

Mercer Super Trust

Monthly report

Mercer SmartRetirement Income

July 2023

Financial markets update

In July, global equity markets maintained current upward momentum with most regions delivering solid, positive returns. On the other hand, fixed income performance was mixed, although in this “risk on” phase of the cycle, riskier parts of the sector fared better.

A combination of further declines in headline inflation, resilient economic data, particularly from the US, and market expectations that the current interest rate hiking cycle is nearing an end, led to positive investor sentiment throughout the month.

The advanced Q2 2023 US GDP growth figure was reported late month, coming in at 2.4% and surprising market economist estimates of 1.8%. On the flipside, UK and Eurozone growth was close to flat. Benefitting from the base effects of emerging from its extensive 2022 Covid lockdown, China’s GDP growth rate was measured at an annualised 6.3%, though a little below 7.3% expectations. Forward-looking composite purchasing manager indices (PMI) kept falling across the globe in July, with Japan the only region holding steady. PMIs for the services sector continue to outpace manufacturing though are easing towards 50, an important level that is considered the line between expansion and contraction.

Inflation data continued to decline, somewhat aided by the impact of last year’s energy price surge rolling off. US headline Consumer Price Index (CPI) fell to 3.0% p.a and is at the lowest level since early 2021. Similarly, CPI data across the UK, Eurozone and Australia, continues to show easing inflationary conditions, albeit at higher levels than the US. CPI has flatlined at near zero in China. Japan was the only major country that recorded a marginal increase in its inflation rate during Q2 2023. Central banks continued to err on the side of caution, increasing rates by 25bps in the US and Eurozone and 50bps in the UK, where inflation remains the highest among major developed economies. Central banks continued to emphasise a data-driven approach to future rate adjustments. In the US, which is furthest ahead in the inflation cycle, markets are now pricing in a greater than 50% chance that the Fed’s policy rate has peaked and interest rate cuts maybe forthcoming in 2024.

Over July, Hedged Developed Markets Overseas Shares delivered a 2.8% return. US indices were broadly in line with international developed markets, however, Emerging Markets (unhedged) outperformed with a positive 4.9% return. Value modestly outperformed growth over the period, although when looking on a year-to-date basis, mega-cap tech stocks still dominate returns and has led to increased market concentration within that segment of global markets. In the US, with roughly half of S&P500 companies having reported their Q2 2023 earnings, FactSet currently projects a 7% quarter over quarter (QoQ) earnings decline, which would be the softest quarterly outcome since the height of Covid’s impact. That said, to date the majority of companies have reported better than expected earnings results.

Hedged Overseas Government Bonds returned -0.4% over the month, as bond yields across most regions increased in July. Yields on both key long bonds in the US (10-year and 30-year) rose by approximately 15bps over the month. Outside the US, Japan’s 10-year yield rose by around 19bps, which is noteworthy following the Bank of Japan’s announcement that it will further increase the upper tolerance range for the 10-year yield (now 1.0% vs 0.5% previously). The UK was the only major economy where the 10-year yield fell, albeit modestly.

Australian Shares returned 2.9%, marginally outperforming their overseas counterparts in July. Financials (4.9%) and Energy (8.4%) were the strongest sectors of the market, while Healthcare (-1.5%), and Materials (1.4%) detracted.

Mercer Ready-Made Options

Mercer SmartPath® Ready-Made Investment Option

Total Returns (%) ¹ (after fees and taxes)	1 month	Financial year to date	1 year	3 years (p.a.) ³	5 years (p.a.) ³	7 years (p.a.)	10 years (p.a.)
Born prior to 1949	1.4	1.4	7.4	6.0	5.5	n/a	n/a
Born 1949 to 1953	1.3	1.3	7.5	5.9	5.4	5.7	n/a
Born 1954 to 1958	1.3	1.3	7.6	6.3	5.8	6.3	n/a
Born 1959 to 1963	1.7	1.7	8.8	7.7	6.7	7.3	n/a
Born 1964 to 1968	1.9	1.9	n/a	n/a	n/a	n/a	n/a

