

CoreSeries Balanced

Portfolio Performance to 31 January 2024

Portfolio details

Investment Objective

The portfolio aims to achieve an Inflation (Consumer Price Index "AUCPI") + 3.5% pa 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 p.a. (%)*
CoreSeries Balanced	0.6	9.2	3.8	0.6	6.5	4.8	6.2	6.4
AUCPI + 3.5%	0.6	1.5	3.4	0.6	7.4	8.6	7.1	7.1
Excess return**	0.0	7.7	0.4	0.0	-0.9	-3.8	-0.9	-0.7

* Performance since 30 November 2018.

Actual Asset Allocation



-  Australian Shares
-  International Shares
-  Property and Infrastructure
-  Alternatives
-  Australian Fixed Income
-  Global Fixed Income
-  Cash

May not sum to 100.0% due to rounding.

Market Commentary

Over January, the CoreSeries Balanced portfolio returned 0.6% performing in line with its AUCPI + 3.5% benchmark.

Economic growth in Australia is expected to slow down as factors that have supported growth, such as household savings and low interest rates, gradually diminish. Inflation is also expected to slow down, although pressures from the residential rental markets may cause it to slow down less rapidly compared to other developed economies. The risks of a more pronounced slowdown in activity appears more likely than currently anticipated by markets. While the market predicts just over two interest rate cuts in 2024, we believe that more cuts are likely and will occur sooner. Globally, we expect growth to remain resilient, although it will vary across regions. The United States is anticipated to experience a moderation in growth due to less supportive fiscal policy, tighter financial conditions, and the impact of higher interest rates. However, a recession is not anticipated due to the strength of household and corporate balance sheets, as well as the resilience of the US services sector. The Eurozone is expected to see a modest improvement in growth driven by lower inflation and an increase in global manufacturing activity.

Within Australian Equities, the S&P/ASX 300 advanced 1.1% in January in a broad-based rally, except for the Materials and Utilities sectors which experienced declines during this period. The Financials sector played a significant role in driving index performance, returning 5.0%, driven by interest rate cut expectations and optimism for a soft economic landing outcome. The Energy sector experienced a positive performance in January, benefiting from the first monthly gain in oil prices since September 2023, driven by concerns over supply due to a widening conflict in the Middle East. Conversely, the Materials sector (-5.0%) lagged in January, primarily due to a deteriorating outlook on Chinese demand which continued to negatively impact the sector. The RealIndex Australian Shares MPS Fund outperformed by 0.6% over January, driven by the managers stock selection with the Materials sector. As a deep value manager, RealIndex provides exposure to stocks trading on cheap valuation multiples that provide attractive opportunities for long term return generation. The Fidelity Australian Opportunities MPS Fund underperformed its benchmark by 1.1%, with stock selection in both the Consumer Discretionary and Materials sectors detracting from returns. The Fidelity strategy continues to provide investors with exposure to quality and growth companies, aimed at maximizing alpha generation.

Within Global Equities, the MSCI World ex Australia Index delivered strong performance in January, delivering a return of 1.8% in hedged terms and 4.5% in unhedged Australian Dollar (AUD) terms. The US played a significant role in driving index performance, supported by robust earnings results and positive manufacturing and services PMI readings for January. These factors have instilled hope among investors that the US economy has successfully avoided a severe recession, leading to a rally in US equities during the period, primarily driven by the performance of the Magnificent Seven companies. From a style perspective, growth stocks outperformed value stocks in January. The returns were further boosted in AUD terms by the strengthening of the US Dollar. The T. Rowe Price Global Focused Equity MPS Fund outperformed its benchmark by 0.5%, driven by stock selection in both the Health Care and Information Technology sectors. The strategy continues to benefit from its exposure to quality growth global equities, with a bias towards companies with sustainable growth characteristics. The Wellington Global Equity MPS Fund underperformed its benchmark by 2.8%, with stock selection in Health Care and Financials detracting from relative performance. Although it has underperformed, the strategy offers exposure to quality global companies whose current fundamentals and stock prices are mispriced relative to the team's longer-term expectations.

The MSCI Emerging Markets Index recorded a negative return of -1.6% in January, falling behind developed global equity markets, with Chinese equities remaining a significant headwind to index performance. Despite the persistent rally in Indian equities, it was not sufficient to counterbalance the underperformance observed in Chinese and Hong Kong equity markets. The Russell Investments Emerging Markets Fund outperformed its benchmark, driven by an underweight exposure and stock selection in Korea.

Listed Infrastructure underperformed broader equity markets over the quarter, with AUD-hedged FTSE Developed Core Infrastructure Index returning -1.8%. This decline was primarily driven by negative revaluation movements across all sectors as valuers continue to adjust valuation metrics in response to expectations of higher interest rates for longer and ongoing economic and capital market volatility. Despite this, the Magellan Wholesale Plus Infrastructure Fund outperformed its benchmark by 1.4% over the quarter. Stock selection drove relative performance over the month, as strong demand for key toll road and airport assets boosted valuations.

