

MyNorth Managed Portfolios

DIVERSIFIED ACTIVE BOND STRATEGY



Monthly Update for Month Ending September 2024

Investment objective

To achieve a return of at least CPI.

Key information

Code	NTH1067
Manager name	Mercer
Inception date	30 November 2020
Benchmark	Consumer Price Index (CPI)
Asset class	Diversified
Number of underlying assets	9
Minimum investment horizon	1 year
Portfolio income	Default - Paid to Platform Cash
Management fees and costs	0.44%
Performance fee	0%
Estimated net transaction costs	0.04%
Estimated buy/sell spread	0.05%/0.07%
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 30 September 2024

	Since inception*	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)
Total return ¹	0.82	0.54	2.39	2.60	6.97	1.11	-
Income	2.05	0.07	1.25	1.88	3.15	2.08	-
Growth	-1.23	0.47	1.14	0.72	3.82	-0.97	-
Benchmark ²	4.80	0.22	0.22	1.24	2.81	5.13	-

* Since inception returns commence from the month end of the portfolio's launch.

Asset allocation



as at 30 September 2024

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

Defensive assets	Allocation (%)
Australian Fixed Interest	44.8
International Fixed Interest	30.3
Cash	24.9
Total	100.0%

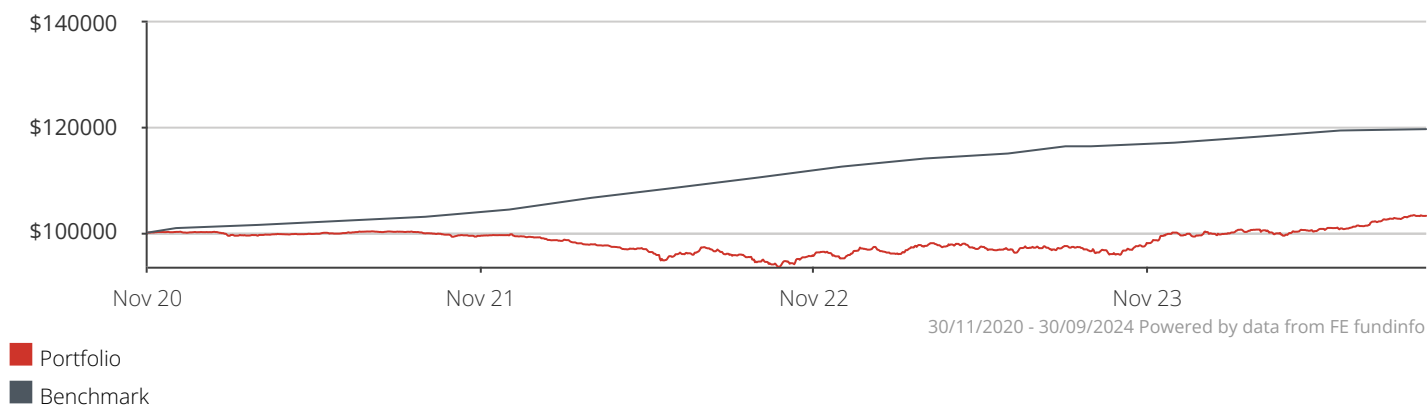
Asset allocation data sourced via Morningstar® from the underlying fund manager.

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 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 30/11/2020



Managed portfolio holdings³

Holding	Asset class	Allocation (%)
Macquarie True Index Australian Fixed Interest	Australian Fixed Interest	28.7
Macquarie Cash	Cash	18.9
AB Dynamic Global Fixed Income Fund	International Fixed Interest	15.2
Colchester Global Government Bond Fund - Class R	International Fixed Interest	13.8
Perpetual Diversified Income Fund - Class S units	Australian Fixed Interest	12.4
Coolabah Floating-Rate High Yield Fund - Institutional Class	Australian Fixed Interest	10.0
Cash Account	Cash	1.1

Quarterly manager commentary

Market Update

Over the September quarter fears of a US recession grew, due to weaker conditions in labour markets and the manufacturing sector. Economic conditions weakened in the Eurozone, led by German manufacturers. Meanwhile, conditions remained lacklustre in China driven by ongoing weakness in its property markets, while economic activity improved in Japan with wage increases boosting consumption.

