

CoreSeries Balanced

Portfolio Performance to the quarter ended 30 June 2023

Portfolio details

Investment Objective

The portfolio aims to achieve an Inflation (Consumer Price Index "AUCPI") + 3.5% p.a. objective over rolling 5 year periods by taking exposures to a mix of growth and defensive asset classes.

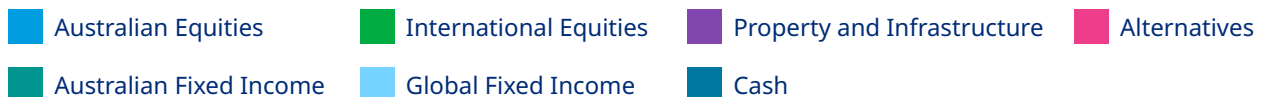
Investment Strategy

The strategy is an actively managed diversified portfolio investing in both growth asset classes such as equities, property and infrastructure, and defensive asset classes such as cash and fixed interest securities. The portfolio's exposure will typically be 70% growth assets and 30% 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 pa (%) [*]
CoreSeries Balanced	1.1	0.9	5.0	5.0	8.3	6.3	-	5.9
AUCPI + 3.5%	0.7	2.2	4.4	4.4	10.1	9.0	-	7.2
Excess return	0.4	-1.3	0.6	0.6	-1.8	-2.7	-	-1.3

^{*} Performance since 30 November 2018.

Actual Asset Allocation



May not sum to 100.0% due to rounding.

Market Commentary

The CoreSeries Balanced portfolio returned 0.9% over the June quarter, underperforming its CPI + 3.5% benchmark by 1.3%.

The second quarter of 2023 was positive for growth assets and generally flat to slightly negative for fixed income. Globally, inflation continued to ease, although at different rates depending on the country or region. However, major central banks continued to raise rates over the quarter, though notably, the US Federal Reserve kept rates on hold at its June meeting. Looking forward, with the global economy continuing to show resilience despite tighter credit conditions, markets appear to be more optimistic. Growth assets, in particular, are reflecting this optimism and are pricing in an increased likelihood of a “soft landing”.

Australian equities lagged global equity markets over the June quarter, returning 1.0% for the period. Concerns over higher rates and economic growth led to subdued returns with both Healthcare (-3.1%) and Materials (-2.6%) sectors underperforming over the quarter. The Information Technology sector (18.5%) was a notable outperformer over the quarter, leading to higher returns amongst growth style investors. On a relative basis, small cap equities lagged larger cap peers once again with the ASX Small Ordinaries index returning -0.5% over the period. Fidelity Australian Opportunities had positive absolute returns over the quarter but underperformed its respective benchmark primarily due to stock selection in healthcare, predominantly, Ramsay Health Care and PolyNovo. Solaris Core Australian Equity had positive absolute returns but also underperformed its benchmark. Underperformance was driven by overweight holdings to healthcare, namely Ramsey healthcare and consumer discretionary, namely, Treasury Wine Estates Ltd.

Global equities enjoyed another strong quarter, driven by a combination of a surge in AI-related tech stocks and inflation pulling back from peak levels. The MSCI World ex-Australia jumped 7.6% on an unhedged basis and 7.1% in hedged terms. Signs of improved economic data raised hopes of a soft economic landing, as global corporate earnings started to show encouraging signs and markets were able to shrug off recent US regional bank failures.

At a sector level, the strongest performers were Information Technology, Consumer Discretionary and Communication Services. Utilities and Energy were the weakest sectors over the quarter, reflecting a preference for growth sectors. Performance against the benchmark was mixed across underlying global equity managers. The T.Rowe Price Global Focused Equity MPS Fund outperformed its benchmark. At the sector level, outperformance was driven by stock selection and allocation primarily in information technology. Allocation in consumer staples and stock selection in Health Care also mildly contributed to performance. The Wellington Global Equity MPS Fund had positive absolute performance, however it underperformed its benchmark. Stock selection was a driver of relative underperformance with selection in information technology, industrials and consumer discretionary detracting from returns.

The MSCI Emerging Markets Index was up 0.9% in AUD terms. The Russell Emerging Markets Fund outperformed its benchmark. Positive performance was primarily driven by stock selection within Technology.

Listed infrastructure experienced a negative return over the quarter with the FTSE Global Core Infrastructure 50/50 Hedged index returning -0.9%. Railroads were the best performing sub-sector, benefitting from strong US economic data, such as new residential construction projects and positive employment numbers. REITs lagged broader equity markets over the June quarter with the FTSE EPRA/NAREIT Index returning 0.5%. Positive returns were seen from exposure to North America, driven by stronger than expected economic data. Within Global Listed Infrastructure, Magellan underperformed its benchmark with stock selection UK water Utilities and US transmission and distribution detracting from returns. However, Principal Global Property performed in line with the benchmark over the quarter with an overweight to U.S. single family rental stocks and security selection within US apartments contributing positively to returns.

Short-term interest rates continued to rise, with the Australian Reserve Bank implementing two 0.25% rate hikes, bringing the cash interest rate to 4.10%. Credit spreads tightened during Q2 2023 as confidence in issuers' ability to meet debt obligations grew. The Australian dollar finished the quarter lower, influenced by lower commodity prices and a weaker Chinese economy. Pandal outperformed its benchmark over the quarter due to the fund's short duration positioning, given the low yield level as the start of April. Furthermore, positioning in supra-nationals, financials and industrials also benefited performance. Janus Henderson also outperformed due to large allocations in quality investment grade credit, including financials.