Domestic listed property (S&P/ASX 300 A-REIT Accumulation Index) increased by 1.2% in January, slightly outperforming general equities. However, global listed property (FTSE EPRA/ NAREIT Developed, AUD hedged) declined by -3.4%, with the tempering of rate cut expectations in 2024 for the US weighing on the market. The Principal Global Property MPS Fund underperformed its benchmark.

Despite a sharp decline in yields towards the end of the month, global sovereign bond performance was negative in most regions in January. Yields on 10 year government bonds increased across major developed economies as a result of the correction in expectations of an early monetary policy ease. Central banks delivered less dovish messages following recent economic data, leading to a reassessment of the probability of rate cuts in 2024. The US 10-year government bond yield experienced a sharp decline towards the month end, driven by the Fed maintaining the policy rate unchanged and Powell statement that an interest rate cut was unlikely to occur in the March meeting but could potentially happen later in the year.

The FTSE World Government Bond (ex-Australia) Index and the Bloomberg Global Aggregate Bond Index returned -0.5% and -0.2% respectively in January, on a fully hedged basis. The main driver across markets were speculation around policy rate cuts, while spreads remained flat to positive. The US observed the highest ever January supply of corporate issuances. As such, The Western Asset Global Bond MPS Fund underperformed over the quarter as an overweight duration to the US, UK and Europe detracted from returns. The strategy continues to provide portfolio diversification to global fixed income assets and aims to generate relative value ideas across diversified sources of return. Conversely, the Wellington Global Aggregate MPS Fund outperformed over January as the managers' underweight to the Japanese duration and longer dated US rates contributed positively to performance.

Domestically, the 10-year bond yield, broadly moved in line with global markets, ending the month 9bps higher at 4.05% p.a. Consequently, the Bloomberg Ausbond Treasury Index gained 0.2%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains, returning 0.4% during the month. Towards the end of the month, bond yields declined sharply, driven by the decrease in retail sales and inflation figures, which point to a softer economic condition in Australia. The Janus Henderson Australian Fixed Interest MPS Fund outperformed over January due to the managers' overweight credit allocation, with high coupon income also contributing positively. Furthermore, the Pandal Australian Fixed Interest MPS Fund also outperformed, with active duration management and sector positioning within Industrials and Utilities assisting with outperformance. The strategy continues to focus on income generation through investment in high quality high yielding Australian fixed income securities.

Portfolio Changes over the Quarter:

Given the changing dynamics of the macro environment, Mercer is currently undertaking a fixed interest review. This includes an evaluation of the blend and current return drivers from the current fixed income managers, to ensure the portfolio is well positioned for the current economic environment. Once the review has been finalised, Mercer will communicate any changes that are made within the portfolio.



Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Fidelity Australian Opportunities MPS Fund	-0.5	10.6	-0.7	5.6	7.7
Platypus Australian Equity MPS Fund	-0.1	20.2	10.8	-	-
Realindex Australian Shares MPS Fund	1.7	13.9	9.3	12.2	11.2
Solaris Core Australian Equity MPS Fund	0.8	12.6	4.6	9.0	7.9
International Equities					
Blended Global Equities Hedged MPS Fund	0.2	11.3	9.2	2.6	7.5
Guardcap Global Equity MPS Fund	2.5	5.8	18.0	10.1	9.0
Russell Investments Wholesale Plus Emerging Markets Fund	-1.2	2.2	1.0	-3.2	2.4
T. Rowe Price Global Focused Equity MPS Fund	5.0	11.2	24.6	5.3	14.4
Wellington Global Equity MPS Fund	1.6	7.3	11.3	12.5	12.8
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	1.2	24.9	9.3	7.6	5.2
Principal Global Property MPS Fund	-3.5	13.6	-2.9	0.2	-0.9
Magellan Wholesale Plus Infrastructure Fund	-0.9	9.4	-1.6	4.7	3.0
Alternatives					
Mercer Multi-Strategy Alternatives Fund	1.2	1.1	5.7	-	-
Australian Fixed Interest					
Macquarie Australian Bond MPS Fund	0.3	6.3	3.3	-2.4	0.8
Janus Henderson Australian Fixed Interest MPS Fund	0.4	7.2	3.7	-2.5	1.0
Kapstream Wholesale Plus Absolute Return Income Fund	0.5	2.0	5.9	2.0	2.2
Pendal Australian Fixed Interest MPS Fund	0.1	6.1	2.9	-2.7	0.6
Global Fixed Interest					
PIMCO Global Fixed Interest MPS Fund	-0.4	6.6	3.3	-2.8	0.7
Wellington Global Bond MPS Fund	-0.1	6.0	2.0	-3.0	0.0
Western Asset Global Bond MPS Fund	-0.7	7.1	2.6	-3.1	0.3
Cash					
Advance Cash Multi-Blend Fund	0.4	1.1	4.2	2.0	1.6
Platform Cash	0.3	0.9	-	-	-



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