Other Mercer Ready-Made Investment Options

Total Returns (%) (after fees and taxes) ¹	1 month	Financial year to date	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
Investment Option							
Mercer Diversified Shares	2.8	2.8	13.6	12.3	8.8	9.9	10.3
Mercer High Growth	2.2	2.2	11.4	9.9	7.7	8.7	9.0
Mercer Select Growth	1.4	1.4	8.2	8.5	7.4	8.0	n/a
Mercer Growth*	2.1	2.1	n/a	n/a	n/a	n/a	n/a
Mercer Moderate Growth	1.2	1.2	7.6	6.0	5.4	5.8	6.5
Mercer Conservative Growth	0.8	0.8	4.2	3.3	3.8	4.2	4.9

Excess Returns (%) (before fees and taxes) ²	1 month	Financial year to date	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
Investment Option							
Mercer Diversified Shares	0.0	0.0	0.6	0.5	0.0	0.2	0.2
Mercer High Growth	-0.2	-0.2	-1.0	0.0	0.1	0.4	0.5
Mercer Select Growth	-0.4	-0.4	-1.8	0.3	0.2	0.6	n/a
Mercer Growth*	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Mercer Moderate Growth	-0.2	-0.2	-0.8	0.1	0.0	0.2	0.3
Mercer Conservative Growth	0.0	0.0	-0.6	0.0	0.0	0.2	0.4

NOTES

Past performance is not a reliable indicator of future performance

* New investment option available from 1 April 2023.

Differences between returns for each path can reflect different underlying investment strategies, or where strategies are the same, the timing of cash flows in the establishment of Mercer SmartPath.

n/a indicates that the investment option was not operating for the full period.

- Total Returns** are based on exit prices and allow for deduction of investment fees including indirect costs (but not administration or other fees). Returns greater than one year are shown on an annualised basis.
- Excess Returns Relative to Benchmark** are calculated by the difference between product performance (before fees and taxes) and the asset-weighted benchmark return. Benchmarks are listed on page 6. Asset weights used are those shown in the Investment Option's Product Disclosure Statement or Investment Policy Statement, as relevant. Returns greater than one year are shown on an annualised basis.
- Mercer SmartPath was made available as an option in May 2016.

Mercer Select-Your-Own Options

Total Returns (%) (after fees and taxes) ¹	1 month	Financial year to date	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
Mercer Sustainable Plus Options							
Mercer Sustainable Plus Shares	2.3	2.3	9.9	10.6	7.9	9.4	9.5
Mercer Sustainable Plus Australian Shares	3.2	3.2	n/a	n/a	n/a	n/a	n/a
Mercer Sustainable Plus International Shares [#]	1.1	1.1	n/a	n/a	n/a	n/a	n/a
Mercer Sustainable Plus High Growth*	2.0	2.0	n/a	n/a	n/a	n/a	n/a
Mercer Sustainable Plus Growth	1.6	1.6	7.7	8.6	7.0	7.6	7.9
Mercer Sustainable Plus Moderate Growth*	1.4	1.4	n/a	n/a	n/a	n/a	n/a
Mercer Sustainable Plus Conservative Growth*	1.0	1.0	n/a	n/a	n/a	n/a	n/a
Mercer Sector Options							
Mercer Australian Shares	2.7	2.7	12.9	13.5	9.6	10.2	10.1
Mercer International Shares	2.0	2.0	14.8	12.3	10.1	11.6	12.1
Mercer International Shares - Hedged	2.5	2.5	11.2	10.7	7.7	9.9	10.2
Mercer Property	1.7	1.7	-1.7	7.5	6.0	6.8	8.1
Mercer Global Listed Property*	2.8	2.8	n/a	n/a	n/a	n/a	n/a
Mercer Fixed Interest	0.4	0.4	-2.8	-3.6	0.4	0.7	2.3
Mercer Cash	0.4	0.4	3.2	1.2	1.3	1.5	1.8
Mercer Passive/Enhanced Options							
Mercer Passive Australian Shares	3.4	3.4	12.8	13.4	8.9	9.7	9.5
Mercer Passive International Shares	2.2	2.2	17.8	14.0	11.4	12.5	12.4
Mercer Passive Australian Listed Property	2.1	2.1	-0.5	8.6	3.9	2.8	7.7
Mercer Enhanced Passive Growth	2.3	2.3	8.8	8.0	6.6	7.4	8.1
Mercer Enhanced Passive Conservative Growth	1.2	1.2	4.4	2.8	4.0	4.2	5.2

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* New investment option available from 1 April 2023.

