

# Advance Indexed Moderate 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 four year period.

### Investment Strategy

The portfolio has exposure to a mix of defensive assets (around 50%) such as cash and fixed interest and growth assets (around 50%) such as 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 Moderate Portfolio | -2.6      | -1.1      | -0.2      | 3.5     | 7.6      | 3.1            | 3.4            | 4.2                       |
| Advance Indexed Moderate Benchmark | -2.6      | -0.9      | 0.1       | 3.8     | 8.0      | 3.4            | 3.7            | 4.5                       |
| Excess return                      | 0.0       | -0.2      | -0.3      | -0.3    | -0.4     | -0.3           | -0.3           | -0.3                      |

\* Performance since 31 March 2015.

### Actual Asset Allocation



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

## Market Commentary

Over the September quarter, the Advance Indexed Moderate portfolio returned -1.1%, underperforming its composite benchmark by 0.2%.

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 Moderate 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. (%) |
|--|-----------|-----------|----------|----------------|----------------|
| <b>Australian Equities</b>                                       |           |           |          |                |                |
| Mercer Indexed Australian Shares Fund                            | -2.9      | -0.9      | 12.7     | 10.6           | 6.4            |
| <b>International Equities</b>                                    |           |           |          |                |                |
| 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            |
| <b>Property and Infrastructure</b>                               |           |           |          |                |                |
| 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     | -              | -              |
| <b>Australian Fixed Interest</b>                                 |           |           |          |                |                |
| Mercer Indexed Australian Fixed Interest Fund                    | -1.5      | -0.3      | 1.5      | -4.0           | 0.2            |
| <b>Global Fixed Interest</b>                                     |           |           |          |                |                |
| Mercer Indexed International Fixed Interest Fund                 | -1.8      | -2.2      | 0.3      | -4.6           | -0.4           |
| <b>Cash</b>  |           |           |          |                |                |
| Advance Cash Multi-Blend Fund                                    | 0.3       | 1.1       | 3.8      | 1.5            | 1.4            |
| Platform Cash  | 0.3       | 0.8       | -        | -              | -              |

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