CoreSeries Defensive

Portfolio Performance to the quarter ended to 31 December 2023

Portfolio details

Investment Objective

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

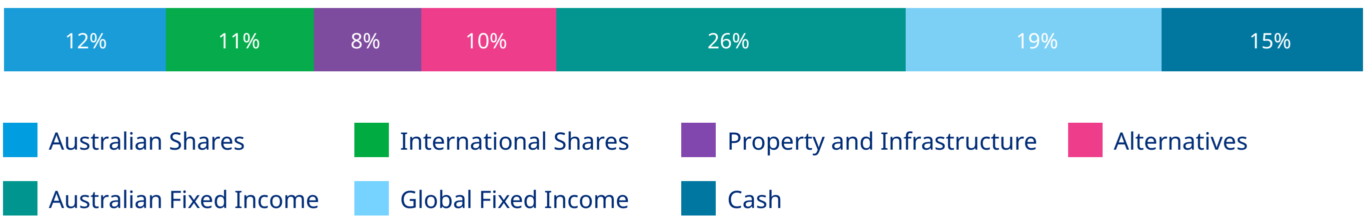
Investment Strategy

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. 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	2.9	5.0	4.5	7.4	7.4	1.7	3.5	3.4
AUCPI + 1.5%	0.6	1.7	3.3	6.4	6.4	6.9	5.3	5.2
Excess return**	2.3	3.3	1.2	1.0	1.0	-5.2	-1.8	-1.8

* Performance since 30 November 2018.

Actual Asset Allocation



May not sum to 100.0% due to rounding.

Market Commentary

Over the December quarter, the CoreSeries Defensive portfolio returned 5.0% outperforming its AUCPI + 1.5% benchmark by 3.3%.

During the quarter, several economic indicators have shown that growth is remaining positive despite the rise in interest rates to this point. The latest NAB Business Survey results continue to show resilience in business conditions, although there was some easing evident in the survey particularly in the Mining, Transportation, Utilities, and Construction sectors. Meanwhile, house prices have continued to rise, increasing 1.5% in Q4 and a total of 8.1% over the year. This growth has been supported by a tight labour market, with unemployment remaining low at 3.9% in November. Population growth and consumer resilience have also contributed to this growth, although there are signs of slowing due to the delayed impact of high interest rates. Meanwhile, inflation has continued to moderate in Australia to 4.1% over the calendar year 2023, a trend which has been mirrored in much of the developed world.

Australian Shares delivered a strong performance over the December quarter, with the S&P/ASX 300 Accumulation Index returning 8.4%. This performance can be attributed to market expectations adjusting to reflect the potential for lower interest rates in 2024 and a soft landing for the US economy. These shifting market dynamics were also beneficial for Small-Cap stocks, with the ASX Small Ordinaries Index gaining 8.5% over the period. The Australian REITs sector was the best performing, returning 16.5% for the period, followed by Healthcare (13.3%) and Materials (13.2%). The Platypus Australian Equity MPS Fund outperformed its benchmark by 5.9%, led by both stock selection in the Technology sector and an underweight exposure to both Financials and Industrials. The Fidelity Australian Opportunities MPS Fund underperformed its benchmark by 1.9%, with stock selection in the Materials sector detracting from returns. The Solaris Core Australian Equity MPS Fund underperformed by 0.4% in the December quarter. This was driven by an overweight to Financials, as the sector lagged the broader market.

Global Equities performed strongly over this last quarter for 2023. The MSCI World ex-Australia Index returned 9.2% in hedged terms and 5.3% in unhedged AUD terms. Positive market sentiment was boosted by the rapid repricing of US interest rate cuts combined with softer inflation data from around the world. Real Estate (10.6%) and Industrials (7.7%) sectors had positive returns over the December quarter, with Information Technology (11.2%) stocks continuing to lead the way as investor appetite for interest rate-sensitive assets increased on the back of declining bond yields. Emerging Markets underperformed relative to Developed Markets, returning 2.0% for the period with China continuing to drag on performance. Mixed economic data from the region undermined investor confidence around a potential economic recovery as the impact from stimulus measures remained subdued. The T. Rowe Price Global Focused Equity MPS Fund outperformed it's benchmark by 1.0%, driven by stock selection in both the Consumer Staples and Information Technology sectors. The Guardcap Global Equity MPS Fund underperformed its benchmark by 0.5% over the quarter, with an underweight exposure to Information Technology an Real Estate detracting from relative performance.

Listed Infrastructure outperformed broader equity markets over the quarter, with AUD-hedged FTSE Developed Core Infrastructure Index returning 11.1% driven by falling bond yields and a depreciating US Dollar. The Magellan Wholesale Plus Infrastructure Fund outperformed its benchmark by 1.9% over the quarter. Stock selection drove relative performance over the quarter, as strong demand for key Toll Road and Airport assets boosted valuations.

Domestic Listed Property (S&P/ASX 300 A-REIT Accumulation Index) delivered a 16.5% uplift over the December quarter, while Global REITs (FTSE EPRA/NAREIT Developed, in AUD hedged terms) rose by 13.0%. Positive returns for both indices were primarily driven by growing expectations of softer monetary policy settings and interest rate cuts in 2024. These factors are seen as beneficial for property valuations and underlying earnings. The Principal Global Property MPS Fund exceeded its benchmark by 0.7% on the back of positive stock selection in both Asia and the US.

