Indexed Wholesale

Advance Indexed Balanced Portfolio

Portfolio performance to quarter ended 30 September 2023

Portfolio details

Investment Objective

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

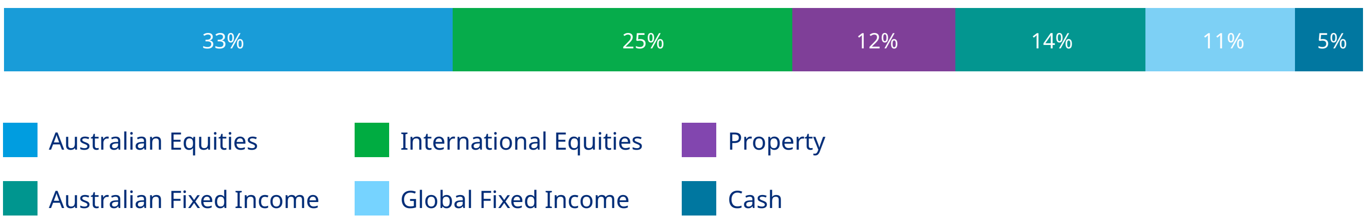
Investment Strategy

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	-3.2	-1.3	0.7	5.0	10.4	5.6	4.8	5.2
Advance Indexed Balanced Benchmark	-3.2	-1.0	1.1	5.4	11.0	5.9	5.1	5.6
Excess return	0.0	-0.3	-0.4	-0.4	-0.6	-0.3	-0.3	-0.4

* Performance since 31 March 2015.

Actual Asset Allocation



Market Commentary

Over the September quarter, the Advance Indexed Balanced portfolio returned -1.3% underperforming its composite benchmark by 0.3%.

Global financial markets experienced mixed performance across the September quarter. A combination of positive economic indicators, geopolitical tensions, and central bank commentary influenced market sentiment and investment performance across each asset class.

Australian shares declined over the September quarter, the S&P/ASX 300 Index returning -0.8%, following a softening in risk sentiment from global markets over the period. The best performing sector for the month was Energy (11.2%), following a rebound in oil prices, after OPEC cut its daily production target. The Information Technology sector underperformed (-5.8%), driven by a sell-off in global tech stocks given concerns surrounding the potential impact of a sustained higher level of US interest rates. Australian small caps again underperformed large cap peers, returning -1.9% over the period. The Mercer Indexed Australian Shares Fund returned -0.9% over the quarter.

Global equities came under pressure during the September quarter as the combination of rising bond yields and expectations of further interest rates rises in major markets impacted the asset class. The MSCI World ex Australia was down 0.4% on an unhedged basis (helped by a weakening Australian dollar) and dropped 2.9% in hedged terms. Oil prices rose sharply over the quarter, driving commodities higher, reflecting ongoing heightened geo-political factors facing the global economy. Emerging Markets were basically flat over the quarter, with the picture for a sustained Chinese recovery remains mixed, with ongoing issues in the property sector causing concerns; whilst global small caps slipped 1.3% over the 3 months to the end of September. The Mercer Indexed International Shares Fund and the iShares Hedged International Equity Index Fund returned -0.4% and –2.8% respectively over the quarter.

Listed infrastructure experienced a negative return over the quarter with the FTSE Global Core Infrastructure 50/50 Hedged index returning -7.3%. Bond yield sensitive sectors such as Towers, Water and Utilities saw the biggest declines as yields rose globally.

Global Real Estate as measured by the FTSE EPRA/ NAREIT Developed in AUD index. fell -5.2% over the quarter given higher bond yields globally and their higher correlation with listed equity markets. Over the quarter, Hong Kong, Australia, and North American markets contributed to the largest declines as did the Self-Storage sector. Despite this, there was positive returns from both Continental Europe and Japan. The Mercer Indexed Property Securities Index Fund and iShares Global Listed Property Index Fund (Hedged) returned -3.1% and -5.1% respectively over the quarter.

Following the repricing of expectations for interest rates to remain elevated for longer, global sovereign bond performance was negative over the September quarter. Over the quarter both the European Central Bank (ECB) and US Federal Reserve increased interest rates by 50bps and 25bps respectively on the back of stronger than expected economic growth, resilient labour markets and an increasing oil price. Globally, credit spreads remained broadly flat for higher quality credit instruments over the quarter, with non-investment grade seeing a slight widening over the period.

