



Monthly report

Mercer Funds

August 2023

Financial markets 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.

Total returns (%) – after fees¹

Mercer Funds	1 month	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)	10 yrs (p.a.)
Shares							
Mercer Australian Shares Fund	-0.5	2.5	9.2	10.5	6.4	8.2	7.5
Mercer Australian Shares Fund for Tax Exempt Investors	-0.5	2.3	10.3	12.3	9.0	10.2	9.5
Mercer Australian Shares Plus Fund	-0.6	2.8	8.9	10.4	6.3	8.4	7.7
Mercer Sustainable Plus Australian Shares Fund	-0.6	1.9	7.5	9.5	6.2	7.7	7.7
Mercer Australian Small Companies Fund	-1.3	2.8	1.5	4.8	5.4	7.2	7.0
Mercer International Shares Fund	1.5	3.2	21.2	12.2	9.7	11.6	12.3
Mercer Hedged International Shares Fund	-2.1	0.3	12.0	7.6	6.6	9.0	9.6
Mercer Sustainable Plus International Shares Fund – Unhedged	0.4	1.5	15.6	9.0	7.6	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-3.1	-1.4	6.8	4.5	4.8	n/a	n/a
Mercer Passive Sustainable International Shares Fund	1.5	3.4	23.9	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	0.2	3.6	16.1	11.8	5.8	9.3	10.4
Mercer Emerging Markets Shares Fund	-2.4	0.9	7.3	1.9	2.5	5.4	5.7
Mercer Passive Emerging Markets Shares Fund	-2.4	2.4	6.1	2.5	2.9	5.7	n/a
Real Assets							
Mercer Australian Direct Property Fund	-0.2	-1.4	0.9	8.8	7.5	8.6	9.1
Mercer Passive Australian Listed Property Fund	2.2	6.1	5.8	6.8	3.7	3.6	8.1
Mercer Global Listed Property Fund	-2.6	0.1	-7.9	1.2	-0.9	0.6	4.5
Mercer Global Listed Infrastructure Fund	-5.9	-4.1	-9.3	2.0	2.2	3.6	6.9
Mercer Global Unlisted Infrastructure Fund	1.6	1.7	9.3	11.8	10.8	10.3	11.7
Fixed Interest							
Mercer Australian Sovereign Bond Fund - Class 1	0.6	1.0	0.8	-3.9	0.3	0.5	2.3
Mercer Global Sovereign Bond Fund - Class 1	-0.4	-0.4	-2.6	-4.0	0.5	0.7	3.0
Mercer Global Short Term Bond Fund	0.5	1.2	4.7	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.4	1.1	4.6	3.9	4.3	3.9	3.2
Mercer Global Absolute Return Bond Fund	0.3	0.4	2.7	0.4	1.3	1.3	n/a
Mercer Global Credit Fund	-0.7	-0.3	-1.5	-4.6	-0.1	0.2	2.5
Mercer Emerging Market Debt Fund	0.5	2.3	20.2	4.1	4.2	2.8	2.8
Mercer Global High Yield Bond Fund	0.3	1.9	4.5	0.8	1.7	2.8	n/a
Mercer Global Private Debt Fund	1.2	1.9	6.0	5.5	4.9	5.4	n/a
Cash							
Mercer Cash Fund – Cash Units	0.4	0.7	3.3	1.1	1.2	1.4	1.7
Mercer Cash Fund – Term Deposit Units	0.4	0.7	3.4	1.2	1.3	1.5	1.8
Diversified							
Mercer Diversified Shares Fund	-0.1	2.4	12.3	9.8	6.7	8.7	8.8
Mercer High Growth Fund	-0.1	2.1	8.9	8.2	6.1	7.6	7.8
Mercer Growth Fund – Active Units	0.2	1.7	8.2	7.2	6.0	7.0	7.4
Mercer Moderate Growth Fund – Active Units	0.4	1.5	6.8	5.2	4.5	5.2	5.8
Mercer Conservative Growth Fund – Active Units	0.5	1.1	4.2	3.0	3.3	3.8	4.4
Mercer Growth Fund – Enhanced Passive Units	-0.2	1.9	9.0	6.7	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	-0.1	1.5	6.9	4.7	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	0.1	1.3	5.2	2.5	n/a	n/a	n/a

NOTES

Past performance is not a reliable indicator of future performance

1. Total Returns are based on exit prices and are net of Management Costs (as disclosed in the relevant Fund's Product Disclosure Statement).