Global Sovereign Bond performance was mostly positive over the December quarter. After a rough start in the quarter, where the US 10-year bond yields peaked at ~5.0% mark in October, yields declined sharply from early November. A combination of softer inflation and economic data fed through to a distinct change in tone from the US Fed, leading to a downswing in market expectations for interest rate cuts in the upcoming year.

Credit spreads widened in early October due to risk-off sentiment on the back of elevated government bond yields and global uncertainty in the context of an emerging Middle East conflict. However, spreads tightened later in the quarter, as market participants shifted expectations towards a soft-landing scenario for the US economy. Higher demand and lower levels of issuance for higher yielding investment-grade bonds was also supportive. The PIMCO Global Fixed Interest MPS Fund outperformed by 0.7% over the December quarter. The strategy's positioning at the long end of the curve in Europe and Australia drove performance, as yields fell over the quarter. The Western Asset Global Bond MPS also outperformed, by 1.7%, driven by the manager's overweight duration positioning relative to the benchmark.

Domestically, bond yields across maturities declined in line with the global bond markets. Consequently, the Bloomberg Ausbond Treasury Index gained 4.0%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains of 3.2% over the quarter. The Macquarie Australian Bond MPS Fund exceeded its benchmark by 0.3% over the quarter. Tactical duration positioning throughout the quarter was key to performance, whilst the portfolio's credit security selection was also positive. The Pendal Australian Fixed Interest MPS Fund also outperformed by 0.3%, with active duration management and sector positioning within Financials and Industrials contributing positively to performance.

Changes over the Quarter

In October, Advance Asset Management Limited (AAML) reviewed the CoreSeries International Equity manager allocations and removed the portfolio's exposure to the Ardevora Global Equity MPS Fund. The Ardevora allocation has been reallocated to the remaining international equity managers in both the Developed Markets Equity allocation and the Blended Global Equities Hedged MPS Fund. The new portfolio allocation ensures the portfolio remains style neutral, with no one manager dominating from a risk perspective.

Furthermore, given the changing dynamics of the macro environment, Mercer is currently undertaking a Fixed Interest review. This includes an evaluation of the blend and return drivers from the current fixed income managers, to ensure the portfolio is well positioned for the current economic environment.

Outlook

Australian economic growth has proven resilient in recent quarters with several supporting factors. Households spending excess savings, population growth via immigration, a significant proportion of mortgages on (low) fixed rates and government expenditure have all been complementary. However, we expect growth to moderate as these stimuli diminish and the impact of higher interest rates flows through. Further, whilst inflation is expected to ease, the pace of decline is unlikely to be at the rate in other developed economies due to residential rental market pressures. We note that risks point towards a sharper slowdown in economic activity compared to expectations. Therefore, market pricing for two interest rate cuts in 2024 may prove to be fewer, and potentially slower, than what will ultimately occur.

Globally, we anticipate resilient growth, although it may vary across regions. Developed economies are expected to experience a moderation in economic performance due to tighter financial conditions. On the other hand, China is expected to see stronger growth driven by supportive fiscal, monetary and regulatory policies, as well as a turnaround in the manufacturing inventory cycle and a potential stabilisation in the housing sector. Other emerging economies are also expected to benefit from the current easing cycle in their central bank monetary policy settings.

In terms of asset class perspectives, we maintain a cautious view on developed markets due to high valuations and an optimistic earnings outlook. We hold a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. Domestically, considering the relative risks associated with interest rate expectations, we find Australian sovereign bonds attractive, despite the persisting risks posed by volatility in global sovereign bond markets.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Fidelity Australian Opportunities MPS Fund	6.7	6.3	6.7	5.3	8.7
Platypus Australian Equity MPS Fund	9.1	14.1	21.1	-	-
Realindex Australian Shares MPS Fund	7.0	9.0	13.2	11.8	11.6
Solaris Core Australian Equity MPS Fund	6.5	7.7	11.0	8.7	8.5
International Equities					
Blended Global Equities Hedged MPS Fund	3.7	9.5	15.9	2.2	9.2
Guardcap Global Equity MPS Fund	1.3	4.7	18.2	9.4	9.9
T. Rowe Price Global Focused Equity MPS Fund	0.9	6.0	24.1	3.2	15.0
Wellington Global Equity MPS Fund	2.5	3.8	13.4	11.6	13.4
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	11.3	16.5	16.6	5.7	6.1
Principal Global Property MPS Fund	7.5	13.1	8.8	1.1	1.8
Magellan Wholesale Plus Infrastructure Fund	2.3	9.7	3.6	4.1	4.5
Alternatives					
Mercer Multi-Strategy Alternatives Fund	0.2	0.7	4.3	-	-
Australian Fixed Interest					
Macquarie Australian Bond MPS Fund	2.7	4.0	6.0	-2.6	0.9
Janus Henderson Australian Fixed Interest MPS Fund	3.2	4.5	6.6	-2.7	1.0
Kapstream Wholesale Plus Absolute Return Income Fund	0.9	2.1	5.8	1.8	2.1
Pendal Australian Fixed Interest MPS Fund	2.9	4.2	5.7	-2.9	0.7
Global Fixed Interest					
PIMCO Global Fixed Interest MPS Fund	3.6	6.1	6.3	-2.8	1.0
Wellington Global Bond MPS Fund	2.9	5.2	3.8	-3.2	0.1
Western Asset Global Bond MPS Fund	3.7	6.9	6.1	-3.2	0.8
Cash					
Advance Cash Multi-Blend Fund	0.4	1.1	4.1	1.8	1.5
Platform Cash	0.3	0.9	-	-	-

Important Notices

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