



# Mercer Funds **Monthly report**

July 2023

# Financial markets update

In July, global equity markets maintained current upward momentum with most regions delivering solid, positive returns. On the other hand, fixed income performance was mixed, although in this “risk on” phase of the cycle, riskier parts of the sector fared better.

A combination of further declines in headline inflation, resilient economic data, particularly from the US, and market expectations that the current interest rate hiking cycle is nearing an end, led to positive investor sentiment throughout the month.

The advanced Q2 2023 US GDP growth figure was reported late month, coming in at 2.4% and surprising market economist estimates of 1.8%. On the flipside, UK and Eurozone growth was close to flat. Benefitting from the base effects of emerging from its extensive 2022 Covid lockdown, China's GDP growth rate was measured at an annualised 6.3%, though a little below 7.3% expectations. Forward-looking composite purchasing manager indices (PMI) kept falling across the globe in July, with Japan the only region holding steady. PMIs for the services sector continue to outpace manufacturing though are easing towards 50, an important level that is considered the line between expansion and contraction.

Inflation data continued to decline, somewhat aided by the impact of last year's energy price surge rolling off. US headline Consumer Price Index (CPI) fell to 3.0% p.a and is at the lowest level since early 2021. Similarly, CPI data across the UK, Eurozone and Australia, continues to show easing inflationary conditions, albeit at higher levels than the US. CPI has flatlined at near zero in China. Japan was the only major country that recorded a marginal increase in its inflation rate during Q2 2023. Central banks continued to err on the side of caution, increasing rates by 25bps in the US and Eurozone and 50bps in the UK, where inflation remains the highest among major developed economies. Central banks continued to emphasise a data-driven approach to future rate adjustments. In the US, which is furthest ahead in the inflation cycle, markets are now pricing in a greater than 50% chance that the Fed's policy rate has peaked and interest rate cuts maybe forthcoming in 2024.

Over July, Hedged Developed Markets Overseas Shares delivered a 2.8% return. US indices were broadly in line with international developed markets, however, Emerging Markets (unhedged) outperformed with a positive 4.9% return. Value modestly outperformed growth over the period, although when looking on a year-to-date basis, mega-cap tech stocks still dominate returns and has led to increased market concentration within that segment of global markets. In the US, with roughly half of S&P500 companies having reported their Q2 2023 earnings, FactSet currently projects a 7% quarter over quarter (QoQ) earnings decline, which would be the softest quarterly outcome since the height of Covid's impact. That said, to date the majority of companies have reported better than expected earnings results.

Hedged Overseas Government Bonds returned -0.4% over the month, as bond yields across most regions increased in July. Yields on both key long bonds in the US (10-year and 30-year) rose by approximately 15bps over the month. Outside the US, Japan's 10-year yield rose by around 19bps, which is noteworthy following the Bank of Japan's announcement that it will further increase the upper tolerance range for the 10-year yield (now 1.0% vs 0.5% previously). The UK was the only major economy where the 10-year yield fell, albeit modestly.

Australian Shares returned 2.9%, marginally outperforming their overseas counterparts in July. Financials (4.9%) and Energy (8.4%) were the strongest sectors of the market, while Healthcare (-1.5%), and Materials (1.4%) detracted.