Government bond yields rose, causing long duration assets to suffer, particularly in the UK and Australia, due to higher-than-expected inflation and central banks' firm stance on combating inflation. With the exception of the Bank of Japan, major central banks continued to raise interest rates during the period. However, in June the US Federal Reserve was the first to pause, keeping rates steady at its 5% to 5.25% range after a year of consecutive increases, although its accompanying rhetoric remained “hawkish”. Wellington Global Bond underperformed its benchmark, due to an overweight US duration positioning which detracted from returns, following the US regional banking crisis and an increase in rates. Similarly, Western Asset Global Bond also underperformed over the quarter as duration positioning had a negative impact on performance as yields in the US and UK moved higher.



Changes over the quarter

The CoreSeries 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

Looking ahead, Mercer expects weak growth for the next few quarters for much of the developed world as central banks are likely to maintain restrictive policy settings to temper inflation. However, Mercer does not believe a hard landing is likely, given the health of household and corporate balance sheets. One important and potentially brighter spot is China. In Mercer's view, despite a disappointing economic performance post its Covid lockdown, it expects policy to remain supportive and for economic conditions to improve.

In Australia, whilst economic conditions have held up, Mercer continues to believe that risks to economic growth remain to the downside with the rise in mortgage rates and flow-on impact for domestic consumption the main driver. Meanwhile, maintaining a view that inflation is likely to moderate this year, albeit with the risk that core inflation will decline more slowly, given the pressures in both labour and residential rental markets. Consequently, Mercer believes the critical risk is the RBA cash rate being held higher for longer, as the central bank seeks to manage these various pressures.

From an asset class perspective, given market pricing relative to potential downside macroeconomic risk, Mercer maintains a neutral view on global equities though persisting with its cautious bias. Mercer also retains a neutral view on Australian equities with a similar, cautious bias in light of potential risks to the domestic economic outlook. However, Mercer holds a more favourable view of growth fixed income, given the yields on offer.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Fidelity Australian Opportunities MPS Fund	0.6	0.5	11.9	9.5	-
Platypus Australian Equity MPS Fund	1.7	0.8	19.5	-	-
Realindex Australian Shares MPS Fund	3.2	0.7	15.2	14.2	-
Solaris Core Australian Equity MPS Fund	1.0	0.1	13.0	9.4	-
International Equities					
Ardevora Global Equities MPS Fund	2.0	3.8	16.3	6.4	-
Blended Global Equities Hedged MPS Fund	3.6	2.8	10.9	7.3	-
Guardcap Global Equity MPS Fund	-0.8	-0.2	17.4	12.8	-
Russell Investments Wholesale Plus Emerging Markets Fund	1.5	1.1	3.2	3.5	-
T. Rowe Price Global Focused Equity MPS Fund	1.4	8.0	22.2	8.9	-
Wellington Global Equity MPS Fund	2.5	3.1	17.1	13.3	-
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	-0.1	3.1	7.2	8.3	3.2
Principal Global Property MPS Fund	2.5	0.6	-6.5	1.9	-
Magellan Wholesale Plus Infrastructure Fund	0.4	-0.8	-1.5	4.4	3.2
Alternatives					
Mercer Multi-Strategy Alternatives Fund	-0.2	-0.5	-0.2	-	-
Australian Fixed Interest					
Macquarie Australian Bond MPS Fund	-2.0	-2.8	2.2	-3.1	-
Janus Henderson Australian Fixed Interest MPS Fund	-1.9	-2.7	2.4	-3.1	-
Kapstream Wholesale Plus Absolute Return Income Fund	0.1	0.8	2.8	1.3	1.6
Pendal Australian Fixed Interest MPS Fund	-1.9	-2.7	1.5	-3.5	-
Global Fixed Interest					
PIMCO Global Fixed Interest MPS Fund	0.0	-0.4	-0.8	-2.9	-
Wellington Global Bond MPS Fund	-0.3	-1.1	-1.8	-3.7	-
Western Asset Global Bond MPS Fund	-0.4	-1.2	-1.3	-3.3	-
Cash					
Advance Cash Multi-Blend Fund	0.3	0.9	3.1	1.1	1.3
Panorama 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 trademark 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.

CoreSeries Portfolios are available through selected IDPS platforms. 'CoreSeries' is a registered trademark of Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 (AAML). Please contact your adviser to find out what platforms this is available on.

AAML is the responsible entity and issuer of interests in some of the underlying funds of the Core Series Portfolios, namely Fidelity Australian Opportunities MPS Fund, Realindex Australian Shares MPS Fund, Solaris Core Australian Equity MPS Fund, Platypus Australian Equity MPS Fund, Ardevora Global Equities MPS Fund, Blended Global Equities Hedged MPS Fund, Guardcap Global Equity MPS Fund, T. Rowe Price Global Focused Equity MPS Fund, Wellington Global Equity MPS Fund, Principal Global Property MPS Fund, Macquarie Australian Bond MPS Fund, Pental Australian Fixed Interest MPS Fund, Janus Henderson Australian Fixed Interest MPS Fund, PIMCO Global Fixed Interest MPS Fund, Wellington Global Bond MPS Fund, Western Asset Global Bond MPS Fund, BT Multi-Strategy Alternatives Fund, BT Property Securities Index Fund 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 products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. It does not take into account your personal needs and circumstances.

Before deciding whether to acquire, continue to hold or dispose of an investment, you 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.

© Copyright 2023 Mercer Investments (Australia) Limited. All rights reserved.