Within Australia, yields across the curve rose over September despite the RBA holding interest rates steady at 4.1% of the quarter. The moves in September reflected the increased yield environment globally that was seen in August with the 10-year bond yield rising 46bps to 4.48% and the five-year bond yield increasing 37bps to 4.14%. The Mercer Indexed Australian Fixed Interest Fund and the Mercer Indexed International Fixed Interest Fund returned -0.3% and -2.2% 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

The global economy has remained resilient in Q3 2023, driven by a strong consumer demand, an expanding services sector, elevated business spending and expansionary fiscal policies in some countries. These factors are likely to continue for now but may fade as we approach year-end and enter 2024. At that point, the effects of tightening bank lending standards and tight monetary policy may become more pronounced, leading to softer economic growth.

In Australia, economic conditions have held up and are displaying surprising resilience to monetary policy tightening, The labour market continues to remain tight with an unemployment rate of just 3.7% even though the participation rate has increased to an all-time high of 67%. Tight labour markets are driving wage growth, up 3.6% YoY (June data). Meanwhile, despite interest rates being at restrictive levels, the property market has continued its recovery with further increases in house prices. Looking forward, Mercer believes growth is likely to soften. The long and variable lags of monetary policy should kick in, while many mortgages entered during the low rate environment of 2020 will reset from fixed to variable over the next six months, weighing on discretionary cash flow and consumption. This will be partially offset by the tight labour market, where vacancies remain high, which should keep wage growth at strong levels. Meanwhile high levels of migration, new housing supply failing to keep up with demand and low rental vacancy rates should support housing prices to some extent.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Mercer Indexed Australian Shares Fund	-2.9	-0.9	12.7	10.6	6.4
International Equities					
Mercer Indexed International Shares Fund	-4.0	-0.4	21.9	12.0	9.9
iShares Hedged International Equity Index Fund	-3.7	-2.8	19.6	8.2	6.6
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	-8.7	-3.1	11.7	4.6	2.6
iShares Global Listed Property Index Fund (Hedged Class S Units)	-5.5	-5.1	-0.2	-	-
Australian Fixed Interest					
Mercer Indexed Australian Fixed Interest Fund	-1.5	-0.3	1.5	-4.0	0.2
Global Fixed Interest					
Mercer Indexed International Fixed Interest Fund	-1.8	-2.2	0.3	-4.6	-0.4
Cash					
Advance Cash Multi-Blend Fund	0.3	1.1	3.8	1.5	1.4
Platform Cash	0.3	0.8	-	-	-

Important Notices

This document is issued by Mercer Investments (Australia) Limited ABN 66 008 612 397 AFSL 244385 (MIAL). MIAL is the distributor of this document. MIAL is a wholly owned subsidiary of Mercer (Australia) Pty Ltd ABN 32 005 315 917 (Mercer Australia). References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

'MERCER' is a registered trade-mark of Mercer Australia.

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the Fund, asset classes or capital markets discussed.

Information contained herein has been obtained from a range of third-party sources, including underlying investment managers. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential, or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

Advance Indexed Portfolios are available through selected IDPS platforms. Please contact your adviser to find out what platforms this is available on.

Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 (AAML) is the responsible entity and issuer of interests in some of the underlying funds of the Advance Indexed Portfolios, namely Mercer Indexed Australian Shares Fund, Mercer Indexed International Shares Fund (unhedged), BlackRock Indexed Hedged International Equity Fund, Mercer Indexed Australian Fixed Interest Fund, Mercer Indexed International Fixed Interest Fund, Mercer Indexed Australian Listed Property Fund, Blackrock Global Listed Property Index Fund (hedged) and Advance Cash Multi-Blend Fund (collectively the 'AAML Funds').

AAML is a wholly owned subsidiary of Mercer Australia, which is part of the Mercer global group of companies. Investors should be aware that the value of an investment in any AAML Fund may rise and fall from time to time and that neither AAML nor Mercer guarantees the investment performance, earnings or return of capital invested in any AAML Funds. Past performance does not guarantee future results.

If you are investing in or considering an investment in any AAML Fund, you should note that the information contained in this document is general in nature only, and does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or product. It does not take into account your personal needs and circumstances.

Before deciding whether to acquire, continue to hold or dispose of an investment, Investors should consider seeking independent advice from a professional financial adviser and read the relevant disclosure documents. Investors should refer to the Product Disclosure Statement (PDS) and Target Market Determination (TMD) available from your financial adviser, or the relevant IDPS platform, before making a decision about the product and consider seeking independent financial advice.

The Financial Services Guide (FSG) for AAML can be obtained via **mercer.com.au/mercerfunds**. Conditions, fees and charges apply to AAML Fund/s and may change from time to time.

Where AAML has appointed third party manager(s) as the investment manager of the Fund, the relevant investment manager has consented to the statements pertaining to it in this document, in the form and context in which they appear and has not withdrawn its consent as at the date this document was published.