Known as Mercer Sustainable Plus Global Shares until 31 March 2023.

1. **Total Returns** are based on exit prices and allow for deduction of investment fees including indirect costs (but not administration or other fees). Returns greater than one year are shown on an annualised basis.

n/a indicates that the investment option was not operating for the full period.

Taxed Investment Options

Investment Options for Transition to Retirement Pension

Total Returns (%) (after fees and taxes) ¹	1 month	Financial year to date	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)
Ready-Made – SmartPath							
Taxed Mercer SmartPath Born 1954-1958	1.2	1.2	7.2	5.6	4.9	n/a	n/a
Taxed Mercer SmartPath Born 1959-1963	1.6	1.6	8.2	7.0	5.6	n/a	n/a
Taxed Mercer SmartPath Born 1964-1968	1.8	1.8	n/a	n/a	n/a	n/a	n/a
Ready-Made							
Taxed Mercer High Growth	1.5	1.5	7.6	n/a	n/a	n/a	n/a
Taxed Mercer Select Growth	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Moderate Growth	1.2	1.2	6.9	5.5	4.7	n/a	n/a
Taxed Mercer Conservative Growth	0.8	0.8	3.9	3.1	3.4	n/a	n/a
Select-Your-Own – Mercer Sustainable Plus							
Taxed Mercer Sustainable Plus Australian Shares*	2.9	2.9	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Sustainable Plus International Shares*	1.0	1.0	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Sustainable Plus High Growth*	1.8	1.8	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Sustainable Plus Growth*	1.5	1.5	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Sustainable Plus Moderate Growth*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Sustainable Plus Conservative Growth*	0.8	0.8	n/a	n/a	n/a	n/a	n/a
Select-Your-Own – Mercer Sector							
Taxed Mercer Australian Shares	3.3	3.3	11.9	11.8	7.8	n/a	n/a
Taxed Mercer International Shares	1.8	1.8	15.6	12.4	10.0	n/a	n/a
Taxed Mercer International Shares – Hedged*	2.4	2.4	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Property	1.1	1.1	-2.4	6.7	5.5	n/a	n/a
Taxed Mercer Global Listed Property*	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Fixed Interest	0.2	0.2	-2.3	-3.2	0.4	n/a	n/a
Taxed Enhanced Index Growth	2.1	2.1	7.0	7.3	6.0	n/a	n/a
Taxed Mercer Cash	0.3	0.3	2.7	0.9	1.1	n/a	n/a
Select-Your-Own – Mercer Passive/Enhanced							
Taxed Mercer Passive Australian Shares*	3.1	3.1	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Passive International Shares*	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Passive Australian Listed Property*	3.4	3.4	n/a	n/a	n/a	n/a	n/a
Taxed Mercer Enhanced Passive Growth*	0.0	0.0	n/a	n/a	n/a	n/a	n/a

NOTES

Past performance is not a reliable indicator of future performance.

* New investment option available from 1 April 2023.

n/a indicates that the investment option was not operating for the full period.

- Total Returns** are based on exit prices and allow for deduction of tax and investment fees including indirect costs (but not administration or other fees). Returns greater than one year are shown on an annualised basis.

Asset class benchmarks

Refer to this table for the asset class benchmarks used prior to 1 January 2023 for the Mercer SmartPath options and all other MST investment options and asset classes included in this report. These benchmarks are used for the MST Ready-made options' allocations to this asset class. Alternate benchmarks may apply to managers individually.