Excess returns (%) – before fees¹

Mercer Funds	1 month	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)	10 yrs (p.a.)
Shares							
Mercer Australian Shares Fund	0.3	0.6	1.1	0.9	0.2	0.6	0.5
Mercer Australian Shares Fund for Tax Exempt Investors	0.1	0.1	0.6	1.4	1.6	1.3	1.1
Mercer Australian Shares Plus Fund	0.2	0.8	1.1	1.1	0.5	1.0	0.9
Mercer Sustainable Plus Australian Shares Fund	0.2	0.0	-0.4	0.2	0.3	0.2	0.9
Mercer Australian Small Companies Fund	0.0	0.8	3.8	3.2	4.5	3.4	2.5
Mercer International Shares Fund	-0.1	-0.4	-0.3	0.0	0.0	0.2	0.4
Mercer Hedged International Shares Fund	-0.1	-0.5	0.2	0.3	0.1	0.3	0.4
Mercer Sustainable Plus International Shares Fund – Unhedged	-1.1	-2.0	-5.7	-3.3	-2.1	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-1.1	-2.1	-5.1	-3.1	-1.8	n/a	n/a
Mercer Passive Sustainable International Shares Fund	0.0	0.0	0.1	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	0.2	0.1	3.3	0.6	0.6	0.7	0.5
Mercer Emerging Markets Shares Fund	-0.1	-1.5	1.3	-0.1	0.3	0.4	0.4
Mercer Passive Emerging Markets Shares Fund	0.0	0.0	-0.1	-0.1	-0.1	-0.1	n/a
Real Assets							
Mercer Australian Direct Property Fund	-0.7	-2.4	-8.1	1.6	1.7	3.2	2.8
Mercer Passive Australian Listed Property Fund	0.0	0.0	-0.1	-0.1	0.1	0.0	0.0
Mercer Global Listed Property Fund	0.2	-0.1	0.2	0.1	1.0	1.2	1.2
Mercer Global Listed Infrastructure Fund	-1.0	-0.6	1.3	-0.9	-0.3	-0.2	0.0
Mercer Global Unlisted Infrastructure Fund	1.1	0.6	0.0	4.5	5.1	5.9	7.6
Fixed Interest							
Mercer Australian Sovereign Bond Fund - Class 1	0.0	0.0	0.3	0.1	0.3	0.3	0.3
Mercer Global Sovereign Bond Fund - Class 1	0.0	0.5	0.5	1.2	1.1	1.2	1.0
Mercer Global Short Term Bond Fund	0.2	0.6	1.8	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.1	0.4	-2.3	-1.7	0.4	0.3	0.2
Mercer Global Absolute Return Bond Fund	-0.1	-0.3	-0.9	-1.4	-0.3	-0.5	n/a
Mercer Global Credit Fund	-0.1	-0.1	-0.3	0.1	0.3	0.2	0.3
Mercer Emerging Market Debt Fund	-0.7	-0.4	3.8	3.2	2.1	1.3	0.7
Mercer Global High Yield Bond Fund	0.3	0.7	-0.7	0.9	0.1	0.2	n/a
Mercer Global Private Debt Fund	0.7	0.9	1.4	3.1	2.2	2.4	n/a
Cash							
Mercer Cash Fund – Cash Units	0.0	0.0	0.2	0.1	0.2	0.3	0.3
Mercer Cash Fund – Term Deposit Units	0.0	0.0	0.3	0.3	0.4	0.4	0.5
Diversified							
Mercer Diversified Shares Fund	0.2	0.1	0.8	0.5	0.0	0.2	0.2
Mercer High Growth Fund	0.2	0.3	-1.3	-0.1	0.0	0.4	0.3
Mercer Growth Fund – Active Units	0.2	-0.1	-1.7	0.3	0.3	0.5	0.6
Mercer Moderate Growth Fund – Active Units	0.3	0.0	-1.4	0.3	0.1	0.3	0.3
Mercer Conservative Growth Fund – Active Units	0.3	0.1	-1.4	0.1	0.1	0.3	0.4
Mercer Growth Fund – Enhanced Passive Units	0.0	0.0	-0.3	-0.2	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	0.0	0.0	-0.2	0.1	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	0.0	0.2	-0.2	-0.3	n/a	n/a	n/a

