



Mercer Super Trust

Monthly Report

Corporate Superannuation Division

October 2023

Financial markets update

In Australia, economic indicators over the past month painted a mixed picture for the economy. The latest NAB Business Survey broadly indicated ongoing resilience in trading conditions, albeit with softer conditions recorded in the retail and mining sectors. Meanwhile, house prices have continued to rise, with a further 0.9% month-on-month (MoM) increase in October. A tighter labour market (unemployment for September remained near a record low at 3.6% p.a.) is helping to sustain the housing market and limit weaknesses in consumer spending. The Year-on-Year (YoY) trend in inflation, as measured by the Consumer Price Index (CPI), moderated further to 5.4% p.a. in the September quarter, down from 6.0% p.a. reported in June. There was however a rebound in shorter-term price pressures over the September quarter suggesting ongoing inflationary pressures from stickier services components. Consequently, the Reserve Bank of Australia (RBA) hiked interest rates by 25bps to 4.35% p.a. in its November meeting. The accompanying statement indicated that the RBA may now be on pause, with the statement noting that “whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks”.

Elsewhere, recent data releases continue to indicate a weakening trend in growth across developed economies. Business activity in the Eurozone remains weak, with surveys of both manufacturing and services companies indicating a decline in activity for October. Conditions in sectors of the US also appear to be slowing, notably the manufacturing sector survey (US Institute for Supply Management (ISM) Manufacturing Purchasing Manager’s Index (PMI)) for October fell to 46.7, indicating further contraction across the sector. However, this is currently offset by strong growth across the Services sector. Inflation also continues to broadly moderate with core inflation (i.e. excluding food and energy) decelerating to 4.1% YoY in the US (down from 4.3% in September) and 4.2% YoY in the Eurozone for October (down from 4.5% in September). Additionally, there are some signs emerging of an easing in labour market conditions in the US, with the unemployment rising to 3.9% for October (from 3.8% in September). Meanwhile, economic conditions in China are showing some signs of improvement, with a rebound in consumption and government support for infrastructure investment, among the bright spots.

Against this backdrop, the US Federal Reserve (Fed) decided to keep rates unchanged at 5.25 - 5.00% p.a. at its November meeting, albeit with Fed Chair Jerome Powell reiterating their commitment to bring inflation down to their 2% goal. Similarly, in Europe, the European Central Bank (ECB) kept interest rates unchanged at multi-year highs at its October meeting. The ECB restated its focus to ensure the return of inflation to its targeted rate of 2% occurs in a timely manner. The Bank of Japan (BOJ) kept interest rates unchanged, as was widely expected, but increased the flexibility by which it operates its 1.0% p.a. cap on 10-year Japanese government bond yields as it slowly moves to normalise its policy settings.

Market review

In October, global equities trended down in most regions, primarily driven by concerns that interest rates may remain 'higher for longer' and increased geopolitical concerns due to the conflict in Israel weighing on investor sentiment. The Australian share market was no exception, experiencing a decline of 3.8%. Notable declines were seen in Information Technology, Healthcare, and Industrial sectors.

Government bond yields continued their upward path worldwide following the re-setting of higher US interest rate expectations following a period of stronger than expected economic data. The US 10-year government bond rose by 33bps to 4.91%, the highest level since 2007, as markets reassessed their outlook for interest rates. Similarly, the Australian 10-year yield increased by 44bps to 4.93%. The move higher in US yields resulted in a stronger US dollar (USD) globally with the Australian dollar (AUD) falling to just above 63 US cents.

Commodity markets were mixed over the period. Oil prices weakened, dropping 8.25% to US\$87.54/barrel as the market weighed slowing economic conditions against supply concerns following the Israel-Hamas conflict. Meanwhile Iron Ore prices strengthened by 2.1% as the export market improved, and gold prices increased by 7.5% over the month, supported by continued safe-haven demand fuelled by Middle East tensions.

