

# CoreSeries Active High Growth Portfolio

Portfolio performance to the quarter ended 30 June 2024

## Portfolio details

### Investment Objective

The portfolio aims to achieve an Inflation (Consumer Price Index "AUCPI") + 4.5% p.a. objective over rolling seven year periods by taking exposures to mix of growth asset classes.

### Investment Strategy

The strategy is an actively managed diversified portfolio investing in predominately growth asset classes such as equities, property and infrastructure. The portfolio's exposure will typically be 97% growth assets and 3% defensive assets; however over time these allocations may deviate within a range due to market movements and asset allocation decisions. These exposures are expected to provide a return in excess of inflation over the long-term and aim to minimise the impact of shorter-term market volatility through asset diversification, manager selection and risk management.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since inception p.a. (%)*
CoreSeries Active High Growth Portfolio	0.1	-1.5	6.1	6.1	12.4	4.5	7.2	9.0
AUCPI + 4.5	0.6	1.9	4.0	4.0	8.2	9.8	8.3	8.1
Excess return	-0.5	-3.4	2.1	2.1	4.2	-5.3	-1.1	0.9

\* Performance since 30 November 2018.

### Actual Asset Allocation



 Australian Equities

 International Equities

 Property and Infrastructure

 Cash

## Market Commentary

The portfolio delivered a return of -1.5% for the June quarter compared to its benchmark return of 1.9%.

Australian equities retreated 1.2% in the June quarter, as measured by the S&P/ASX 300 Accumulation Index. Concerns Australian equities retreated 1.2% in the June quarter, as measured by the S&P/ASX 300 Accumulation Index. Concerns around prevailing interest rates and inflationary expectations impacted returns earlier in the quarter, with only a modest recovery in subsequent months as slightly softer economic data emerged. Utilities (13.3%) was the best performing sector, with Financials (4.0%) and Information Technology (2.4%) also delivering positive returns. Weaker areas were Energy (-6.7%), on the back of the drop in oil prices, Materials (-5.9%) and Real Estate (-5.7%). The latter sector relinquished some of its recent, substantial gains. Australian Small Caps was also a disappointing segment of the market, being down 4.5% over the period. The Solaris Core Australian Equities MPS Fund returned -0.6% over the quarter, outperforming the benchmark. Relative outperformance was driven by overweight position in transportation and underweight in REITs and Energy. The RQI Australian Shares MPS Fund returned -2.2% for the quarter, underperforming the benchmark due to an overweight Metals and Mining.

After two very strong quarters, Global equities were again higher, albeit modestly, with the MSCI World ex-Australia (Hedged) Index returning 3.0% during the June quarter. On an unhedged basis, this return was only just above flat at 0.3% due to a stronger AUD. Momentum continues to be driven by US large cap technology-based stocks, particularly Nvidia, which well and truly delivered upon earnings expectations at its May results update. Combined with easing inflationary data in the latter half of the quarter and growing talk of rate cuts this year, US equities are in a sweet spot. Elsewhere, global politics had some influence on market outcomes with snap elections being called in the UK and France. The latter's bourse was down 8.9% in the June quarter, given the risk of a change in government and approach. Emerging markets were higher (2.6%) as the Indian election delivered a third term for Narendra Modi and a 13.8% bounce in Indian equities during the quarter, offsetting a modest 2.4% retreat in Chinese equities. The latter was affected by a new range of substantial US tariffs placed upon its exports, particularly in the EV sector. The T. Rowe Price Global Focused Equity MPS Fund returned 0.3% over the quarter, outperforming the benchmark driven by sector allocation to Consumer Discretionary and Industrials. The Wellington Global Equity MPS Fund underperformed for the quarter, returning -3.0%. Relative performance detracted due to security selection within Communication Services, Consumer Staples and Healthcare.

Most Global equity managers have struggled to perform in line with the benchmark over the past year as the narrow, momentum-driven market continues to challenge deep value and quality investing styles. However, we would expect the breadth to improve over time as investors look to better value outside the "Magnificent Seven" which have been so dominant. Mercer expects that a broad diversification of return drivers within the global equities portfolio will position the portfolio appropriately going forward and remains comfortable with the current manager allocations.