With greater confidence in the inflation outlook, the Fed cut interest rates by 0.5% to a range of 4.75-5.00% p.a. but also stating that the size of the cut should not be extrapolated and that future decisions will be data dependent and made at each meeting. A number of European regions, Canada and New Zealand also cut interest rates by 0.25% in the quarter due to reducing inflationary pressures. Japan was the exception raising rates from 0.1% p.a. to 0.25% p.a. Furthermore, Chinese policymakers have pledged to stop the decline in the property market with the Peoples' Bank of China cutting interest rates and reserve ratio requirements.

Within Australia economic activity remained weak over the quarter. Q2'24 GDP was 0.2% Quarter-on-Quarter (QoQ), bringing the Year-on-Year (YoY) rate to 1.0%, driven by weak household consumption. Business survey responses indicated slowing conditions, with retail facing the most challenges. The trimmed mean CPI (the RBA's preferred measure of inflation) rose by 0.8% QoQ in Q2'24, down from 1.0% QoQ in Q1'24, easing concerns about accelerating underlying inflation in Australia. More recent inflation indicators have also eased, driven by the government's energy rebate for households. The RBA kept interest rates unchanged at 4.35% p.a. over the quarter noting it "remains vigilant to the upside risks to inflation" effectively pushing back against expectations for an interest rate cut in the coming months

Oil prices ended the quarter lower, despite rising tensions in the Middle East, due to speculation of supply increases by OPEC+. Gold prices hit a record high as central banks cut interest rates internationally whilst industrial metals like iron ore ended the quarter slightly lower due to weak economic data from China, despite a late recovery after Chinese policymakers pledged to stop the decline in property markets.

The Australian dollar (AUD) recorded mixed performance against major currencies over the quarter. The AUD appreciated against the US dollar, with the latter depreciating in anticipation of Fed interest rate cuts, while the AUD depreciated against the Japanese Yen as the Bank of Japan raised interest rates and signalled more increases ahead.

Portfolio Update

Global Government Bonds produced healthy returns as concerns about the US economy rose and expectations for US interest rate cuts increased. Australian Government Bonds produced positive returns but lagged Global Government Bond returns as the RBA kept interest rates unchanged.

Global Credit and Emerging Market Debt also performed well, supported by the decline in government bond yields internationally and increased investor risk appetite following the US interest rate cut.

The Colchester Government Bond Fund returned 4.3% over the quarter, outperforming the benchmark. Bond selection in particular the overweight positions in Mexico, Colombia and Indonesia as well as currency selection all contributed to returns. The strategy offers currency-hedged exposure to global sovereign bonds and provides diversification from high-yield fixed income. Additionally, the AB Dynamic Global Fixed Income fund returned 2.3%, outperforming the benchmark. Outperformance was driven country/yield curve positioning, as well as the sector and security selection. The strategy continues to generate a positive return through diversified exposures to fixed income assets, such as high yield and securitised assets in both developed and emerging markets.

From a more domestic lens, the Macquarie True Index Australian Fixed Interest produced a positive return of 3.0% over the quarter, while the Perpetual Diversified Income Fund returned 1.5% over the same period. The income return was the most substantial contributor to outperformance as the funds continues to collect a healthy yield premium above benchmark, attributable to the RMBS and financial exposures. The strategy aims to provide the portfolio with exposure to short duration Australian credit and reduces the portfolio's sensitivity to bond yield movements.

Portfolio changes during the quarter:

No portfolio changes were made over the quarter.

Market Outlook

Looking forward through an Australian lens, Mercer expects high interest rates and cost-of-living pressures to keep household consumption and economic growth suppressed. Core inflation is expected to decline at a slower pace compared to other developed economies due to pressures in residential rental markets. While the RBA has indicated vigilance against inflation risks, we do not believe it will commence a new series of hikes. Rather, Mercer believe that interest rates have likely peaked this cycle.

Globally, Mercer expect international economic growth to remain resilient but regionally divergent. We do not expect the US to enter a recession but anticipate slowing yet growth, with corporate and consumer balance sheets remaining strong. Mercer expect US inflation to slow further, driven by a decline in services inflation, and expect the Fed to continue cutting rates. China's growth will improve from its current slow pace, supported by favourable government policies. Other emerging economies will also benefit from these policies and their own central bank policies, aiding their growth.

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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