

# Advance Indexed Balanced Portfolio

Portfolio performance to quarter ended 31 December 2023

## Portfolio details

### Investment Objective

To deliver a return in line with the benchmark, before fees, over a rolling five year period.

### Investment Strategy

The portfolio has exposure to a diverse mix of assets with both Income-producing assets (around 30%) of Cash and Fixed Interest, and Growth assets (around 70%) including Shares and Listed Property securities. The portfolio's exposure to these asset classes will be obtained primarily by investing directly into Index Funds or Exchange Traded Funds.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since Inception p.a. (%)*
Advance Indexed Balanced Portfolio	4.8	7.2	5.8	12.5	12.5	5.4	7.5	5.9
Advance Indexed Balanced Benchmark	4.8	7.1	6.0	12.9	12.9	5.7	7.8	6.3
Excess return	0.0	0.1	-0.2	-0.4	-0.4	-0.3	-0.3	-0.4

\* Performance since 31 March 2015.

### Actual Asset Allocation



- Australian Equities
- International Equities
- Property
- Australian Fixed Income
- Global Fixed Income
- Cash

May not sum to 100.0% due to rounding.

## Market Commentary

Over the December quarter, the Advance Indexed Balanced Portfolio returned 7.2% outperforming its composite benchmark by 0.1%.

During the quarter, several economic indicators have shown that growth is remaining positive despite the rise in interest rates to this point. The latest NAB Business Survey results continue to show resilience in business conditions, although there was some easing evident in the survey particularly in the Mining, Transportation, Utilities, and Construction sectors. Meanwhile, house prices have continued to rise, increasing 1.5% in Q4 and a total of 8.1% over the year. This growth has been supported by a tight labour market, with unemployment remaining low at 3.9% in November. Population growth and consumer resilience have also contributed to this growth, although there are signs of slowing due to the delayed impact of high interest rates. Meanwhile, inflation has continued to moderate in Australia to 4.1% over the calendar year 2023, a trend which has been mirrored in much of the developed world.

Australian Shares delivered a strong performance over the December quarter, with the S&P/ASX 300 Accumulation Index returning 8.4%. This performance can be attributed to market expectations adjusting to reflect the potential for lower interest rates in 2024 and a soft landing for the US economy. These shifting market dynamics were also beneficial for Small-Cap stocks, with the ASX Small Ordinaries Index gaining 8.5% over the period. The Australian REITs sector was the best performing, returning 16.5% for the period, followed by Healthcare (13.3%) and Materials (13.2%). The Mercer Indexed Australian Shares Fund returned 8.3% over the quarter.

Global Equities performed strongly over this last quarter for 2023. The MSCI World ex-Australia Index returned 9.2% in hedged terms and 5.3% in unhedged AUD terms. Positive market sentiment was boosted by the rapid repricing of US interest rate cuts combined with softer inflation data from around the world. Real Estate (10.6%) and Industrials (7.7%) sectors had positive returns over the December quarter, with Information Technology (11.2%) stocks continuing to lead the way as investor appetite for interest rate-sensitive assets increased on the back of declining bond yields. Emerging Markets underperformed relative to Developed Markets, returning 2.0% for the period with China continuing to drag on performance. Mixed economic data from the region undermined investor confidence around a potential economic recovery as the impact from stimulus measures remained subdued. The Mercer Indexed International Shares Fund and the iShares Hedged International Equity Index Fund returned 5.3% and 9.3% respectively over the quarter.

Domestic Listed Property (S&P/ASX 300 A-REIT Accumulation Index) delivered a 16.5% uplift over the December quarter, while Global REITs (FTSE EPRA/NAREIT Developed, in AUD hedged terms) rose by 13.0%. Positive returns for both indices were primarily driven by growing expectations of softer monetary policy settings and interest rate cuts in 2024. These factors are seen as beneficial for property valuations and underlying earnings. The Mercer Indexed Australian Listed Property Fund and iShares Global Listed Property Index Fund (Hedged) returned 16.5% and 12.9% respectively over the quarter.

Global Sovereign Bond performance was mostly positive over the December quarter. After a rough start in the quarter, where the US 10-year bond yields peaked at ~5.0% mark in October, yields declined sharply from early November. A combination of softer inflation and economic data fed through to a distinct change in tone from the US Fed, leading to a downswing in market expectations for interest rate cuts in the upcoming year.

Credit spreads widened in early October due to risk-off sentiment on the back of elevated government bond yields and global uncertainty in the context of an emerging Middle East conflict. However, spreads tightened later in the quarter, as market participants shifted expectations towards a soft-landing scenario for the US economy. Higher demand and lower levels of issuance for higher yielding investment-grade bonds was also supportive.

Domestically, bond yields across maturities declined in line with the global bond markets. Consequently, the Bloomberg Ausbond Treasury Index gained 4.0%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains of 3.2% over the quarter. The Mercer Indexed Australian Fixed Interest Fund and the Mercer Indexed International Fixed Interest Fund returned 3.7% and 5.4% respectively.

## Changes over the quarter

The Advance Indexed Balanced portfolio remains well positioned relative to its long-term objectives and did not require any changes to the strategic asset allocation or rebalancing over the period.

## Outlook

Australian economic growth has proven resilient in recent quarters with several supporting factors. Households spending excess savings, population growth via immigration, a significant proportion of mortgages on (low) fixed rates and government expenditure have all been complementary. However, we expect growth to moderate as these stimuli diminish and the impact of higher interest rates flows through. Further, whilst inflation is expected to ease, the pace of decline is unlikely to be at the rate in other developed economies due to residential rental market pressures. We note that risks point towards a sharper slowdown in economic activity compared to expectations. Therefore, market pricing for two interest rate cuts in 2024 may prove to be fewer, and potentially slower, than what will ultimately occur.

Globally, we anticipate resilient growth, although it may vary across regions. Developed economies are expected to experience a moderation in economic performance due to tighter financial conditions. On the other hand, China is expected to see stronger growth driven by supportive fiscal, monetary and regulatory policies, as well as a turnaround in the manufacturing inventory cycle and a potential stabilisation in the housing sector. Other emerging economies are also expected to benefit from the current easing cycle in their central bank monetary policy settings.

In terms of asset class perspectives, we maintain a cautious view on developed markets due to high valuations and an optimistic earnings outlook. We hold a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. Domestically, considering the relative risks associated with interest rate expectations, we find Australian sovereign bonds attractive, despite the persisting risks posed by volatility in global sovereign bond markets.

## Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
<b>Australian Equities</b>					
Mercer Indexed Australian Shares Fund	7.2	8.3	12.0	8.8	10.1
<b>International Equities</b>					
Mercer Indexed International Shares Fund	1.8	5.3	23.5	11.9	13.7
iShares Hedged International Equity Index Fund	3.9	9.3	21.9	7.5	11.7
<b>Property and Infrastructure</b>					
Mercer Indexed Australian Listed Property Fund	11.3	16.5	16.6	5.7	6.1
iShares Global Listed Property Index Fund (Hedged Class S Units)	8.2	12.9	8.1	-	-
<b>Australian Fixed Interest</b>					
Mercer Indexed Australian Fixed Interest Fund	2.7	3.7	5.0	-2.8	0.5
<b>Global Fixed Interest</b>					
Mercer Indexed International Fixed Interest Fund	3.0	5.4	5.1	-3.2	0.4
<b>Cash</b>					
Advance Cash Multi-Blend Fund	0.4	1.1	4.1	1.8	1.5
Platform Cash	0.3	0.9	-	-	-

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