

Mercer Funds **Monthly report**

January 2023

Financial markets update

Markets started 2023 on an optimistic note. Equities, bonds and alternatives generally rose. Rates and spreads declined and equity market volatility fell to its lowest level in almost a year. Positive market sentiment was helped by US CPI inflation falling for the sixth month in a row. It also seems to have peaked in other developed countries. Investors are still hoping for an end to the monetary tightening cycle, even if central banks remain cautious. Consumer confidence also improved over the month, as the University of Michigan consumer sentiment index unexpectedly rose to the highest level since April 2022.

Over January, Hedged Developed Markets Overseas Shares returned 6.2% on receding inflation and falling interest rates. Fundamentals were otherwise unfavorable. The first month of the 2022 Q4 earnings season yielded disappointing results from a number of companies in a quarter that could see its first decrease in earnings since 2020 Q3. Analysts still expect low single digit positive earnings growth for 2023 as a whole.

Emerging markets outperformed unhedged Overseas Shares over the month, posting a 3.8% gain for the month of January as they were buoyed risk-on environment. The ongoing reopening of the Chinese economy and better than expected Q4 GDP growth benefitted the index, meanwhile India and Brazil detracted.

Hedged Overseas Government Bonds returned 2.0% over the month. Ten-year yields in developed countries fell by 20-30 basis points over the month which led to positive returns for defensive fixed income. Falling credit spreads, especially for high yield, were an additional return boost for credit. Inflation expectations in the US, as measured by the 10-year break-even rate, fell to 2.2%.

Australian shares returned 6.3% and again outperformed their overseas counterparts in January, adding to the strong outperformance of the ASX300 over the last twelve months, whilst Australian bonds also produced positive returns with bond yields ending the month lower.