NOTES

Past performance is not a reliable indicator of future performance.

1. Excess Returns are relative to benchmark and are calculated as the difference between performance (before fees) and the asset-weighted benchmark return. Benchmarks are listed on page 6. Asset weights used are those shown in the relevant Fund's Product Disclosure Statement or Information Memorandum, as relevant.

Asset class benchmarks

Shares	
Australian Shares	S&P/ASX 300 Accumulation Index
Australian Shares Tax Exempt	S&P/ASX 300 Accumulation Index grossed up for franking credits
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
Global Small Companies	MSCI World Small Cap Index in A\$ <i>Prior to September 2014 the benchmark was S&P Developed Small Cap Index. Therefore, calculations for longer period benchmark returns are inclusive of this data.</i>
Sustainable Plus International Shares	Unhedged: MSCI World (NRD) Index in A\$ Hedged: MSCI World (NRD) Index in A\$ (Hedged)
Sustainable Plus Australian Shares	S&P/ASX 300 Accumulation Index
Emerging Markets	MSCI Emerging Markets Index in A\$
Real Assets	
Direct Property	CPI + 4%
Listed Property	FTSE EPRA/NAREIT Developed Index in A\$ (Hedged)
Passive Australian Listed Property	S&P/ASX 200 Property Trusts Accumulation Index
Unlisted Infrastructure	CPI + 5% <i>Prior to 1 January 2019 the benchmark was CPI + 3%</i>
Listed Infrastructure	FTSE Global Core Infrastructure 50/50 Index in A\$ (Hedged)
Fixed Interest	
Australian Sovereign Bonds	Bloomberg AusBond Treasury Index 0+ (All Maturities)
Global Sovereign Bonds	JP Morgan Global Sovereign Bond Index in A\$ (Hedged) <i>Prior to November 2013 the benchmark was 50% JP Morgan Global Government Bond Index in A\$ Hedged and 50% JP Morgan Customised Index. From December 2013 to January 2017, it was the JP Morgan Global Sovereign Bond Index (Customised) in A\$ Hedged. Therefore, the calculations for longer period benchmark returns are inclusive of this data.</i>
Global Short Term Bond	Bloomberg AusBond Bank Bill Index
Australian Inflation Plus	CPI +1%
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 Credit	60% Barclays Global Aggregate - Corporate Index in A\$ (Hedged) 40% Barclays Capital Global Aggregate ex Government ex Treasuries Index in A\$ (Hedged)
Emerging Markets Debt	JP Morgan GBI-EM Global Diversified Index (Unhedged)
Global High Yield Bond	Bank of America Merrill Lynch BB-B Developed Markets High Yield Constrained Index in A\$ (Hedged) <i>Prior to August 2016: Bank of America BB-B Developed Markets High Yield Constrained Index in A\$ (Hedged).</i>
Global Private Debt	Bloomberg AusBond Bank Bill Index +3% pa
Cash	
Cash	Bloomberg AusBond Bank Bill Index

For further information

Contact your Mercer Adviser, or call the Helpline:

t: 1300 728 928

e: InvestorHelpAU@mercer.com

w: <https://www.mercer.com.au/mercerfunds>

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