Shares	
Australian Shares	S&P/ASX 300 Accumulation Index
Australian Small Companies	S&P/ASX Small Ordinaries Accumulation Index
International Shares	Unhedged: MSCI World Index (ex Australia) in A\$ with net dividends reinvested Hedged: MSCI World Index (ex Australia) - in A\$ (Hedged) with net dividends reinvested Low Volatility: MSCI Min Vol \$A Optimised in \$A unhedged
Global Small Companies	MSCI World Small Cap Index <i>Prior to July 2014 the benchmark was S&P Developed Small Cap Index. Therefore, calculations for longer period benchmark returns are inclusive of this data.</i>
Emerging Markets	MSCI Emerging Markets Index (ex Tobacco and Controversial Weapons) in A\$
Sustainable Plus Australian Shares	S&P/ASX 300 Accumulation Index
Sustainable Plus Global Shares (Unhedged)	MSCI World (NRD) Index in A\$
Real Assets	
Global Listed Property	FTSE EPRA/NAREIT Developed Index in A\$ (Hedged)
Australian Direct Property	CPI + 4% (lagged one quarter) <i>Prior to January 2016 Mercer/IPD Australian Pooled Property Fund Index.</i>
Global Listed Infrastructure	FTSE Global Core 50/50 Index in A\$ Hedged
Global Unlisted Infrastructure	CPI + 5% (lagged one quarter) <i>During the period January 2016 to December 2018 the benchmark was CPI + 3%.</i>
Natural Resources	CPI+5% (lagged one quarter) <i>From January 2018 to April 2020 the benchmark was composite 60% Bloomberg Commodity Index in A\$ (Hedged), plus 40% Consumer Price Index + 5%. From March 2012 to December 2017 the benchmark was composite benchmark made up of 45% Bloomberg Commodity Index in A\$ (Hedged); 15% S&P Goldman Sachs Agricultural Index; 40% CPI + 5%. Therefore, calculations for longer period benchmark returns are inclusive of this data.</i>
Growth Fixed Interest	
Emerging Markets Debt	JP Morgan GBI-EM Global Diversified Index (Unhedged)
Private Debt	Bloomberg AusBond Bank Bill Index +3%
High Yield Debt	BofA Merrill Lynch Global High Yield Constrained Index <i>Prior to August 2016: Bank of America BB-B Developed Markets High Yield Constrained Index in A\$ (Hedged).</i>
Defensive Fixed Interest	
Global Absolute Return Bonds	Bloomberg AusBond Bank Bill Index <i>Prior to June 2023 the benchmark was Bloomberg AusBond Bank Bill Index +1%</i>
Global Short Term Bonds	Bloomberg AusBond Bank Bill Index
Global Credit	60% Barclays Global Aggregate - Corporate Index in A\$ (Hedged) 40% Barclays Capital Global Aggregate ex Government ex Treasuries Index in A\$ (Hedged)
Australian Sovereign Bonds	Bloomberg Australian Treasury Bond Index 0+ (All Maturities) <i>These are/were the benchmarks used for the MST Ready-made options' allocations to this asset class.</i>
Global Sovereign Bonds	JP Morgan Global Sovereign Bond Index in A\$ (Hedged) <i>From December 2013 to January 2017, the benchmark was JP Morgan Global Sovereign Bond Index (Customised) in A\$ (Hedged). Therefore, calculations for longer period benchmark returns are inclusive of this data.</i>
Australian Inflation Plus	CPI +1% (lagged one quarter)
Cash	
Cash	Bloomberg AusBond Bank Bill Index

Mercer SmartPath asset class benchmarks

Refer to this table for the asset class benchmarks used from 1 January 2023 onwards for the Mercer SmartPath investment options.

Shares	
Australian Shares	S&P/ASX 300 Accumulation Index
Australian Small Companies	S&P/ASX 300 Accumulation Index
International Shares	Unhedged: MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD) Hedged: MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD) Low Volatility: MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)
Global Small Companies	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)
Emerging Markets	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)
Sustainable Plus Australian Shares	S&P/ASX 300 Accumulation Index
Sustainable Plus Global Shares (Unhedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)
Real Assets	
Global Listed Property	FTSE EPRA/NAREIT developed ex Australia rental hedged to AUD
Australian Direct Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Pre-Fee Total Return (All Funds)*
Global Listed Infrastructure	FTSE Developed Core Infrastructure Index hedged to AUD
Global Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Pre-Fee Total Return (All Funds)*
Natural Resources	25% MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD) 25% MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD) 50% Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Growth Fixed Interest	
Emerging Markets Debt	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Private Debt	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
High Yield Debt	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Defensive Fixed Interest	
Global Absolute Return Bonds	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Global Short Term Bonds	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Global Credit	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Australian Sovereign Bonds	Bloomberg Ausbond Composite 0+ Index
Global Sovereign Bonds	Bloomberg Barclays Global Aggregate Index (hedged in AUD)
Australian Inflation Plus	Bloomberg Ausbond Composite 0+ Index
Cash	
Cash	Bloomberg Ausbond Bank Bill Index

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