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	6.3	15.9	9.7	5.5	7.7	9.6	8.3
Mercer Australian Shares Fund for Tax Exempt Investors	5.6	17.7	13.7	8.0	10.3	11.7	n/a
Mercer Australian Shares Plus Fund	6.5	15.2	7.6	5.4	7.6	9.7	8.4
Mercer Sustainable Plus Australian Shares Fund	5.7	14.8	7.4	5.9	7.5	9.1	8.7
Mercer Australian Small Companies Fund	6.0	12.6	-4.7	5.9	7.2	9.4	6.6
Mercer International Shares Fund	2.9	6.7	-6.9	4.9	8.5	10.1	12.8
Mercer Hedged International Shares Fund	6.1	7.7	-6.5	5.6	5.3	9.6	9.6
Mercer Sustainable Plus International Shares Fund – Unhedged	2.2	7.4	-9.4	4.8	7.9	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	5.4	8.0	-9.0	5.8	5.3	n/a	n/a
Mercer Passive Sustainable International Shares Fund	3.1	6.4	n/a	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	5.9	11.6	-3.4	5.0	7.2	9.0	12.4
Mercer Emerging Markets Shares Fund	4.1	3.4	-14.2	-1.1	0.9	6.9	5.7
Mercer Passive Emerging Markets Shares Fund	3.3	1.4	-12.8	-0.8	0.9	7.0	n/a
Real Assets							
Mercer Australian Direct Property Fund	0.8	5.0	7.3	8.9	8.9	9.7	9.8
Mercer Passive Australian Listed Property Fund	8.1	12.1	-5.3	-1.0	5.3	5.7	8.2
Mercer Global Listed Property Fund	7.9	-0.9	-15.1	-4.0	1.2	3.4	5.1
Mercer Global Listed Infrastructure Fund	2.8	-0.7	-3.2	-1.5	3.8	6.3	8.2
Mercer Global Unlisted Infrastructure Fund	0.1	3.1	9.6	11.0	11.0	11.1	11.2
Fixed Interest							
Mercer Australian Sovereign Bond Fund - Class 1	3.0	2.4	-6.8	-3.4	1.1	1.3	2.4
Mercer Global Sovereign Bond Fund - Class 1	0.9	-1.6	-7.5	-3.0	1.0	1.7	3.2
Mercer Global Short Term Bond Fund	1.1	2.6	n/a	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	-1.3	0.3	4.6	2.9	3.4	3.3	2.8
Mercer Global Absolute Return Bond Fund	0.6	1.6	-2.1	0.0	0.8	1.3	n/a
Mercer Global Credit Fund	3.2	0.5	-10.2	-3.2	0.2	1.6	2.7
Mercer Emerging Market Debt Fund	1.5	8.2	-4.4	-4.8	-0.1	2.4	1.6
Mercer Global High Yield Bond Fund	3.1	4.9	-8.2	-1.0	1.3	4.5	n/a
Mercer Global Private Debt Fund	0.2	2.4	3.1	3.7	4.8	5.3	n/a
Cash							
Mercer Cash Fund – Cash Units	0.3	1.4	1.4	0.5	1.0	1.2	1.6
Mercer Cash Fund – Term Deposit Units	0.2	1.3	1.4	0.6	1.1	1.4	1.8
Diversified							
Mercer Diversified Shares Fund	4.6	10.2	-0.7	4.8	6.8	9.0	9.2
Mercer High Growth Fund	3.3	8.9	0.0	4.5	6.5	8.0	8.2
Mercer Growth Fund – Active Units	2.9	7.6	-0.6	4.3	6.1	7.3	7.7
Mercer Moderate Growth Fund – Active Units	2.1	5.6	-0.7	2.3	4.4	5.4	5.9
Mercer Conservative Growth Fund – Active Units	1.6	3.6	-1.5	1.5	3.4	4.0	4.4
Mercer Growth Fund – Enhanced Passive Units	4.0	7.7	-1.8	3.2	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	3.4	5.8	-2.3	2.3	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	2.3	4.1	-2.8	0.9	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	0.1	-0.1	-1.0	0.4	0.1	0.2	0.5
Mercer Australian Shares Fund for Tax Exempt Investors	-0.5	0.8	1.5	1.9	1.5	1.1	n/a
Mercer Australian Shares Plus Fund	0.3	-0.6	-2.8	0.6	0.3	0.6	0.8
Mercer Sustainable Plus Australian Shares Fund	-0.5	-1.0	-2.9	1.1	0.1	-0.1	1.2
Mercer Australian Small Companies Fund	-0.6	-0.5	1.2	5.1	4.3	2.5	2.4
Mercer International Shares Fund	0.0	-0.1	2.0	0.2	0.0	0.6	0.2
Mercer Hedged International Shares Fund	0.0	0.5	2.8	0.5	0.1	0.7	0.3
Mercer Sustainable Plus International Shares Fund – Unhedged	-0.7	0.4	-1.1	0.0	-0.6	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-0.8	0.5	-0.5	0.5	0.1	n/a	n/a
Mercer Passive Sustainable International Shares Fund	0.0	-0.9	n/a	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	0.9	0.5	1.7	0.9	0.7	0.1	0.7
Mercer Emerging Markets Shares Fund	0.3	2.0	-1.1	0.2	0.6	0.6	0.7
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	0.0	-0.6	-2.6	2.8	3.6	4.6	3.5
Mercer Passive Australian Listed Property Fund	0.0	-0.1	0.0	0.3	0.1	0.0	-0.1
Mercer Global Listed Property Fund	0.0	-0.8	-0.8	0.6	0.9	1.2	1.2
Mercer Global Listed Infrastructure Fund	1.5	0.2	-2.0	-1.1	-0.5	0.0	-0.2
Mercer Global Unlisted Infrastructure Fund	-0.7	-3.0	-0.3	5.0	6.1	7.6	7.3
Fixed Interest							
Mercer Australian Sovereign Bond Fund - Class 1	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Mercer Global Sovereign Bond Fund - Class 1	-0.9	1.3	2.8	1.0	1.3	1.2	1.1
Mercer Global Short Term Bond Fund	0.8	1.4	n/a	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	-2.0	-4.2	-3.4	-1.3	-0.1	0.2	0.1
Mercer Global Absolute Return Bond Fund	0.3	-0.1	-4.3	-1.1	-0.7	-0.4	n/a
Mercer Global Credit Fund	0.0	0.3	0.3	0.4	0.3	0.3	0.4
Mercer Emerging Market Debt Fund	0.9	3.6	4.9	2.4	0.9	1.4	0.4
Mercer Global High Yield Bond Fund	-0.1	-1.2	-1.3	0.2	0.1	0.1	n/a
Mercer Global Private Debt Fund	-0.1	0.1	0.4	1.9	2.2	2.3	n/a
Cash							
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	0.3	0.3	0.4	0.4	0.5
Diversified							
Mercer Diversified Shares Fund	-0.1	-0.4	-0.6	0.3	0.0	-0.1	0.1
Mercer High Growth Fund	-0.5	-0.5	-1.8	0.1	0.2	0.3	0.4
Mercer Growth Fund – Active Units	-0.4	-0.3	-1.7	0.5	0.6	0.5	0.7
Mercer Moderate Growth Fund – Active Units	-0.4	-0.2	-1.3	0.1	0.2	0.2	0.4
Mercer Conservative Growth Fund – Active Units	-0.4	-0.2	-1.3	0.2	0.2	0.3	0.5
Mercer Growth Fund – Enhanced Passive Units	-0.1	-0.4	-0.3	-0.4	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	0.0	-0.2	-0.3	0.0	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	-0.3	-0.4	-1.0	-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) ¹	1 month	3 months	FYTD	1 year	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)
Mercer SmartPath 1989—1993	3.5	4.3	9.5	0.4	4.6	6.6	8.1
Mercer SmartPath 1984—1988	3.5	4.3	9.4	0.5	4.7	6.7	8.2
Mercer SmartPath 1979—1983	3.5	4.3	9.4	0.6	4.7	6.7	8.2
Mercer SmartPath 1974—1978	3.5	4.3	9.4	0.6	4.7	6.6	8.2
Mercer SmartPath 1969—1973	3.5	4.3	9.4	0.6	4.6	6.6	8.1
Mercer SmartPath 1964—1968	3.2	3.8	8.7	0.5	4.3	6.1	7.6
Mercer SmartPath 1959—1963	2.7	3.3	7.5	0.0	3.6	5.4	6.7
Mercer SmartPath 1954—1958	2.3	2.8	6.5	-0.2	3.0	4.9	6.0

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&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

Contact your Mercer Adviser, or call the Helpline:

t: 1300 728 928

e: MercerFundsAU@mercer.com

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

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