Mercer

CoreSeries Retirement Portfolio - MRP40

Portfolio performance to the quarter ended 30 June 2024

Portfolio details

Investment Objective

To outperform the AUCPI + 2% Index over the medium to longer term whilst providing income generation and capital preservation.

Investment Strategy

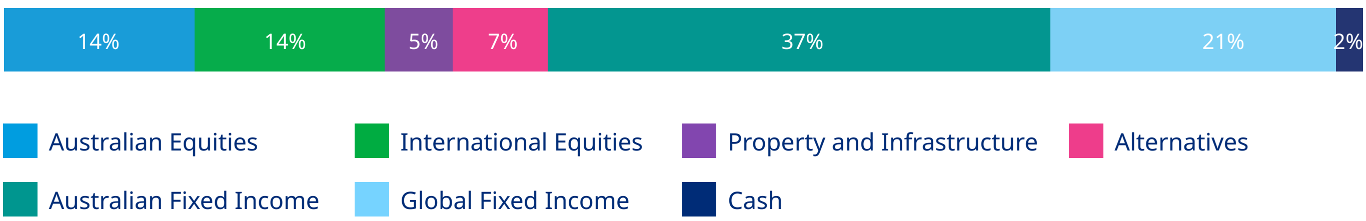
This portfolio is designed for the benefit of retiree investors who are seeking to preserve, through a diversified mix of growth and defensive assets, the capital value of their investment portfolio over the longer-term whilst providing a level of income.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since inception p.a. (%)*
CoreSeries Retirement Portfolio - MRP40	0.4	-0.2	3.1	3.1	6.9	2.5	-	2.5
AUCPI +2%	0.4	1.3	2.8	2.8	5.7	7.3	-	7.3
Excess return**	0.0	-1.5	0.3	0.3	1.2	-4.8	-	-4.8

* Performance since 30 June 2021.

** Please note on 18 December 2023, the risk profile was adjusted from 30% to 40% growth with a resulting update of the investment strategy benchmark.

Actual Asset Allocation



Market Commentary

The portfolio delivered a return of -0.2% for the June quarter compared to its benchmark return of 1.3%.

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 Plato Australian Shares Income Fund generated a return of -0.9% over the June quarter, performing in line with the benchmark. The fund outperformed in the Financials and Utilities sectors, while being partially offset by underperformance across Energy and Information Technology sectors.

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 Electric Vehicle sector. Vanguard International Shares Index Fund Hedged returned 3.0% for the June quarter. The Epoch Global Equity Shareholder Yield Fund underperformed its benchmark returning -0.9% over the June quarter. Pressures on relative returns remain primarily tied to their inability to invest in some of the "Magnificent Seven" cohort, due to dividend yield constraints. Mercer still has conviction with the diversified mix of current global equity managers to navigate through various market conditions.

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 SG Hiscock Property Income Fund underperformed for the quarter returning -8.7%, due to office property allocations detracting.

Global government bonds, as measured by the Bloomberg Global Treasury (Hedged) Index, ended the June quarter marginally lower (-0.4%). The spike in US bond yields in April on the back of stronger than expected CPI data was somewhat unwound in May and June, as subsequent CPI releases were on the low side. Coupled with recent Fed commentary, this ebb and flow in US inflationary expectations are now leading markets to price in potential interest rate cuts later this year. Such a move would align with the June rate cuts in Canada, Switzerland and the Eurozone. Global credit as measured by the Bloomberg Global Credit (Hedged) Index was flat for the quarter, however, it has delivered 5.0% over the last 12 months. Australian government bond returns were a little weaker than global counterparts with the Bloomberg AusBond Treasury 0+ year benchmark returning -1.0% during the quarter. Whilst the RBA kept the cash rate at 4.35%, the comment that it "remains vigilant to upside risks" has seemingly taken any potential rate cut off the table for 2024. The Perpetual Diversified Income Fund returned 1.4%, outperforming its benchmark. The strategy benefitted from its healthy yield premium and elevated exposure to subordinated spreads. The Colchester Global Government Bond Fund delivered a negative return of -1.1% over the June quarter. The fund's overweight bond exposure to Mexico and Colombia were key contributors to underperformance.

Portfolio changes during 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:

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. (%)
Australian Equities					
Alphinity Concentrated Australian Share Fund	1.6	-0.9	11.3	6.1	7.1
DNR Australian Equities Income Fund	2.4	-2.0	7.5	6.1	-
Plato Australian Shares Income Class A	0.6	-1.5	10.9	5.0	5.6
International Equities					
Acadian Global Managed Volatility Equity A	0.7	-0.5	12.0	10.1	8.1
Epoch Global Equity Shareholder Yield (Unhedged) A	0.1	-0.9	12.7	9.9	7.9
Robeco Emerging Conservative Equity (AUD)	1.5	1.4	15.7	8.0	5.2
Vanguard International Equities Hedged	2.2	3.0	20.2	7.1	11.1
Property and Infrastructure					
SG Hiscock Property Income Fund	-2.1	-8.7	5.8	2.7	1.8
Alternatives					
Metrics Direct Income Fund	0.7	2.2	10.0	7.5	-
Australian Fixed Income					
Daintree Core Income Trust	0.5	1.7	8.7	2.9	2.8
Janus Henderson Tactical Income Fund	0.6	0.4	5.9	2.2	2.4
Macquarie True Index Australian Fixed Interest Fund	0.8	-0.8	3.7	-2.1	-0.6
Perpetual Diversified Income	0.3	1.6	8.0	3.9	3.6
Smarter Money Higher Income Fund	0.5	1.6	6.5	3.0	2.7
Global Fixed Income					
Colchester Global Government Bond Fund	0.2	-1.3	0.1	-2.9	-0.8
Payden Global Income Opportunities Fund	0.2	1.1	5.7	1.0	1.1
T Rowe Price Dynamic Global Bond Fund	-0.5	0.8	0.2	-0.6	1.4

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