The increase in global bond yields was a negative influence for the REITs sector. Australian Listed Property (S&P/ASX 300 A-REIT Accumulation Index) was down markedly with a -5.7% return, although there is an element of profit taking given the 23.8% rise over the past 12 months for the asset class. With Goodman Group being ~42% of the index, overall sector returns are driven by this one company's fortunes. Global REITs (FTSE EPRA/NAREIT Developed, AUD hedged) were down a more modest -1.7% over June quarter, though over the past 12 months Global REITs are up 5.3%. Interestingly, Global Listed Infrastructure (FTSE Developed Core Infrastructure index, AUD hedged) continued to deliver a modestly positive return with 1.2% recorded for the three months to end June and 4.3% for the rolling 12 months. The Atlas Global Listed Infrastructure Fund (hedged) underperformed its benchmark, returning -2.7% in absolute terms. An overweight allocation to UK/Europe detracted from returns, due to a jump in European risk premia, following the snap French elections that has created uncertainty.

## Portfolio changes during the quarter:

As part of the ongoing strategic review of the Core Series portfolios, to better align the portfolios with Mercer's investment philosophy and Global Manager Research ratings process, Mercer identified that the Wholesale Plus funds did not meet the minimum threshold to be included in the portfolio. As a result, all Wholesale Plus funds were replaced by funds that are highly rated by the Mercer Manager Research team.

This review resulted in the removal of both Magellan Wholesale Plus Infrastructure and Russell Investments Wholesale Plus Emerging Markets funds and the inclusion of the ATLAS Infrastructure and Skerryvore Global Emerging Markets funds. An additional allocation was made into the Wellington Global Equity Fund.

## Outlook:

Looking forward through an Australian lens, notwithstanding the solid economic performance of late and a resilient labour market, Mercer expects growth to remain relatively weak with consumption suppressed in an environment of high interest rates and cost-of-living pressures. Furthermore, core inflation is expected to decline, albeit at a slower rate than other developed economies. That said, Mercer's view is that the RBA is unlikely to embark on a new tightening cycle, given the underlying economic conditions.

Internationally, Mercer continues to expect varying degrees of economic performance across regions, although overarching growth should remain resilient. Mercer anticipates any US growth slowdown will be gradual given solid labour markets and ongoing fiscal stimulus. Emerging markets, and particularly China, are also viewed favourably in light of supportive central bank interest rate settings and government policies.

In terms of asset class preferences, given the above Mercer favours the more attractive valuations and promising economic prospects of emerging markets over developed markets. Further, Mercer prefers Australian government bonds over cash as interest rates have probably peaked this cycle.

## Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
<b>Australian Equities</b>					
Fidelity Australian Opportunities MPS Fund	1.4	-1.2	7.7	3.2	5.4
Platypus Australian Equity MPS Fund	0.4	-1.5	18.7	-	-
RQI Investors Australian Shares MPS Fund	0.1	-2.2	12.4	8.2	8.3
Solaris Core Australian Equity MPS Fund	0.7	-0.6	14.0	7.0	6.0
<b>International Equities</b>					
Blended Global Equities Hedged MPS Fund	0.5	0.5	15.1	1.1	7.4
Guardcap Global Equity MPS Fund	-0.8	-4.4	8.5	4.3	7.6
Skerryvore Global Emerging Markets All-Cap Equity Fund	-0.4	-2.0	6.6	-	-
T. Rowe Price Global Focused Equity MPS Fund	2.0	0.3	23.9	5.2	14.5
Wellington Global Equity MPS Fund	-1.5	-3.0	10.9	8.7	10.9
<b>Property and Infrastructure</b>					
Mercer Indexed Australian Listed Property Fund	0.2	-5.7	23.6	5.5	4.4
Principal Global Property MPS Fund	0.3	-0.9	5.6	-4.7	-1.3
ATLAS Infrastructure Fund	-4.6	-2.7	-3.9	4.8	4.5
<b>Cash</b>					
Advance Cash Multi-Blend Fund	0.3	1.1	4.5	2.6	1.8
Platform Cash	0.3	0.9	3.5	-	-





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