Indexed Wholesale

Advance Indexed Growth Portfolio

Portfolio Performance to 31 March 2024

Portfolio details

Investment Objective

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

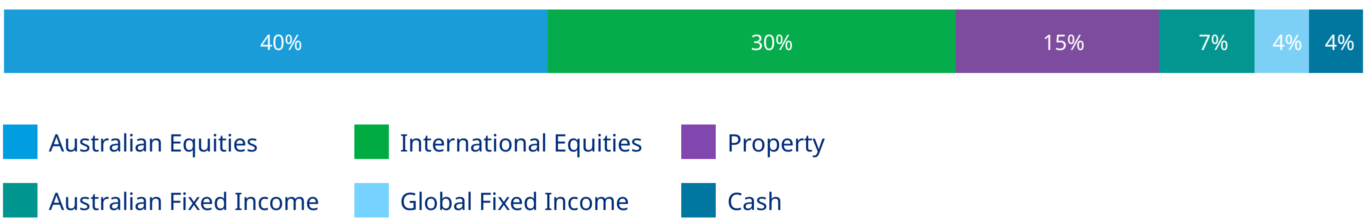
Investment Strategy

The portfolio has exposure to a diverse mix of assets with an emphasis (about 85%) on the growth oriented assets of Australian and international shares, and investment (about 15%) in the defensive assets of cash and fixed interest providing some income and stability of returns. 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 Growth Portfolio	3.3	7.3	15.7	7.3	17.3	8.4	8.3	8.1
Advance Indexed Growth Benchmark	3.4	7.7	16.0	7.7	18.1	8.8	8.7	8.6
Excess return**	-0.1	-0.4	-0.3	-0.4	-0.8	-0.4	-0.4	-0.5

* Performance since 30 June 2015.

Actual Asset Allocation



Market Commentary

Over the March quarter, the Advance Indexed Growth portfolio returned 7.3%, underperforming its composite benchmark by 0.4%.

Australian equities enjoyed a solid March quarter, with the S&P/ASX 300 Accumulation Index returning 5.4%. Encouraging economic data releases and supportive global central bank comments around the outlook for interest rates underpinned performance. Financials (16.2%), Real Estate (16.2%) and Consumer Discretionary (13.4%) were the stronger performing sectors, whilst Materials (-5.9%), Consumer Staples (2.1%) and Utilities (3.4%) were among the poorer performers. Many of the themes that influenced the broader market were also evident in the Australian small-cap sector, which outperformed its large counterparts with the ASX Small Ordinaries index delivering 7.5% for the period. The Mercer Indexed Australian Shares Fund returned 5.3% over the quarter.

Global equities delivered another remarkable quarter with the MSCI World ex-Australia Index returning 10.1% in hedged terms and 14.1% in unhedged AUD terms. This momentum was driven by a series of positive economic releases, from GDP growth to labour data, which signalled global economies remain resilient. Further, with the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) each indicating rate cuts are still on the table for later in 2024, plus a solid US corporate earnings season, equities pushed higher. Emerging markets lagged developed market counterparts, returning 7.1% on an unhedged basis over the period. China's equity market remained a key drag despite rebounding during the quarter. Performance was balanced between the positive factors of lowered requirements in banking reserves, a tightening in short selling restrictions and an increase in a government-owned investment company's ability to hold exchange traded funds (ETFs), against the negative headlines around its property development sector. The Mercer Indexed International Shares Fund and the iShares Hedged International Equity Index Fund returned 14.0% and 10.1% respectively over the quarter.

The rise in government bond yields proved to be headwind for listed real assets, with Global REITs (FTSE EPRA/NAREIT Developed, -0.1% in AUD hedged terms) marginally lower and Global Listed Infrastructure (FTSE Developed Core Infrastructure index, AUD hedged) returning a modest 2.5% for the three months to end March.

In contrast, Australian Listed Property (S&P/ASX 300 A-REIT Accumulation Index) produced a very strong 16.2% return for the quarter. Its largest constituent security, Goodman Group (GMG), was 34.0% higher as analysts lifted forecasts post GMG's raising of its full-year profit guidance based on strong growth in its data centre division. The Mercer Indexed Australian Listed Property Fund and iShares Global Listed Property Index Fund (Hedged) returned 16.1% and -0.1% respectively over the quarter.

Global government bond yields ended the quarter higher as recent economic data came in a little stronger against market estimates. This resulted in a modestly negative return (-0.3%) for global government bonds (Bloomberg Global Treasury Hedged). Market participants have lowered expectations for near-term interest rate cuts, with the market pricing in less than three cuts from the Fed as of the end of March quarter, compared to almost five cuts expected at the start of the year. Against this backdrop, credit spreads broadly contracted over the quarter aided by the more supportive economic backdrop, with the result being a modest +0.1% return from the Bloomberg Global Credit (hedged).

Australian government bond yields were more mixed, with longer-dated yields rising less than their global counterparts driven, in part, by the RBA's comments around future changes for interest rate softening from "a further increase in interest rates cannot be ruled out" to be one where the RBA is "not ruling anything in or out". This resulted in Australian Government Bonds (Bloomberg AusBond Treasury 0+ year) returning +0.9% for the quarter. The Mercer Indexed Australian Fixed Interest Fund and the Mercer Indexed International Fixed Interest Fund returned 1.0% and -0.4% respectively.

Changes over the quarter

The 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

Whilst economic conditions in Australia have remained broadly resilient of late, as can be seen in labour market data, Mercer expects growth to slow in time. Previous supportive factors, such as population growth, (low) fixed rate mortgages and savings accrued over the Covid pandemic period, are fading and the impact of tightened monetary conditions growing in influence. Company insolvencies have also been rising led by cost pressures across the building construction sector. Inflation is also likely to slow, albeit less than other developed economies with pressures from residential rental markets, in particular, a key driver.

Globally, Mercer expects growth to remain resilient but may exhibit regional divergences. As the lingering impact of higher interest rates and tighter financial conditions take their toll in the US, economic activity is likely to marginally slow over the next few quarters. In contrast, we anticipate stronger growth for the Eurozone as manufacturing activity picks up and inflation eases. Conditions in Japan are likely to strengthen as it emerges from a prolonged period of deflation. China is also likely to experience stronger growth in part driven by supportive fiscal, monetary, and regulatory policies, as well as a recovery in the manufacturing inventory cycle and potential stabilisation in the housing sector. Stronger growth is also expected in other emerging economies with their central banks better positioned to lower interest rates having raised interest rates earlier and more aggressively this cycle than their developed economy counterparts.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Mercer Indexed Australian Shares Fund	3.2	5.3	14.2	9.3	9.0
International Equities					
Mercer Indexed International Shares Fund	3.0	14.0	28.9	14.5	14.2
iShares Hedged International Equity Index Fund	3.3	10.1	25.2	8.8	11.2
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	9.5	16.1	35.1	11.3	6.5
iShares Global Listed Property Index Fund (Hedged Class S Units)	3.6	-0.1	7.9	-0.6	-
Australian Fixed Interest					
Mercer Indexed Australian Fixed Interest Fund	1.1	1.0	1.4	-1.4	0.1
Global Fixed Interest					
Mercer Indexed International Fixed Interest Fund	0.8	-0.4	2.3	-2.4	-0.3
Cash					
Advance Cash Multi-Blend Fund	0.3	1.1	4.3	2.2	1.7
Platform Cash	0.3	0.9	3.4	-	-

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