Mercer Ready-Made Options

Mercer SmartPath[®] Ready-Made Investment Option

Total Returns (%) – after fees and taxes ¹	1 month	3 months	Financial year to date	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
Born prior to 1929	-1.1	-2.2	-1.1	3.4	3.6	4.1	4.5
Born 1929 to 1933	-1.1	-2.7	-1.3	3.4	3.8	4.3	4.7
Born 1934 to 1938	-1.1	-2.5	-1.3	3.4	3.7	4.2	4.6
Born 1939 to 1943	-1.1	-2.4	-1.3	3.6	3.7	4.2	4.6
Born 1944 to 1948	-1.1	-2.6	-1.4	3.4	3.7	4.1	4.5
Born 1949 to 1953	-1.1	-2.6	-1.4	3.4	3.7	4.2	4.7
Born 1954 to 1958	-1.2	-2.7	-1.5	3.6	4.7	4.9	5.4
Born 1959 to 1963	-1.4	-3.2	-1.6	4.2	5.7	5.5	6.1
Born 1964 to 1968	-1.7	-3.8	-2.0	4.5	6.7	6.2	6.9
Born 1969 to 1973	-1.8	-4.3	-2.1	4.9	7.3	6.6	7.3
Born 1974 to 1978	-1.8	-4.3	-2.1	4.9	7.4	6.7	7.4
Born 1979 to 1983	-1.8	-4.3	-2.0	5.0	7.4	6.7	7.4
Born 1984 to 1988	-1.8	-4.3	-2.0	4.9	7.3	6.7	7.4
Born 1989 to 1993	-1.8	-4.4	-2.0	4.9	7.2	6.6	7.3
Born 1994 to 1998	-1.8	-4.4	-2.0	4.9	7.2	6.5	7.2
Born 1999 to 2003	-1.8	-4.4	-2.0	4.8	7.0	6.4	7.0
Born 2004 to 2008	-1.7	-4.2	-2.0	4.7	6.8	n/a	n/a
Born 2009 to 2013	-1.7	-4.1	-1.9	4.8	n/a	n/a	n/a
Born 2014 to 2018	-1.3	-3.3	-1.6	n/a	n/a	n/a	n/a

NOTES:

Past performance is not a reliable indicator of future performance

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.

1 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.

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

Mercer Ready-Made Options

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	-2.5	-3.3	5.1	8.2	7.4	8.3	7.8
Mercer High Growth	-1.9	-2.3	4.3	7.3	6.7	7.4	7.1
Mercer Select Growth	-1.4	-1.3	4.0	5.9	5.8	6.6	n/a
Mercer Growth	-1.5	-1.6	4.0	5.9	5.5	6.1	6.2
Mercer Moderate Growth	-1.2	-1.3	3.9	4.3	4.5	5.0	5.2
Mercer Conservative Growth	-0.9	-0.9	2.2	2.4	3.2	3.6	4.1

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 Australian Shares	-3.6	-4.4	2.2	7.7	n/a	n/a	n/a
Mercer Sustainable Plus International Shares [#]	-0.9	-4.0	4.8	5.5	n/a	n/a	n/a
Mercer Sustainable Plus High Growth	-1.9	-3.4	4.1	6.3	n/a	n/a	n/a
Mercer Sustainable Plus Growth	-2.0	-3.8	1.6	5.0	5.5	6.0	6.0
Mercer Sustainable Plus Moderate Growth	-1.4	-2.4	3.2	3.3	n/a	n/a	n/a
Mercer Sustainable Plus Conservative Growth	-1.3	-2.7	0.0	1.1	n/a	n/a	n/a
Mercer Sector Options							
Mercer Australian Shares	-3.1	-3.5	3.1	8.9	7.5	8.1	6.9
Mercer International Shares	-0.6	-0.6	10.2	10.3	9.6	10.8	10.9
Mercer International Shares - Hedged	-2.4	-5.2	7.5	7.1	6.5	7.7	7.8
Mercer Property	-2.2	-4.9	-3.0	4.2	2.5	4.2	5.6
Mercer Global Listed Property [*]	-3.4	-7.9	n/a	n/a	n/a	n/a	n/a
Mercer Fixed Interest	-1.1	-2.1	0.4	-4.0	-0.1	0.5	1.8
Mercer Cash	0.3	1.2	3.2	1.3	1.2	1.4	1.6
Mercer Passive/Enhanced Options							
Mercer Passive Australian Shares	-3.3	-3.7	3.1	8.8	7.2	7.7	6.6
Mercer Passive International Shares	-0.9	-1.1	10.9	11.2	10.1	11.4	11.1
Mercer Passive Australian Listed Property	-4.8	-8.5	-2.9	2.5	1.8	3.1	5.6
Mercer Enhanced Passive Growth	-1.9	-2.4	4.5	5.6	5.8	6.5	6.7
Mercer Enhanced Passive Conservative Growth	-1.1	-1.4	2.4	1.5	3.3	3.6	4.2

NOTES:

* New investment option available from 1 April 2023

Known as Mercer Sustainable Plus Global Shares until 31 March 2023

Past performance is not a reliable indicator of future performance

1 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.

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

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 World Min Vol Optimized in Local Currency AUD (UH)
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 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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