

Quarterly update for month ending December 2023

### Investment objective

To provide capital growth over the long term consistent with a portfolio focusing on solely growth assets, while accepting fluctuations in capital values in the medium term. The portfolio typically has exposure to growth investments of around 120% as the allocation to geared investment strategies will generally be 20% of the portfolio.

### Key information

<b>Code</b>	NTH0288
<b>Manager name</b>	Russell Investment Management
<b>Inception date</b>	5 August 2022
<b>Benchmark</b>	Morningstar Australia Aggressive Target Allocation NR
<b>Asset class</b>	Diversified
<b>Number of underlying assets</b>	48
<b>Minimum investment horizon</b>	8 years
<b>Portfolio income</b>	Paid to Cash Account
<b>Management fees and costs</b>	1.22%
<b>Performance fee</b>	0.00%
<b>Estimated net transaction costs</b>	0.08%
<b>Estimated buy/sell spread</b>	0.09%/0.09%
<b>Risk band/label</b>	7/Very high
<b>Minimum investment amount</b>	\$25,000

### About the manager

#### Russell Investment Management

With more than 80 years of experience, Russell Investments is a global investment solutions provider, dedicated to helping investors reach their long-term goals. Russell Investments offers investment solutions in 32 countries and manages over A\$413 billion in assets (as of 30 June 2020). Russell Investments specialises in multi-asset solutions and investment and implementation services with a goal of delivering the best investment strategies, managers and asset classes to its clients around the world. Headquartered in Seattle, Washington, Russell Investments operates globally with 20 offices.

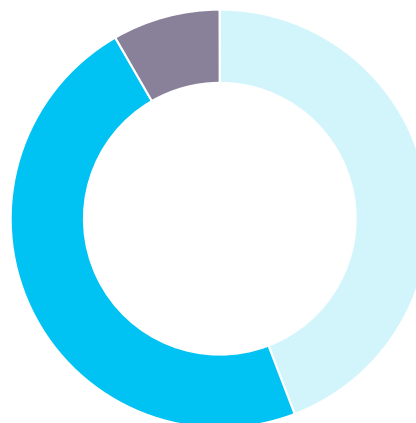
### Returns

as at 31 December 2023

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return <sup>1</sup>	13.14	5.97	7.90	5.99	16.03	-	-
Income	2.49	0.08	0.37	1.29	2.52	-	-
Growth	10.65	5.89	7.53	4.70	13.51	-	-
Benchmark <sup>2</sup>	11.53	4.68	7.27	6.16	15.46	-	-

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

### Asset allocation



as at 31 December 2023

Growth assets	Allocation (%)
Australian Equities	46.7
International Equities	50.2
Property	8.8
Other	0.0
<b>Total</b>	<b>105.7%</b>

Defensive assets	Allocation (%)
Australian Fixed Interest	0.0
International Fixed Interest	0.0
Cash	-5.7
<b>Total</b>	<b>-5.7%</b>

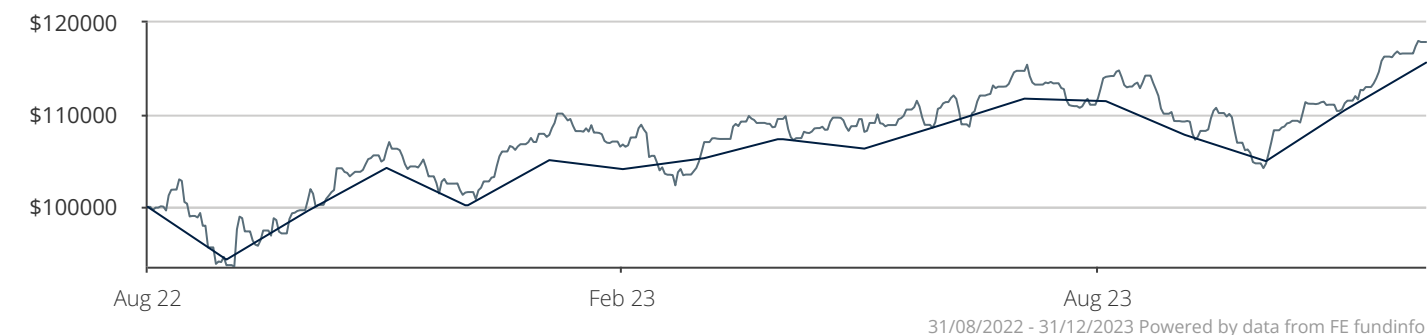
Asset allocation data sourced via Morningstar® from the underlying fund manager.

