

# CoreSeries Defensive

Portfolio Performance to the quarter ended 30 September 2023

## Portfolio details

### Investment Objective

The portfolio aims to achieve an Inflation (Consumer Price Index "AUCPI") + 1.5% p.a. objective over rolling three year periods by taking exposures to a mix of growth and defensive asset classes.

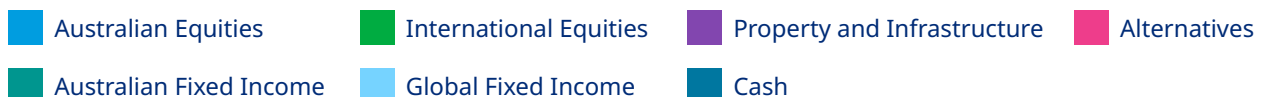
### Investment Strategy

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 30% Growth assets and 70% 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 Defensive	-1.8	-0.5	-0.6	2.3	4.7	1.4	-	2.5
AUCPI + 1.5%	0.6	1.7	2.9	4.7	7.1	6.8	-	5.2
Excess return	-2.4	-2.2	-3.5	-2.4	-2.4	-5.4	-	-2.7

\* Performance since 30 November 2018.

### Actual Asset Allocation



May not sum to 100.0% due to rounding.

## Market Commentary

The CoreSeries Defensive portfolio returned -0.5% over the September quarter underperforming its AUCPI + 1.5% benchmark by 2.2%.

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, with 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 names amid 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. Value managers generally outperformed over the quarter, with the Realindex Australian Shares MPS Fund flat due to underweight exposures to the Healthcare & IT sectors. The fund's alpha model enabled strong performance through positive stock selection and reduced risk over the quarter. The Solaris Core Australian Equity MPS Fund also outperformed its benchmark due to stock selection in the Financials and Materials sectors and an underweight to Healthcare.

Global Equities came under pressure during the September quarter as the combination of rising bond yields and expectations of further interest rate rises in major markets impacted the asset class. The MSCI World ex-Australia Index was down -0.4% on an unhedged basis (assisted 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 geopolitical factors facing the global economy. Emerging Markets were largely flat over the quarter, as the likelihood of a sustained Chinese recovery remains uncertain with ongoing issues in the Property sector a key concern. Global Small Caps slipped -1.3% over the three months to the end of September. The T. Rowe Price Global Focused Equity MPS Fund underperformed its benchmark over the quarter. Stock selection within Financials detracted from performance as a few key names released disappointing financial results. Furthermore, allocations within the Consumer Discretionary sector also detracted, as persistent cost of living pressures globally drove a pullback in market sentiment. The Guardcap Global Equity MPS Fund returned 0.8%, outperforming its benchmark due to stock selection in Booking Holdings, whereby pent-up travel demand continued to provide meaningful tailwinds.

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. The Magellan Wholesale Plus Infrastructure Fund declined -7.7% over the quarter, underperforming its benchmark primarily due to stock selection. The strategy saw significant declines in Transurban and Norfolk Southern as volumes disappointed over the period, with the selloff magnified by rising bond yields. The strategy aims to invest in brown-field Infrastructure and Utility assets which generate highly predictable cash flows across market cycles.

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 positive correlation to Equities. Over the quarter, Hong Kong, Australian, and North American markets saw the largest declines as did the Self-Storage sector. Despite this, returns were positive in both Continental Europe and Japan. Whilst the Principal Global Property MPS Fund delivered a negative return over the month, it slightly outperformed its benchmark due to an underweight to and selection within US Net Lease, a bond proxy sector that was more adversely impacted by higher yields.

Following the upward revision of interest rate expectations, Global Sovereign Bonds were negative for the quarter. The European Central Bank 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 rising oil price over the quarter. Globally, credit spreads remained broadly flat among higher quality credit instruments whilst non-investment grade spreads widened over the period. As such, the Wellington Global Bond MPS Fund slightly outperformed its benchmark, due to an underweight allocation at the long end of the German, US, and Australian yield curves. On the contrary, Western Asset Global Bond MPS Fund underperformed, as its overweight to US, UK and core Europe duration detracted from portfolio returns as bond yields moved higher.

Within Australia, yields rose across the curve despite the RBA holding interest rates steady at 4.1% over 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 Pandal Australian Fixed Interest MPS Fund slightly outperformed its benchmark over the quarter, due to the fund's positioning in Financials, Industrials and Utilities. The Janus Henderson Australian Fixed Interest MPS Fund also outperformed due to credit positioning which benefited from the rally in Bond Swap spreads. Similarly, the Macquarie Australian Bond MPS Fund also outperformed with credit positioning contributing positively to performance, as Australian credit spreads rallied despite an increasingly volatile rates backdrop.

## Changes over the quarter

The CoreSeries Defensive 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>					
Fidelity Australian Opportunities MPS Fund	-2.9	-2.1	8.8	7.9	-
Platypus Australian Equity MPS Fund	-5.3	-3.5	11.2	-	-
Realindex Australian Shares MPS Fund	-2.2	0.0	14.6	14.7	-
Solaris Core Australian Equity MPS Fund	-2.7	0.2	12.3	9.9	-
<b>International Equities</b>					
Ardevora Global Equities MPS Fund	-4.7	-1.9	12.3	4.3	-
Blended Global Equities Hedged MPS Fund	-3.8	-2.7	14.6	4.1	-
Guardcap Global Equity MPS Fund	-3.6	0.8	21.7	12.6	-
T. Rowe Price Global Focused Equity MPS Fund	-5.3	-1.5	19.5	4.8	-
Wellington Global Equity MPS Fund	-3.0	0.8	19.3	12.9	-
<b>Property and Infrastructure</b>					
Mercer Indexed Australian Listed Property Fund	-8.7	-3.1	11.7	4.6	2.6
Principal Global Property MPS Fund	-5.4	-5.2	-1.9	-0.1	-
Magellan Wholesale Plus Infrastructure Fund	-3.4	-7.7	1.0	1.9	2.1
<b>Alternatives</b>					
Mercer Multi-Strategy Alternatives Fund	0.9	3.5	1.5	-	-
<b>Australian Fixed Interest</b>					
Macquarie Australian Bond MPS Fund	-1.7	-0.3	2.2	-3.7	-
Janus Henderson Australian Fixed Interest MPS Fund	-1.8	-0.2	2.7	-3.8	-
Kapstream Wholesale Plus Absolute Return Income Fund	0.3	1.6	4.5	1.5	1.8
Pendal Australian Fixed Interest MPS Fund	-1.6	-0.3	1.9	-4.0	-
<b>Global Fixed Interest</b>					
PIMCO Global Fixed Interest MPS Fund	-1.6	-1.5	1.3	-4.1	-
Wellington Global Bond MPS Fund	-1.7	-2.2	0.0	-4.6	-
Western Asset Global Bond MPS Fund	-2.4	-2.3	1.1	-4.5	-
<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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