

CoreSeries Income

Portfolio Performance to 29 February 2024

Portfolio details

Investment Objective

The portfolio aims to achieve a total return target of inflation (Consumer Price Index "AUCPI") + 2.0% p.a. after fees objective over rolling five year periods and targets yield of RBA Cash Rate + 2.0% p.a. 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 45% growth assets and 55% 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. This portfolio is tilted towards producing a relatively stable income stream from both bonds and equities, and so the income return is expected to be a higher proportion of the total return.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since inception p.a. (%)*
CoreSeries Income	0.8	5.0	4.7	1.4	7.2	3.8	4.6	5.3
AUCPI + 2.0% Blended^	0.4	1.2	2.5	0.9	5.7	7.2	5.5	5.4
Excess return**	0.4	3.8	2.2	0.5	1.5	-3.4	-0.9	-0.1

* Performance since 30 November 2018.

^Changed from CPI + 1.5% to CPI + 2.0% in 2021

Strategic Asset Allocation



Market Commentary

Over February, the CoreSeries Income portfolio returned 0.8% outperforming its AUCPI + 2.0% benchmark by 0.4%.

Australian economic conditions have remained broadly resilient in February, albeit with some signs of easing. The unemployment rate ticked up to 4.1% in January from 3.9%, whilst readings from the latest NAB Business Survey indicated positive but easing business conditions. The January reading of the Consumer Price Index (CPI) remained unchanged at 3.4% Year-on-Year. Whilst the RBA left interest rates unchanged at 4.35% p.a. in their February meeting, the meeting minutes showed that the RBA board had also considered the case for raising rates, suggesting the Bank's focus remains squarely on inflation reduction.

The S&P/ASX 300 Index advanced 1.0% in February. The stronger performance of cyclicals was a theme for the month with Consumer Discretionary (9.7%), Financials (3.5%) and Industrials (3.5%) among the positively contributing sectors. The Materials sector (-5.9%) was an outlier, driven by lacklustre economic conditions in China and weakness in a number of metals prices weighing on the sector. IT (19.7%) was an outsize contributor to the positive performance of the Australian market off the back of the global Technology sector rally. The Fidelity Australian Opportunities MPS Fund returned 2.1% over February, with outperformance driven by stock selection within the Healthcare and Real Estate sectors. The manager saw key names such as Goodman Group and WiseTech rally off the back of better than expected financial results. The Solaris Core Australian Equity MPS Fund returned 1.8% over the month, with stock selection in Suncorp, Goodman Group and Altium a key driver of outperformance against the broader benchmark.

The MSCI World ex-Australia Index delivered another strong return in February, up 4.7% (Hedged) and 5.9% (Unhedged). Cyclical sectors were among the top contributors with Consumer Discretionary (9.1%), Information Technology (7.7%) and Industrials (7.4%) among the strongest performers. At the company level, the "Magnificent 7" again performed well, led by Nvidia which increased 30.5%. The MSCI Emerging Markets Index returned 6.4% in February, outperforming Developed Markets. This was driven largely by strong performance from China, with the Shanghai Composite up 8.1% in February on the back of renewed government stimulus measures which can be expected to buoy market performance. The T Rowe Price Global Focused Equity MPS Fund returned 9.4%, outperforming the broader benchmark, with stock selection in various Healthcare names contributing positively to performance. The manager's exposure to quality growth global equities benefitted performance as growth stocks rallied relative to value names. The Guardcap Global Equity MPS Fund returned 4.0%, underperforming its benchmark by 1.8% over the month. Stock selection was key to underperformance, with stock selection in the Consumer Discretionary and Healthcare sectors a major detractor.

A-REITs increased by 4.8% in February, outperforming the broader equity market, driven by strong contributions from companies like Goodman Group (16.9%) which raised its full year guidance for profits with data centres emerging as a key growth driver.

Meanwhile, G-REITs (FTSE EPRA/NAREIT Developed, AUD hedged) was more subdued, declining by -0.1% over the month, with the rise in global bond yields and receding expectations for near term interest rate cuts impacting the asset class more than broader equity markets. The Principal Global Property MPS Fund returned -0.1% over the month, performing broadly in line with the benchmark. Stock selection to data centres contributed positively to performance as the sector benefitted from the broader rally in artificial intelligence themed stocks.

The FTSE Global Core Infrastructure 50/50 Index fared better, returning 1.1% in February (in hedged AUD terms). Strong contribution from US names over the period contributed, while weaker performance in Europe weighed on the index. From a sector lens, Oil & Gas and Rail Transportation contributed to performance while Telecommunications and Utilities lagged. The Magellan Wholesale Plus Infrastructure Fund returned 0.3% over the month, with returns driven by Toll Road exposures. Given the defensive nature of the asset class, infrastructure can typically lag the broader equities markets if there is a growth risk on rally like we saw in February.

Global Sovereign Bond yields broadly rose over the month, with markets paring back expectations for near term interest rate cuts following ongoing resilient economic data in the US and central bank rhetoric warning against such expectations. Overall, the rise in bond yields in most regions led to a challenging month for Global Sovereign Bonds as an asset class with the FTSE World Government Bond (ex-Australia) Index down -0.8% on a fully hedged basis. Against a backdrop of better-than-expected earnings and resilient economic data in the US, credit spreads broadly ended the month lower. The Wellington Global Bond MPS Fund underperformed the benchmark, returning -1.0% over February. The strategy's tactical overweight to US duration was a key detractor, as yields rose from robust economic prints. The PIMCO Global Fixed Interest MPS Fund modestly outperformed the benchmark in February. Inflation-linked securities benefited from breakevens moving higher over the month, whilst security selection within securitized assets also contributed to relative performance.