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

## Performance history

\$100,000 invested since 31/08/2022



- Portfolio
- Benchmark

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

Holding	Asset class	Allocation (%)
Russell Global Opportunities (Class A) Fund	International Equities	17.4
Vanguard Msci Index International Shares (Hedged) Etf Vanguard Msci In	International Equities	12.1
Ausbil Australian Geared Equity	Australian Equities	6.0
Acadian Wholesale Geared Sustainable Global Equity Fund	International Equities	5.6
Perpetual Geared Australian Share Fund	Australian Equities	4.9
Vanguard All-World Ex-Us Shares Index Etf Vanguard All-World Ex-Us Sha	International Equities	4.3
Vanguard Australian Property Securities Index Etf Vanguard Australian	Property	4.1
Vanguard US Total Market Shares Index Etf Vanguard US Total Market Sha	International Equities	4.0
Russell Investments Global Listed Infrastructure Fund - Hedged	International Equities	3.4
Vanguard International Property Securities Index Fund (Hedged)	Property	3.1
Vanguard Ftse Emerging Markets Shares Etf Vanguard Ftse Emerging Marke	International Equities	3.1
First Sentier Wholesale Geared Share Fund	Australian Equities	3.0
Vanguard Msci Australian Small Companies Index Etf Vanguard Msci Austr	Australian Equities	3.0
BHP Group Limited Ordinary Fully Paid	Australian Equities	2.7
Cash Account	Cash	2.0
Commonwealth Bank Of Australia Ordinary Fully Paid	Australian Equities	1.8
Vanguard Global Value Equity Active Etf (Managed Fund) Vanguard Glb Va	International Equities	1.6
CSL Limited Ordinary Fully Paid	Australian Equities	1.5
National Australia Bank Limited Ordinary Fully Paid	Australian Equities	1.1
Ishares Core Cash Etf Ishares Core Cash Etf	Cash	1.0
Ishares S&P Small-Cap Etf Ishares S&P Small-Cap Etf	International Equities	1.0
Westpac Banking Corporation Ordinary Fully Paid	Australian Equities	0.9
ANZ Group Holdings Limited Ordinary Fully Paid	Australian Equities	0.8
Woolworths Group Limited Ordinary Fully Paid	Australian Equities	0.8
Telstra Group Limited Ordinary Fully Paid	Australian Equities	0.8
Woodside Energy Group Ltd Ordinary Fully Paid	Australian Equities	0.8
RIO Tinto Limited Ordinary Fully Paid	Australian Equities	0.7
Goodman Group Fully Paid Ordinary/Units Stapled Securities	Property	0.7

Holding	Asset class	Allocation (%)
Macquarie Group Limited Ordinary Fully Paid	Australian Equities	0.7
Wesfarmers Limited Ordinary Fully Paid	Australian Equities	0.6
Transurban Group Fully Paid Ordinary/Units Stapled Securities	Australian Equities	0.6
Brambles Limited Ordinary Fully Paid	Australian Equities	0.5
Cochlear Limited Ordinary Fully Paid	Australian Equities	0.5
Aristocrat Leisure Limited Ordinary Fully Paid	Australian Equities	0.5
Fortescue Ltd Ordinary Fully Paid	Australian Equities	0.5
CAR Group Limited Ordinary Fully Paid	Australian Equities	0.4
South32 Limited Ordinary Fully Paid	Australian Equities	0.4
Wisetech Global Limited Ordinary Fully Paid	Australian Equities	0.4
James Hardie Industries PLC Chess Depositary Interests 1:1	Australian Equities	0.4
Medibank Private Limited Ordinary Fully Paid	Australian Equities	0.4
Santos Limited Ordinary Fully Paid	Australian Equities	0.4
Suncorp Group Limited Ordinary Fully Paid	Australian Equities	0.4
Mineral Resources Limited Ordinary Fully Paid	Australian Equities	0.3
Computershare Limited. Ordinary Fully Paid	Australian Equities	0.3
Dexus Fully Paid Units Stapled Securities	Property	0.3
Vanguard Australian Shares Index Etf Vanguard Australian Shares Index	Australian Equities	0.3
Sonic Healthcare Limited Ordinary Fully Paid	Australian Equities	0.3

