CoreSeries Retirement 40% Growth Portfolio

Portfolio Performance to 31 January 2024

Portfolio details

Investment Objective

To outperform the AUCPI + 2% Index over the medium to longer term whilst providing income generation and capital preservation.

Investment Strategy

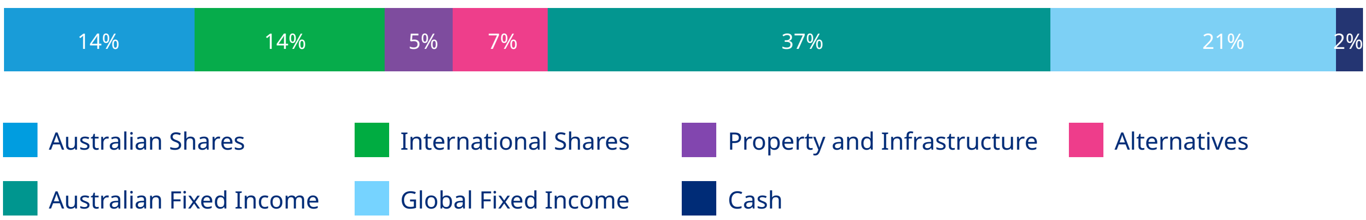
This portfolio is designed for the benefit of retiree investors who are seeking to preserve, through a diversified mix of growth and defensive assets, the capital value of their investment portfolio over the longer-term whilst providing a level of income.

	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)	Since inception p.a. (%)*
CoreSeries Retirement 40% Growth**	1.0	6.3	3.6	1.0	5.2	-	-	2.1
AUCPI + 2%	0.4	1.2	2.7	0.4	5.9	-	-	7.5
Excess Return	0.6	5.1	0.9	0.6	-0.7	-	-	-5.4

* Performance since 30 June 2021

** Please note on 18 December 2023, the risk profile was adjusted from 30% to 40% growth with a resulting update of the investment strategy benchmark.

Actual Asset Allocation



Market Commentary

Over January, the Mercer CoreSeries Retirement 40% Growth portfolio returned 1.0% outperforming its AUCPI + 2.0% benchmark by 0.6%.

Economic growth in Australia is expected to slow as factors that have supported growth, such as household savings and low interest rates, gradually weaken. Inflationary expectations are also expected to ease, although pressures from residential rental markets may cause it to slow less rapidly compared to other developed economies. Risks of a more pronounced slowdown in activity appear more likely than currently anticipated by markets. While bond markets predict 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 expected 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. DNR returned 1.9% over the month, off the back of strong stock selection in Endeavour and IPH, as well as Woolworths (no holding). The strategy focuses on generating capital gains over the medium to long term whilst providing high income; it currently has an expected dividend yield of 4.6% fully franked.

Within Global Equities, the MSCI World ex Australia Index delivered a strong performance in January, with a return of 1.8% (in hedged terms) and 4.5% in unhedged Australian Dollar (AUD) terms. US equity markets 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 will successfully avoid a severe recession. This lead to a rally in US equities during the period, primarily driven by the performance of the so-called 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. Epoch returned 3.6% over the month, modestly outperforming the MSCI ACWI Value Index, however, underperforming the broader market due to style factors. Returns over January were driven by the strategy's allocations to Healthcare and Financials.

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. Robeco outperformed within Emerging Markets, returning 3.1% in January, off the back of an underweight to China, as well as stock selection in Taiwan that which benefited from the continued AI megatrend.

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. SGH returned 1.1%, broadly in line with the A-REIT Index, with performance driven by holdings in Stockland, Scentre and Charter Hall.

Despite a sharp decline in yields towards the end of the month, global sovereign bond performance was negative across most regions in January. Yields on 10-year government bonds increased across major developed economies, as investors reassessed expectations of an early and aggressive easing in monetary policy. During the month, central banks delivered less dovish messages as incoming economic data was stronger than expected and lowered the need for the magnitude of rate cuts in 2024.

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 was speculation around policy rate cuts, while spreads remained flat to positive. The US observed the highest ever January supply of corporate issuances. Colchester returned -0.7% in January, as a modest weakening at the long end of the yield curve, as well as the rising US Dollar, pulled back some of the strong gains recorded in the final quarter of 2023.

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 outlook, which point to softer economic conditions in Australia in future months. Coolabah increased 0.4% over the month, with the high running yield on Floating Rate Notes driving returns, as well as the strategy's use of leverage to magnify income generation. Within its Absolute Return Fixed Income fund, Daintree modestly outperformed its benchmark, returning 0.7%, as coupon income and the narrowing of credit spreads driving returns.

Portfolio Changes over the Month:

No changes were made to the portfolio in January.

Underlying Fund Returns

	1 Mth (%)	3 Mth (%)	1 Yr (%)	3 Yrs p.a. (%)	5 Yrs p.a. (%)
Australian Shares					
Alphinity Concentrated Australian Share Fund	1.6	12.5	6.0	9.5	9.7
DNR Australian Equities Income Fund	1.9	12.7	4.0	10.7	-
Plato Australian Shares Income Class A	0.8	12.8	4.8	7.6	8.0
International Shares					
Acadian Global Managed Volatility Equity A	3.5	6.0	17.7	12.6	8.7
Epoch Global Equity Shareholder Yield (Unhedged) A	3.6	8.3	13.4	13.2	8.7
Robeco Emerging Conservative Equity (AUD)	3.1	6.3	19.6	9.5	5.5
Vanguard International Equities Hedged	1.8	14.2	16.6	8.3	10.6
Property and Infrastructure					
SG Hiscock Property Income Fund	1.1	24.2	3.7	7.6	3.4
Alternatives					
Metrics Direct Income Fund	0.9	2.5	9.9	7.1	-
Australian Fixed Income					
Daintree Core Income Trust	0.7	2.4	7.0	2.1	2.6
Janus Henderson Tactical Income Fund	0.4	3.4	6.2	1.7	2.4
Macquarie True Index Australian Fixed Interest Fund	0.2	5.9	2.4	-2.5	0.6
Perpetual Diversified Income	0.8	2.9	7.3	3.4	3.4
Smarter Money Higher Income Fund	0.4	1.7	6.4	2.2	2.6
Global Fixed Income					
Colchester Global Government Bond Fund	-0.7	6.7	1.9	-2.9	0.4
Payden Global Income Opportunities Fund	0.7	2.6	3.3	0.7	1.3
T Rowe Price Dynamic Global Bond Fund	0.1	-0.9	-3.5	-0.6	1.4

Important Notices

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