



# Mercer Funds **Monthly report**

February 2023

# Financial markets update

Both risk and duration assets sold off in February as pessimism over the monetary policy outlook took hold.

The US economy is showing few signs of a material slowdown in spite of almost a year of monetary tightening. Even though more large companies announced layoffs in February, the labour market as a whole remains exceptionally strong. Consumer confidence strengthened to the highest level in over a year, retail spending came in much stronger than expected and one of the forward looking purchasing manager composite indices returned into expansionary territory. Outside the US, economic data also indicated stronger growth momentum.

Consumer inflation continued to come down from high levels in the US, UK and Eurozone, although increased in Japan and China. US producer inflation, however, came in stronger than expected. The combination of a resilient economy and mixed signals on inflation turned sentiment for the worse. Markets once again priced in the possibility of more inflationary growth momentum that could force central banks to continue with monetary tightening.

Over February, Hedged Developed Markets Overseas Shares returned -1.6% as earnings season continues to be disappointing. Earnings appear set to decrease for the first time since mid-2020. Earnings aside, increased concerns over more monetary tightening than was priced in at the beginning of 2023 added to negative sentiment.

In February, emerging markets underperformed developed equities, declining 2.3% as large markets such as Brazil, India and Korea saw negative returns. While foreign inflows into China have been strong over the last few months, domestic equity investors still remain cautious.

Hedged Overseas Government Bonds returned -1.8% over the month. Ten-year yields in developed countries rose over the month as markets priced more monetary tightening. Rising credit spreads were an additional headwind for investment grade bonds during the month, while high yield spreads declined slightly. Australian Bonds also produced a negative return, returning -1.6% over the month as yields increased.

Australian Shares returned -2.5%, underperforming their overseas counterparts in February. The more defensive sectors tended to outperform, with utilities the top performer (3.4%), meanwhile sectors leveraged to the economy struggled, with materials being the worst performer (-6.7%).