## 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	3.1	3.1	11.9	11.8	6.8	8.1	7.9
Mercer Australian Shares Fund for Tax Exempt Investors	2.8	2.8	13.1	13.6	9.4	10.1	9.9
Mercer Australian Shares Plus Fund	3.4	3.4	11.8	11.8	6.8	8.3	8.0
Mercer Sustainable Plus Australian Shares Fund	2.6	2.6	9.3	11.0	6.6	7.7	8.1
Mercer Australian Small Companies Fund	4.2	4.2	3.9	8.3	6.1	7.5	7.6
Mercer International Shares Fund	1.7	1.7	16.6	12.7	10.2	11.6	12.0
Mercer Hedged International Shares Fund	2.4	2.4	10.6	10.3	7.2	9.4	9.7
Mercer Sustainable Plus International Shares Fund – Unhedged	1.1	1.1	10.4	9.3	8.5	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	1.8	1.8	4.6	6.9	5.8	n/a	n/a
Mercer Passive Sustainable International Shares Fund	1.8	1.8	18.3	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	3.5	3.5	14.3	12.6	6.8	9.4	10.3
Mercer Emerging Markets Shares Fund	3.4	3.4	11.3	2.5	2.8	6.3	5.9
Mercer Passive Emerging Markets Shares Fund	4.9	4.9	11.1	3.0	3.4	6.6	n/a
<b>Real Assets</b>							
Mercer Australian Direct Property Fund	-1.2	-1.2	2.1	9.0	7.6	8.7	9.3
Mercer Passive Australian Listed Property Fund	3.8	3.8	-0.1	8.7	3.8	2.8	7.8
Mercer Global Listed Property Fund	2.8	2.8	-10.8	2.7	-0.2	0.8	4.4
Mercer Global Listed Infrastructure Fund	1.8	1.8	-4.6	3.6	3.3	4.2	7.3
Mercer Global Unlisted Infrastructure Fund	0.0	0.0	7.6	12.2	10.4	10.0	11.5
<b>Fixed Interest</b>							
Mercer Australian Sovereign Bond Fund - Class 1	0.4	0.4	-2.5	-4.3	0.3	0.4	2.1
Mercer Global Sovereign Bond Fund - Class 1	0.0	0.0	-4.3	-4.0	0.4	0.8	3.0
Mercer Global Short Term Bond Fund	0.8	0.8	3.9	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.7	0.7	6.1	3.7	4.2	3.8	3.2
Mercer Global Absolute Return Bond Fund	0.1	0.1	2.6	0.5	1.1	1.3	n/a
Mercer Global Credit Fund	0.4	0.4	-3.7	-4.6	0.2	0.4	2.5
Mercer Emerging Market Debt Fund	1.8	1.8	22.2	2.9	3.0	2.9	2.4
Mercer Global High Yield Bond Fund	1.6	1.6	3.1	1.2	1.7	3.0	n/a
Mercer Global Private Debt Fund	0.8	0.8	5.3	5.3	4.7	5.3	n/a
<b>Cash</b>							
Mercer Cash Fund – Cash Units	0.4	0.4	3.1	1.0	1.1	1.3	1.7
Mercer Cash Fund – Term Deposit Units	0.3	0.3	3.1	1.1	1.3	1.5	1.8
<b>Diversified</b>							
Mercer Diversified Shares Fund	2.5	2.5	12.0	10.9	7.2	8.7	8.8
Mercer High Growth Fund	2.2	2.2	9.6	9.0	6.5	7.6	7.8
Mercer Growth Fund – Active Units	1.5	1.5	8.4	7.9	6.2	7.0	7.3
Mercer Moderate Growth Fund – Active Units	1.1	1.1	6.8	5.4	4.6	5.2	5.8
Mercer Conservative Growth Fund – Active Units	0.6	0.6	3.9	3.0	3.4	3.8	4.3
Mercer Growth Fund – Enhanced Passive Units	2.1	2.1	8.2	7.4	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	1.6	1.6	6.0	5.2	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	1.2	1.2	4.2	2.7	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 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	0.2	0.2	1.7	0.8	0.2	0.6	0.5
Mercer Australian Shares Fund for Tax Exempt Investors	0.0	0.0	1.3	1.4	1.6	1.3	1.1
Mercer Australian Shares Plus Fund	0.6	0.6	1.8	1.2	0.5	1.0	0.9
Mercer Sustainable Plus Australian Shares Fund	-0.2	-0.2	-0.7	0.3	0.2	0.4	0.9
Mercer Australian Small Companies Fund	0.7	0.7	4.5	3.9	4.4	3.7	2.6
Mercer International Shares Fund	-0.3	-0.3	0.1	-0.2	-0.1	0.2	0.4
Mercer Hedged International Shares Fund	-0.3	-0.3	0.7	0.1	0.0	0.3	0.5
Mercer Sustainable Plus International Shares Fund – Unhedged	-0.9	-0.9	-6.1	-3.7	-1.8	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-0.9	-0.9	-5.5	-3.4	-1.5	n/a	n/a
Mercer Passive Sustainable International Shares Fund	0.0	0.0	0.2	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	-0.1	-0.1	3.2	0.6	0.7	0.6	0.5
Mercer Emerging Markets Shares Fund	-1.5	-1.5	1.8	0.0	0.2	0.5	0.5
Mercer Passive Emerging Markets Shares Fund	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	n/a
<b>Real Assets</b>							
Mercer Australian Direct Property Fund	-1.7	-1.7	-7.2	2.0	1.8	3.3	2.9
Mercer Passive Australian Listed Property Fund	0.0	0.0	0.0	-0.1	0.1	0.0	0.0
Mercer Global Listed Property Fund	-0.3	-0.3	0.0	0.0	0.9	1.2	1.3
Mercer Global Listed Infrastructure Fund	0.5	0.5	2.4	-0.8	-0.1	0.0	0.2
Mercer Global Unlisted Infrastructure Fund	-0.5	-0.5	-1.9	5.3	4.8	5.7	7.4
<b>Fixed Interest</b>							
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	0.5	0.5	1.4	1.4	1.0	1.3	1.0
Mercer Global Short Term Bond Fund	0.4	0.4	1.2	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.3	0.3	-1.0	-1.5	0.3	0.3	0.2
Mercer Global Absolute Return Bond Fund	-0.3	-0.3	-1.0	-1.2	-0.6	-0.5	n/a
Mercer Global Credit Fund	0.0	0.0	0.1	0.2	0.3	0.2	0.3
Mercer Emerging Market Debt Fund	0.3	0.3	5.3	3.4	1.7	1.4	0.7
Mercer Global High Yield Bond Fund	0.4	0.4	0.5	0.9	0.1	0.1	n/a
Mercer Global Private Debt Fund	0.2	0.2	0.7	2.9	2.0	2.3	n/a
<b>Cash</b>							
Mercer Cash Fund – Cash Units	0.0	0.0	0.2	0.2	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
<b>Diversified</b>							
Mercer Diversified Shares Fund	-0.1	-0.1	0.7	0.4	0.0	0.2	0.2
Mercer High Growth Fund	0.1	0.1	-0.7	-0.1	0.0	0.4	0.3
Mercer Growth Fund – Active Units	-0.3	-0.3	-1.1	0.5	0.3	0.5	0.6
Mercer Moderate Growth Fund – Active Units	-0.3	-0.3	-0.9	0.3	0.0	0.3	0.3
Mercer Conservative Growth Fund – Active Units	-0.2	-0.2	-0.7	0.2	0.0	0.3	0.4
Mercer Growth Fund – Enhanced Passive Units	0.0	0.0	-0.2	-0.3	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	0.0	0.0	0.0	0.1	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	0.1	0.1	0.1	-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&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 <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

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