

# Advance Defensive Multi-Blend Fund - Retail Units

## Fund overview

ARSN	087 296 491
APIR	ADV0022AU
Commencement date	31 May 1992
Fund size (AUD)	\$2.7m
Recommended investment timeframe	At least 3 years
Risk label	Low to medium
Minimum initial investment	Closed to new investors
Distribution frequency	Monthly
Investment management fee pa*	1.17%

\*Additional fees and charges may apply.

## Investment objective

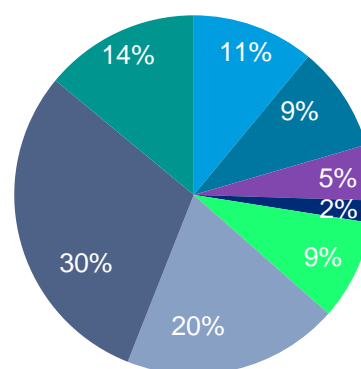
To provide income with a low risk of capital loss over the short to medium term, with some capital growth over the long term.

## Investment strategy

The Fund invests in a diverse mix of assets with the majority in the defensive assets of cash and fixed interest (around 70%) and a modest investment in growth assets such as shares and property (around 30%). The Fund's exposure to these asset classes will be obtained primarily by investing directly into our sector specific funds. The Fund may also hold assets directly including derivatives, currency and other unit trusts.

## Asset allocation

Asset classes	Neutral %	Range %
Equity - Australian Listed	11	0 - 31
Equity - International Listed	9.5	0 - 32
Property	5	0 - 20
Infrastructure	2	0 - 17
Commodities	0	0 - 5
Other Alternatives	9	0 - 19
Australian fixed income	19.5	2 - 42
International fixed income	30	10 - 50
Cash	14	0 - 34



## Investment managers

As the Responsible Entity, Advance Asset Management Limited ('AAML') selects investment managers for Advance Defensive Multi-Blend Fund - Retail Units ('the Fund') and we manage and monitor the managers on your behalf. Therefore we may remove, replace, or appoint additional investment managers at our discretion at any time.

For information on the Fund's investment managers, please refer to the Manager List for the Fund available at [mercer.com.au/mercerfunds](https://mercer.com.au/mercerfunds).

## Performance review

Total return	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa
After fees and costs <sup>1,2</sup>	0.4	1.4	3.2	1.2	1.6	2.1

Notes: **Past performance is not a reliable indicator of future performance.**

- Returns are calculated using month end exit prices and assume distributions are reinvested. Returns over 12 months are annualised.
- Performance figures are calculated after deduction of investment management fees and costs, and any applicable performance fees.

## Market update

In August, equities lost momentum and weakened (in local currency terms) after a strong rally over recent months. On a relative basis, US equities outperformed most major developed and emerging markets, while growth stocks generally outperformed value. Fixed income returns were broadly flat to slightly negative. The real asset sector saw the largest declines, with global REITs and infrastructure down markedly.

A combination of weaker forward-looking indicators, a modest uptick in inflation data, particularly in the US, and Fitch Ratings' downgrade of its US credit rating at the start of August, impacted returns.

Composite purchasing manager indices (PMI) continue to soften across the globe with the US Composite PMI falling to a six-month low in August. A similar scenario for the Eurozone, China, UK and Australia, however, Japan bucked the trend with a marginally higher reading. Consumer confidence continues to weaken with increasing signs of consumer distress, such as rising credit card and auto-loan delinquencies. After a period of strength, global labour markets appear to be cooling off. US employment data saw a distinct weakening in August with a solid uptick in its unemployment rate (+0.3% to 3.8%).

Headline inflation dropped sharply in the Eurozone and UK, largely driven by base effects as the 2022 inflationary spike rolls off. Elsewhere, inflation ticked up slightly in the US as a bounce in energy prices fed into its CPI numbers, however, CPI data was broadly unchanged in Japan and China.