In Australia, government bond yields also moved broadly higher, albeit primarily in longer-dated bonds on the back of global market conditions. Shorter-dated bonds saw little change in yields, with economic data in Australia showing some signs of softening. Investment grade credit spreads in Australia also tightened modestly over the month with the change reasonably broad based across the Financials, Industrials and Utilities sectors. The Janus Henderson Australian Fixed Interest MPS Fund performed in line with its benchmark in February as underperformance from duration positioning was offset by its overweight credit positioning as spreads contracted. The Pandal Australian Fixed Interest MPS Fund also performed in line with the benchmark, with sector positioning in Financials, Utilities & Industrials adding to performance. We note that the manager anticipates a potential increase in its duration exposure as pricing becomes more attractive.

Portfolio Changes over the Month:

No changes were made to the portfolio over the month.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Equities					
Fidelity Australian Opportunities MPS Fund	2.1	8.4	3.8	5.7	6.9
Tyndall Wholesale Plus Australian Share Income	0.1	8.0	7.9	9.3	6.9
Realindex Australian Shares MPS Fund	0.4	9.2	12.1	11.4	10.0
Solaris Core Australian Equity MPS Fund	1.8	9.2	9.5	9.2	6.9
International Equities					
Blended Global Equities Hedged MPS Fund	4.1	8.2	16.5	2.4	7.6
Guardcap Global Equity MPS Fund	4.0	8.1	21.1	9.0	8.7
T. Rowe Price Global Focused Equity MPS Fund	9.4	15.8	34.7	6.4	15.2
Wellington Global Equity MPS Fund	3.2	7.5	13.5	12.8	12.1
Property and Infrastructure					
Mercer Indexed Australian Listed Property Fund	4.8	18.1	14.9	10.2	5.8
Principal Global Property MPS Fund	-0.1	3.6	0.3	-1.2	-1.0
Magellan Wholesale Plus Infrastructure Fund	0.3	1.7	1.3	5.6	2.5
Australian Fixed Interest					
Macquarie Australian Bond MPS Fund	-0.3	2.7	4.0	-1.2	0.6
Janus Henderson Australian Fixed Interest MPS Fund	-0.3	3.3	4.5	-1.3	0.8
Kapstream Wholesale Plus Absolute Return Income Fund	0.0	1.4	5.3	2.0	2.1
Pendal Australian Fixed Interest MPS Fund	-0.2	2.7	3.9	-1.6	0.4
Global Fixed Interest					
PIMCO Global Fixed Interest MPS Fund	-0.7	2.5	4.6	-2.5	0.5
Wellington Global Bond MPS Fund	-1.0	1.8	2.5	-2.9	-0.3
Western Asset Global Bond MPS Fund	-1.2	1.7	4.0	-2.9	0.1
Cash					
Advance Cash Multi-Blend Fund	0.4	1.1	4.3	2.1	1.6
Platform Cash	0.3	0.9	-	-	-

Important Notices

This document is issued by Mercer Investments (Australia) Limited ABN 66 008 612 397 AFSL 244385 (MIAL). MIAL is the distributor of this document. MIAL is a wholly owned subsidiary of Mercer (Australia) Pty Ltd ABN 32 005 315 917 (Mercer Australia). References to Mercer shall be construed to include Mercer LLC and/or its associated companies. 'MERCER' is a registered trademark of Mercer Australia.

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the Fund, asset classes or capital markets discussed.

Information contained herein has been obtained from a range of third-party sources, including underlying investment managers. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

CoreSeries Portfolios are available through selected IDPS platforms. 'CoreSeries' is a registered trademark of Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 (AAML). Please contact your adviser to find out what platforms this is available on.

AAML is the responsible entity and issuer of interests in some of the underlying funds of the Core Series Portfolios, namely Fidelity Australian Opportunities MPS Fund, Realindex Australian Shares MPS Fund, Solaris Core Australian Equity MPS Fund, Platypus Australian Equity MPS Fund, Blended Global Equities Hedged MPS Fund, Guardcap Global Equity MPS Fund, T. Rowe Price Global Focused Equity MPS Fund, Wellington Global Equity MPS Fund, Principal Global Property MPS Fund, Macquarie Australian Bond MPS Fund, Pandal Australian Fixed Interest MPS Fund, Janus Henderson Australian Fixed Interest MPS Fund, PIMCO Global Fixed Interest MPS Fund, Wellington Global Bond MPS Fund, Western Asset Global Bond MPS Fund, BT Multi-Strategy Alternatives Fund, BT Property Securities Index Fund and Advance Cash Multi-Blend Fund (collectively the 'AAML Funds'). AAML is a wholly owned subsidiary of Mercer Australia, which is part of the Mercer global group of companies. Investors should be aware that the value of an investment in any AAML Fund may rise and fall from time to time and that neither AAML nor Mercer guarantees the investment performance, earnings or return of capital invested in any AAML Funds. Past performance does not guarantee future results.

If you are investing in or considering an investment in any AAML Fund, you should note that the information contained in this document is general in nature only, and does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. It does not take into account your personal needs and circumstances.

Before deciding whether to acquire, continue to hold or dispose of an investment, you should refer to the Product Disclosure Statement (PDS) and Target Market Determination (TMD) available from your financial adviser, or the relevant IDPS platform, before making a decision about the product and consider seeking independent financial advice. The Financial Services Guide (FSG) for AAML can be obtained via mercer.com.au/mercerfunds. Conditions, fees and charges apply to AAML Fund/s and may change from time to time

Where AAML has appointed third party manager(s) as the investment manager of the Fund, the relevant investment manager has consented to the statements pertaining to it in this document, in the form and context in which they appear and has not withdrawn its consent as at the date this document was published.

© Copyright 2024 Mercer Investments (Australia) Limited. All rights reserved.

