

CoreSeries Passive Balanced Portfolio

Portfolio performance to the quarter ended 30 June 2024

Portfolio details

Investment Objective

To deliver a return in line with the benchmark, before fees, over a rolling five year period.

Investment Strategy

The portfolio has exposure to a diverse mix of assets with both income-producing assets (around 30%) of cash and fixed interest, and growth assets (around 70%) including 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. (%)*
CoreSeries Passive Balanced Portfolio	1.0	-0.8	5.2	5.2	11.4	4.2	5.8	6.2
Indexed Balanced Benchmark	1.0	-0.8	5.5	5.5	11.9	4.5	6.1	6.6
Excess return	0.0	0.0	-0.3	-0.3	-0.5	-0.3	-0.3	-0.4

* Performance since 31 March 2015.

Actual Asset Allocation



Market Commentary

The portfolio delivered a return of -0.8% for the June quarter compared to its benchmark return of -0.8%.

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 Mercer Indexed Australian Shares Fund returned -1.2% over the quarter.

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 Mercer Indexed International Shares Fund and the iShares Hedged International Equity Index Fund returned 0.2% and 3.0% respectively over the quarter.

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 Mercer Indexed Australian Listed Property Fund and iShares Global Listed Property Index Fund (Hedged) returned -5.7% and -1.9% respectively over the quarter.

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 Mercer Indexed Australian Fixed Interest Fund and the Mercer Indexed International Fixed Interest Fund returned -0.9% and -0.2% respectively.

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. A strategic asset allocation review is currently being undertaken across the Mercer CoreSeries Passive portfolios to ensure that they continue to remain well positioned to navigate the current market environment.

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					
Mercer Indexed Australian Shares Fund	0.9	-1.2	11.7	5.9	7.0
International Equities					
Mercer Indexed International Shares Fund	1.6	0.2	19.9	11.3	13.1
iShares Hedged International Equity Index Fund	2.3	3.0	20.4	7.2	11.1
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	0.2	-5.7	23.6	5.5	4.4
iShares Global Listed Property Index Fund (Hedged Class S Units)	0.7	-1.9	4.9	-3.9	-
Australian Fixed Interest					
Mercer Indexed Australian Fixed Interest Fund	0.8	-0.9	3.6	-2.2	-0.7
Global Fixed Interest					
Mercer Indexed International Fixed Interest Fund	0.8	-0.2	2.5	-2.8	-0.8
Cash					
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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