## Quarterly manager commentary

### Market Update

Global share markets made strong gains in the December quarter, driven by expectations the world's major central banks will cut interest rates sooner (and faster) than anticipated. In the US, the Federal Reserve (Fed) kept interest rates unchanged throughout the period but shifted to a slightly more dovish stance on monetary policy in December, saying it now expects to lower interest rates by 0.75% in 2024. That's more than the 0.50% it forecast in September. The market, though, moved to price in a far more aggressive rate-cut path, betting that the Fed will lower rates six times, or 1.50%, over the next 12 months; the first of which is expected as early as March. We saw a similar theme in Europe and the UK, with investors betting that easing inflation will see the European Central Bank (ECB) and the Bank of England (BoE) both cut interest rates six times in 2024. The ECB is expected to move first in either March or April, with the BoE seen following in May. Rate cut expectations also contributed to a sharp decline in government bond yields, providing further support for stocks. Australian shares also performed well.

In addition to global rate cut expectations, the local market benefited from speculation domestic interest rates have peaked and a sharp decline in Australian government bond yields.

Both global and domestic bonds made good gains over the period.

### Portfolio update

The portfolio achieved strong positive returns in the December quarter. High exposure to listed growth assets – notably global and Australian equities – remains the predominant driver of returns. The Russell Investments Global Opportunities Fund underperformed its benchmark over the period; though it did deliver positive absolute returns for the quarter. In contrast, the direct Australian equity portfolio outperformed its benchmark.

The direct Australian equity portfolio outperformed its benchmark, benefiting in part from stock selection within the materials space. This included overweights to James Hardie Industries and iron ore major Fortescue. Stock selection within financials also added value; notably an underweight to QBE Insurance. Stock selection within the information technology sector added further value over the period, including an overweight to WiseTech Global. In contrast, stock selection amongst industrials detracted from overall performance, including overweights to Brambles and Computershare. Partly offsetting these positions was an underweight to engineering services company Worley.

In terms of global equity managers, Japan equity specialist Nissay Asset Management underperformed its benchmark, driven in part by its value bias. Emerging markets specialist Oaktree Capital also underperformed; the manager impacted in part by an ex-benchmark holding in Canadian miner First Quantum Minerals. In contrast, UK equity specialist J O Hambro and Wellington both performed well over the period; the latter benefiting from its growth bias.

There were no material positional changes in the December quarter. Overall, the managed portfolio is aligned with its long-term asset allocation as we wait patiently for opportunities.

### Market Outlook

2023 saw strong returns from both equities and bonds, as the market priced in a soft (or no) landing scenario off the back of cooling inflation and a less hawkish Federal Reserve. Whilst the market has rallied higher, we are not as confident that the all clear can be sounded on recession risks. Corporations and households built strong defences against Fed tightening following the pandemic, accumulating large cash reserves and locking in

low interest rates on 30 year mortgages and longer term corporate bonds. These positive buffers, however, are declining. Households will soon exhaust their excess savings, while significantly higher interest rates which have become a constraint on new borrowing will create refinancing issues. We think this cycle may be a case of this time is longer rather than this time is different with regards to the lagged impact of aggressive Fed tightening on the U.S. economy. Recession in 2024 might be avoided, but the risks are elevated.

Slowing jobs growth and declining inflation are signs the economy has begun to cool. The good news is that the Fed has probably finished lifting interest rates and may likely contemplate easing during the first half of the year. It also means, however, that we are entering a period of heightened uncertainty as investors debate whether recession can be avoided. It may appear for a time that the U.S. economy has achieved a soft landing, but this could be a waypoint on the path to a mild recession later in 2024.

Slower economic growth and the threat of recession provide a cautious equity market backdrop. The S&P 500 Index is expensive with a forward price to earnings ratio of close to 20 times as of December 2023 and has priced a soft landing cycle view based on double digit earnings growth expectations. Asymmetry seems the best description of the outlook, with significant upside only if both the economy and earnings beat already optimistic expectations. Our concerns about elevated recessions risks make us worried about downside potential. The likelihood, however, of rapid Fed easing in the face of recession fears should limit the magnitude of market declines and set the stage for an eventual rebound.

We expect that 2024 will be the transition year that the consensus anticipated for 2023. The over pessimism about 2023 has become over optimism for 2024. We are in a twilight zone between slowdown, possible recession, and recovery where nothing is likely to be quite what it seems.

We retain the same themes as recent months, i.e. a cautious view on risk assets, a preference for government bonds, and a preference for less expensive equity markets versus US equities.

<sup>3</sup> 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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