Mercer

CoreSeries High Growth

Portfolio Performance to 31 January 2024

Portfolio details

Investment Objective

The portfolio aims to achieve an Inflation (Consumer Price Index "AUCPI") + 4.5% pa objective over rolling seven year periods by taking exposures to mix of growth asset classes.

Investment Strategy

The strategy is an actively managed diversified portfolio investing in predominately growth asset classes such as equities, property and infrastructure. The portfolio's exposure will typically be 97% growth assets and 3% 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 High Growth	1.0	10.8	4.0	1.0	8.4	7.0	8.5	8.6
AUCPI + 4.5%	0.6	1.8	3.9	0.6	8.4	9.6	8.1	8.1
Excess return**	0.4	9.0	0.1	0.4	0.0	-2.6	0.4	0.5

* Performance since 30 November 2018.

Actual Asset Allocation

May not sum to 100.0% due to rounding.

Market Commentary

Over January, the CoreSeries High Growth portfolio returned 1.0% outperforming its AUCPI + 4.5% benchmark by 0.4%.

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 it's 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.

Portfolio Changes over the Quarter:

The CoreSeries High Growth 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.

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
Cash					
Advance Cash Multi-Blend Fund	0.4	1.1	4.2	2.0	1.6
Platform Cash	0.3	0.9	-	-	-

Important Notices

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