MyNorth Managed Portfolios

DIVERSIFIED 85 ACTIVE INCOME STRATEGY

Quarterly update for quarter 30 June 2023

Investment objective

Aims to outperform the benchmark over the medium to longer term and generate a consistent distribution of income.

Key information

Code	NTH0305
Manager name	Mercer
Inception date	30 September 2022
Benchmark	ABS Consumer Price + 3%
Asset class	Diversified
Number of underlying assets	16
Minimum investment horizon	6 years
Portfolio income	Paid to Cash Account
Management fees and costs	'0.93%
Performance fee	'0.01%
Estimated net transaction costs	'0.02%
Estimated buy/sell spread	'0.18%/0.18%
Risk band/label	6/High
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.

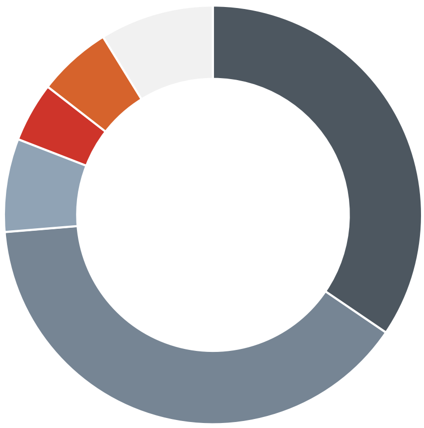
Returns

as at 30 June 2023

	Since inception*	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	3 Years (%)
Total return[1]	12.02	2.04	2.65	5.16	-	-
Income	1.72	0.05	0.66	0.81	-	-
Growth	10.30	1.99	1.99	4.35	-	-
Benchmark[2]	6.45	1.57	1.57	3.73	-	-

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

Asset allocation



as at 30 June 2023

Growth assets	Allocation (%)
Australian Equities	34.5
International Equities	39.2
Property	7.2
Other	0.0
Total	**80.9%**

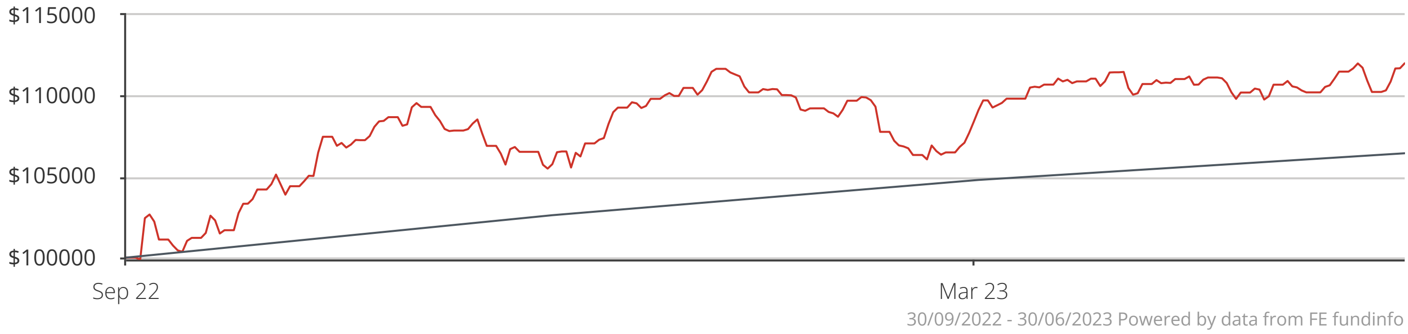
Defensive assets	Allocation (%)
Australian Fixed Interest	4.6
International Fixed Interest	5.7
Cash	8.8
Total	**19.1%**

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 30/09/2022



Managed portfolio holdings[3]

Holding	Asset class	Allocation (%)
Epoch Global Equity Shareholder Yield Fund - Class B	International Equities	13.2
Legg Mason Martin Currie Equity Income Fund - Class M	Australian Equities	11.0
Plato Australian Shares Income Fund	Australian Equities	10.8
IFP Global Franchise Fund (Hedged)	International Equities	9.7
Investors Mutual Equity Income Fund	Australian Equities	9.0
Lazard Global Infrastructure Fund (Hedged) - S Class	International Equities	8.1
Ausbil Australian Emerging Leaders Fund	Australian Equities	7.7
Resolution Capital Global Property Securities Fund	Property	6.7
Macquarie True Index Australian Fixed Interest	Australian Fixed Interest	5.1
T.Rowe Price Global Equity - M Class (Hedged)	International Equities	4.6
IFP Global Franchise Fund II (Wholesale)	International Equities	3.9
Payden Global Income Opportunities	International Fixed Interest	3.5
UBS Cash Fund	Cash	3.4
PIMCO Global Credit Fund — Wholesale Class	International Fixed Interest	2.0
Cash Account	Cash	1.4

Quarterly manager commentary

Market update

The second quarter of 2023 was positive for growth assets and generally flat to slightly negative for fixed income.