At the annual summit in Jackson Hole, Wyoming, central bankers expressed cautious optimism, while acknowledging inflationary expectations remain elevated. Federal Reserve Chairman, Jerome Powell, reiterated the Fed's goal of bringing inflation down to its 2% target and is prepared to lift rates further if required. The Bank of England raised interest rates for the 14th consecutive month with its policy rate now sitting at 5.25%. On the flipside, the People's Bank of China introduced a number of easing measures, cutting its key interest rate (1yr Loan Prime Rate) to a record low of 3.45%.

In terms of August returns, Hedged Developed Markets Overseas Shares declined -1.9% and Unhedged Emerging Markets Equities dropped -2.4%. Hedged Overseas Government Bonds delivered a narrow loss of -0.3% over the month as government bond yields experienced an uptick in most major regions. Using 10 year government bonds as a guide, US yields saw a jump of 16bps, both Japan and UK were up 6bps, however, there were slight declines for German and Australian 10 year yields.

Australian Shares returned -0.8% in August, outperforming hedged overseas counterparts. Key contributing sectors were Consumer Discretionary (5.8%) and Real Estate (2.2%), whereas Materials (-2.0%) and Consumer Staples (-3.1%) detracted.

## Significant developments

Reported mid-August, Australian seasonally adjusted employment for July decreased by 14,600. A combination of a loss of 24,200 full time jobs, offset by a 9,600 increase in part-time employment, this number was well below expectations for a 15,000 gain. The unemployment rate increased to 3.7% (consensus was 3.6%) and the participation rate slipped to 66.7%, just under 66.8% expectations.

Australian building approvals decreased 8.1% in August (month-on-month figures to July), compared to the decrease of 7.9% (revised) for June.

Total US non-farm payrolls increased by 187,000 in August and was modestly above the adjusted 170,000 increase reported in July, however, well below the monthly average gain of 271,000 over the prior 12 months. Downward adjustments to US employment data have been prevalent over 2023 with sizeable reductions for every month (e.g. June has been cut from its original 209,000 to 105,000). For August, US unemployment rate stepped up to 3.8% (well above 3.5% expectations).

The second estimate for Q2 2023 US GDP was 2.1% quarter on quarter (QoQ, annualised), below July's preliminary figure of 2.4%, as revised inventory figures swung from being a gain to a small drag on GDP growth.

In the US, the Institute for Supply Management (ISM) Manufacturing Index remained in contractionary territory with a 47.6 reading in August, however, an improvement on 46.4 in July and above 47.0 expectations. Five manufacturing industries registered growth in the August survey and 13 industries recorded contraction. The ISM Services survey also saw a jump in August, up 1.8 to 54.5 and well in the expansion zone (52.5 was consensus). The growth / contraction split between industries was a mirror image of manufacturing with 13 reporting growth and 5 in contraction.

China's Caixin Manufacturing PMI moved back into expansion territory with a 51 reading in August (expectations were 49.3), as operating conditions improved for manufacturers on the back of better than expected new orders and output data.

Japan's Manufacturing PMI remains marginally below the expansion / contraction line of 50, however, its Services PMI is well in expansion mode at 54.3 with August marking 12 consecutive months of growth.

Turning to Europe, the 5.3% preliminary estimate for Eurozone Core CPI (year to August) was in line with expectations and similar to the headline CPI, which is flattening out around these levels.

The recently released third estimate for Q2 2023 Eurozone GDP showed a marginally positive 0.1% QoQ (and 0.5% YoY). Coupled with a Services PMI reading dropping into contraction (47.9 from 50.9 in July), policymakers at the ECB will be concerned at these developments.

## Further Information

Please contact your financial adviser or:

**Go to** [mercer.com.au/mercerfunds](https://mercer.com.au/mercerfunds)

**Email** [InvestorHelpAU@mercer.com](mailto:InvestorHelpAU@mercer.com)

**Call** 1300 728 928

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