## Total returns (%) – after fees<sup>1</sup>

Mercer Funds	1 month	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)	10 yrs (p.a.)
<b>Shares</b>							
Mercer Australian Shares Fund	-2.1	13.5	5.5	7.7	7.1	9.6	7.5
Mercer Australian Shares Fund for Tax Exempt Investors	-2.0	15.3	8.7	10.3	9.8	11.7	n/a
Mercer Australian Shares Plus Fund	-2.0	12.9	3.9	7.7	7.1	9.8	7.6
Mercer Sustainable Plus Australian Shares Fund	-2.3	12.1	3.7	7.9	6.8	9.1	7.9
Mercer Australian Small Companies Fund	-3.3	8.8	-7.9	7.8	6.3	9.1	6.1
Mercer International Shares Fund	2.3	9.1	1.3	7.4	9.0	10.6	12.9
Mercer Hedged International Shares Fund	-1.5	6.1	-5.0	8.0	5.7	9.5	9.4
Mercer Sustainable Plus International Shares Fund – Unhedged	1.9	9.4	-2.4	6.5	8.4	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-1.8	6.1	-8.3	7.5	5.4	n/a	n/a
Mercer Passive Sustainable International Shares Fund	2.3	8.8	n/a	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	2.3	14.2	2.2	8.2	7.6	9.6	12.3
Mercer Emerging Markets Shares Fund	-1.6	1.8	-7.6	-0.6	0.6	6.9	5.5
Mercer Passive Emerging Markets Shares Fund	-2.3	-1.0	-9.6	-1.0	0.7	6.8	n/a
<b>Real Assets</b>							
Mercer Australian Direct Property Fund	0.1	5.1	7.1	8.8	8.9	9.7	9.8
Mercer Passive Australian Listed Property Fund	-0.3	11.8	-6.8	0.6	6.0	5.3	7.8
Mercer Global Listed Property Fund	-3.5	-4.3	-15.6	-2.4	1.7	3.0	4.6
Mercer Global Listed Infrastructure Fund	-2.9	-3.5	-5.0	0.8	4.3	5.8	7.5
Mercer Global Unlisted Infrastructure Fund	1.8	4.9	10.1	11.3	11.3	10.9	11.4
<b>Fixed Interest</b>							
Mercer Australian Sovereign Bond Fund - Class 1	-1.6	0.8	-7.1	-4.2	0.7	0.9	2.2
Mercer Global Sovereign Bond Fund - Class 1	-0.7	-2.3	-7.1	-3.3	0.8	1.4	3.1
Mercer Global Short Term Bond Fund	0.1	2.7	n/a	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	2.0	2.3	6.5	3.4	3.8	3.6	2.9
Mercer Global Absolute Return Bond Fund	-0.2	1.5	-1.5	-0.1	0.7	1.3	n/a
Mercer Global Credit Fund	-2.6	-2.1	-10.6	-4.3	-0.1	1.1	2.3
Mercer Emerging Market Debt Fund	0.3	8.5	2.2	-4.7	-0.6	2.3	1.6
Mercer Global High Yield Bond Fund	-1.2	3.6	-7.9	-1.3	1.2	4.2	n/a
Mercer Global Private Debt Fund	0.5	2.9	3.4	3.7	4.8	5.4	n/a
<b>Cash</b>							
Mercer Cash Fund – Cash Units	0.2	1.6	1.6	0.6	1.0	1.2	1.6
Mercer Cash Fund – Term Deposit Units	0.2	1.6	1.7	0.6	1.1	1.4	1.8
<b>Diversified</b>							
Mercer Diversified Shares Fund	-0.5	9.7	0.8	7.0	6.7	9.2	8.8
Mercer High Growth Fund	-0.3	8.6	1.3	6.1	6.4	8.1	7.9
Mercer Growth Fund – Active Units	-0.4	7.1	0.5	5.5	6.0	7.4	7.4
Mercer Moderate Growth Fund – Active Units	-0.3	5.3	0.3	3.2	4.4	5.5	5.7
Mercer Conservative Growth Fund – Active Units	-0.2	3.4	-0.7	1.9	3.4	4.0	4.3
Mercer Growth Fund – Enhanced Passive Units	-1.0	6.6	-1.2	4.4	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	-0.9	4.9	-1.7	3.1	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	-0.6	3.5	-2.2	1.3	n/a	n/a	n/a