Globally, inflation continued to ease, although at different rates depending on country or region. However, major central banks continued to raise rates during the quarter though, notably, the US Federal Reserve kept rates on hold at its June meeting. Looking forward, with the global economy continuing to show resilience, despite tighter credit conditions, markets appear to be more optimistic. Growth assets, in particular, reflect this optimism and are pricing in an increased likelihood of a “soft landing”.

Hedged Developed Market Overseas Shares returned 7.1% over the June quarter as inflationary expectations receded, and Unhedged Overseas shares outperformed, adding 7.6%. Australian Shares posted a modest gain of 1.0% over Q2 as performance was mixed across sectors. Materials (-2.6%) and Healthcare (-3.1%) sectors were the most significant detractors, offset by gains in Information Technology (18.5%) and Financial (3.1%) sectors. Emerging market equities returned 1.5%, lagging behind developed markets, as the tailwinds expected from China’s post-covid reopening have disappointed so far. Brazil was a top performer (15.9%), given its early monetary policy intervention and apparent success with fighting inflation.

Hedged Overseas Government Bonds returned -0.7% as bond yields moved higher over the quarter. The period was marked by the machinations and subsequent resolution of US Debt ceiling negotiations, leading to a substantial drop in market volatility. High yield outperformed investment grade bonds as fixed interest markets are also pricing in a more optimistic “soft landing” scenario. Over the quarter, US inflation expectations were mostly unchanged with the 10-year inflation breakeven rate ending June at 2.2%.

The Australian Dollar (AUD) depreciated against most major developed market currencies over the June quarter with the US Dollar (-0.6%), Pound Sterling (-3.3%) and Euro (-1.0%). Against the trend, the AUD appreciated against the Japanese Yen (7.9%). On a trade-weighted basis, the local currency appreciated by 2.3% over the quarter.

In terms of commodities, the S&P GSCI Commodity Total Return Index decreased by 2.1% over the quarter. Gold prices finished June at US$1,916.00/

oz, falling 3.1% over the three months, and Iron Ore prices were decidedly weaker, dropping 10.6% to US$113.50/t. Oil was another key commodity that fell over the quarter, down 6.6% to US$74.51/barrel (Brent Crude) and a large contributor to the drop in the headline inflation rate.

Portfolio Update

The portfolio delivered a return of 1.3% for the June quarter compared to its benchmark return of 3.5%.

Australian equities lagged global equity markets over the June quarter, returning 1.0% for the period. Concerns over higher rates and economic growth led to subdued returns with both Healthcare (-3.1%) and Materials (-2.6%) sectors underperforming over the quarter. The Information Technology sector (18.5%) was a notable outperformer over the quarter, leading to higher returns amongst growth style investors. On a relative basis, small cap equities lagged larger cap peers once again with the ASX Small Ordinaries index returning -0.5% over the period.

Ausbil Australian Emerging Leaders Fund outperformed its benchmark over the quarter, returning 5.8%. Positive contributions came from overweight exposure to Information Technology and Utilities sectors, as well as underweights to Consumer Discretionary and Consumer Staples. The strategy is deliberately style indifferent as it seeks to identify earnings and earnings revisions at an early stage in order to anticipate stock price movements and exploit inefficiencies, subsequently tilting the portfolio towards opportunities that appear compelling over the next 12 months. The Martin Currie Equity Income Fund outperformed its benchmark over the quarter, returning 2.3% as allocations to Non-bank Financials and Industrials were the largest positive contributors. Mining and Consumer Discretionary sectors were the biggest detractors. The strategy continues to complement the portfolio by investing in well-diversified, high-quality securities that typically pay higher income, provide inflation protection and have lower volatility than the benchmark, all while maintaining low security and sector concentration.

Global equities enjoyed another strong quarter, driven by a combination of a surge AI-related tech stocks and inflation pulling back from peak levels. The MSCI World ex-Australia jumped 7.6% on an unhedged basis and 7.1% in hedged terms. Signs of improved economic data raised hope of a soft economic landing, as global corporate earnings started to show encouraging signs and markets were able to shrug off recent US regional bank failures.

At a sector level, the strongest performers were Information Technology, Consumer Discretionary and Communication Services. Utilities and Energy were the weakest sectors over the quarter, reflecting a preference for growth sectors. Global Small Caps, up 4%, lagged the broader market, whilst Emerging Markets struggled on a relative basis, rising 1.5% for the quarter. Weakness in China, fuelled by a soft post-Covid reopening, was a major factor in the sector's performance over the quarter. This was partially offset by a strong showing from Brazil (15.9%), which was boosted by its early monetary policy intervention and apparent success in tempering inflation.

