a positive outlook for Australian equities with the economy showing strong signs of resilience. Corporate balance sheets remain in good shape, with earnings and margins throughout the February reporting season largely being maintained, as inflation led top-line growth and cost-out initiatives both assisting. Our view remains that companies can continue to grow earnings, which should drive share prices higher.

Commodities performance is likely to remain mixed, though some initial signs of improving manufacturing activity globally and in China are beginning to emerge. We expect demand will continue to grow as companies work through the end of destocking and begin new purchase orders. China we believe will return to growth through more fiscal stimulus measures, assisting iron ore and other commodities which the portfolio is exposed to.

Over the next two quarters, equity markets will likely consolidate the strong gains since 4Q23. We may see pullbacks of ~5% in the major indices as investors pause to reflect on the timing of future earnings and interest cuts. Pullbacks of ~5 are not uncommon in equity market bull markets which we continue to believe we are in.

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.