### NOTES

#### Past performance is not a reliable indicator of future performance

- 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 fees<sup>1</sup>

Mercer Funds	1 month	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)	10 yrs (p.a.)
<b>Shares</b>							
Mercer Australian Shares Fund	0.5	0.5	-0.2	0.6	0.2	0.4	0.5
Mercer Australian Shares Fund for Tax Exempt Investors	0.4	1.3	1.8	2.1	1.6	1.2	n/a
Mercer Australian Shares Plus Fund	0.6	0.1	-1.6	0.9	0.3	0.8	0.8
Mercer Sustainable Plus Australian Shares Fund	0.3	-0.7	-1.8	1.1	0.0	0.1	1.2
Mercer Australian Small Companies Fund	0.4	0.1	1.4	5.2	4.2	2.8	2.4
Mercer International Shares Fund	0.3	0.2	2.8	0.2	0.0	0.6	0.3
Mercer Hedged International Shares Fund	0.2	0.7	3.3	0.4	0.1	0.6	0.4
Mercer Sustainable Plus International Shares Fund – Unhedged	0.0	0.4	-1.2	-0.8	-0.6	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-0.1	0.5	-0.7	-0.3	-0.3	n/a	n/a
Mercer Passive Sustainable International Shares Fund	0.0	0.0	n/a	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	0.0	0.5	2.3	1.1	0.6	0.3	0.7
Mercer Emerging Markets Shares Fund	0.8	2.7	2.3	0.9	0.7	0.8	0.7
Mercer Passive Emerging Markets Shares Fund	0.0	0.0	0.1	-0.1	-0.1	-0.1	n/a
<b>Real Assets</b>							
Mercer Australian Direct Property Fund	-0.7	-1.4	-2.9	2.7	3.5	4.5	3.4
Mercer Passive Australian Listed Property Fund	0.0	-0.1	0.1	0.3	0.1	0.0	0.0
Mercer Global Listed Property Fund	0.2	-0.6	-0.4	0.6	0.7	1.2	1.3
Mercer Global Listed Infrastructure Fund	1.2	1.4	-0.5	-0.4	-0.1	0.1	-0.1
Mercer Global Unlisted Infrastructure Fund	0.9	-2.1	0.1	5.0	6.3	7.2	7.4
<b>Fixed Interest</b>							
Mercer Australian Sovereign Bond Fund - Class 1	0.0	0.2	0.2	0.2	0.3	0.3	0.3
Mercer Global Sovereign Bond Fund - Class 1	1.0	2.2	3.9	1.7	1.4	1.4	1.2
Mercer Global Short Term Bond Fund	-0.1	1.3	n/a	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	1.3	-2.9	-1.6	-0.9	0.3	0.4	0.2
Mercer Global Absolute Return Bond Fund	-0.4	-0.5	-3.8	-1.3	-0.9	-0.4	n/a
Mercer Global Credit Fund	0.1	0.4	0.6	0.4	0.3	0.3	0.4
Mercer Emerging Market Debt Fund	-0.7	2.9	2.6	2.3	0.8	1.3	0.4
Mercer Global High Yield Bond Fund	0.0	-1.2	-1.2	-0.2	0.0	0.1	n/a
Mercer Global Private Debt Fund	0.1	0.2	0.4	1.9	2.2	2.4	n/a
<b>Cash</b>							
Mercer Cash Fund – Cash Units	0.0	0.1	0.1	0.2	0.2	0.3	0.3
Mercer Cash Fund – Term Deposit Units	0.0	0.1	0.2	0.3	0.4	0.4	0.5
<b>Diversified</b>							
Mercer Diversified Shares Fund	0.4	0.1	0.2	0.5	0.0	0.0	0.2
Mercer High Growth Fund	0.2	-0.3	-1.3	0.1	0.2	0.3	0.4
Mercer Growth Fund – Active Units	0.0	-0.2	-1.4	0.6	0.5	0.5	0.7
Mercer Moderate Growth Fund – Active Units	0.1	-0.1	-1.1	0.3	0.2	0.3	0.4
Mercer Conservative Growth Fund – Active Units	0.2	0.0	-0.9	0.3	0.2	0.3	0.5
Mercer Growth Fund – Enhanced Passive Units	0.1	-0.2	-0.3	-0.5	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	0.2	0.0	0.0	0.0	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	0.3	-0.1	-0.6	-0.4	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.

## Mercer SmartPath® Funds

Total Returns (%) - (after fees) <sup>1</sup>	1 month	3 months	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)
Mercer SmartPath 1989—1993	-0.4	0.3	9.1	1.7	6.2	6.5	8.2
Mercer SmartPath 1984—1988	-0.3	0.3	9.0	1.8	6.3	6.6	8.3
Mercer SmartPath 1979—1983	-0.3	0.3	9.0	1.8	6.3	6.6	8.3
Mercer SmartPath 1974—1978	-0.3	0.3	9.0	1.8	6.3	6.6	8.3
Mercer SmartPath 1969—1973	-0.3	0.3	9.1	1.9	6.2	6.5	8.2
Mercer SmartPath 1964—1968	-0.2	0.4	8.5	1.9	5.7	6.1	7.8
Mercer SmartPath 1959—1963	-0.2	0.4	7.3	1.3	4.7	5.4	6.8
Mercer SmartPath 1954—1958	-0.2	0.4	6.3	1.2	3.9	4.9	6.1

### NOTES

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

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

1. Total Returns are based on exit prices and allow for deduction of investment management fees.

## 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&amp;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 +1% pa
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

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