Epoch Global returned 3.5% over the quarter, underperforming its benchmark by 4.3%. Communication Services was the largest detractor to relative returns due to stock selection. Despite this, we are comfortable with portfolio positioning as the strategy provides conservative investors with additional income generation through an allocation to high-yielding global equities. IFP returned 7.3% over the quarter, slightly underperforming its benchmark. The largest relative sector contributors to the Fund included holdings in Communication Services, Industrials and Financials. This fund aims to identify well managed companies with strong and sustainable franchise that, over the long term, provides investors with strong risk adjusted returns.

Listed infrastructure experienced a negative return over the quarter with the FTSE Global Core Infrastructure 50/50 Hedged index returning -0.9%. Railroads were the best performing sub-sector, benefitting from strong US economic data, such as new residential construction projects and positive employment numbers. The Lazard Global Listed Infrastructure Fund outperformed the benchmark over the quarter, returning 2.1%. A key driver of performance was stock selection within Northern America and Europe. This strategy offers investors diversification benefits to a portfolio, particularly during times of high inflation as we have seen in the last year.

REITs lagged broader equity markets over the June quarter with the FTSE EPRA/NAREIT Index returning 0.5%. Positive returns were seen from exposure to North America, driven by stronger than expected economic data. Asian REITs detracted over the quarter, particularly Office REITs within both Hong Kong and Singapore. Globally, industrial sectors again drove returns, in particular data centres, with stronger returns also observed by single family rentals.

Resolution Capital Global Property Securities underperformed the benchmark over the quarter, returning 0.7%. An overweight position and stock selection in the Retail segment, plus stock selection within the Healthcare segment, detracted from its relative performance. This strategy offers global listed property exposure with broad sector holdings & many inflation-linked cash flows, as well as diversification to equity investments and investments driven by Australian economic activity.

The second quarter 2023 brought mixed results for bond investors. Government bond yields rose, causing long duration assets to suffer, particularly in the UK and Australia, due to higher-than-expected inflation and central banks' firm stance on combating inflation. With the exception of the Bank of Japan, major central banks continued to raise interest rates during the period. However, in June the US Federal Reserve was the first to pause, keeping rates steady at its 5% to 5.25% range after a year of consecutive increases, although its accompanying rhetoric remained "hawkish".

Short-term interest rates continued to rise, with the Australian Reserve Bank implementing two 0.25% rate hikes, bringing the cash interest rate to 4.10%. Credit spreads tightened during Q2 2023 as confidence in issuers' ability to meet debt obligations grew. The Australian dollar finished the quarter lower, influenced by lower commodity prices and a weaker Chinese economy. It fell from U.S. 67.1 cents to U.S. 66.3 cents but saw gains against the Japanese Yen.

PIMCO Global Credit returned -0.17%, outperforming its benchmark by 0.24%. Australian and US duration positioning contributing positively to performance. Furthermore, selective exposures to investment grade corporates and securitised assets also benefitted the fund's performance. This strategy offers investors high-yield global corporate bond exposure that diversifies the growth asset and core fixed interest exposure in the portfolio. Macquarie True Index Australian Fixed Interest Fund produced a negative return of -2.9% over the quarter.

Portfolio changes during the quarter

Following the global equities review, the decision was made to remove the Royal London Concentrated Global Share Fund allocation and reduce the exposure to T. Rowe Price Global Equity. Proceeds were reallocated by increasing the allocations to the both the hedged and unhedged IFP Global Franchise Funds, in addition to the Epoch Global Equity Shareholder Yield Fund.

Market Outlook

Looking ahead, Mercer expects weak growth for the next few quarters for much of the developed world as central banks are likely to maintain restrictive policy settings to temper inflation. However, Mercer does not believe a hard landing is likely, given the health of household and corporate balance sheets. One important and potentially brighter spot is China. In Mercer’s view, despite a disappointing economic performance post its Covid lockdown, it expects policy to remain supportive and for economic conditions to improve.

In Australia, whilst economic conditions have held up, Mercer continues to believe that risks to economic growth remain to the downside with the rise in mortgage rates and flow-on impact for domestic consumption the main driver. Meanwhile, maintaining a view that inflation is likely to moderate this year, albeit with the risk that core inflation will decline more slowly, given the pressures in both labour and residential rental markets. Consequently, Mercer believes the critical risk is the RBA cash rate being held higher for longer, as the central bank seeks to manage these various pressures.

From an asset class perspective, given market pricing relative to potential downside macroeconomic risk, Mercer maintains a neutral view on global equities though persisting with its cautious bias. Mercer also retains a neutral view on Australian equities with a similar, cautious bias in light of potential risks to the domestic economic outlook. However, Mercer holds a more favourable view of growth fixed income, given the yields on offer.

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.