



Monthly report

Mercer Funds

September 2023

Financial markets update

In Australia, short term economic indicators were mixed. Business activity across the services sector expanded in September, whilst the manufacturing sector remains contracted. Persistent growth in housing prices (0.9% month-on-month (MoM)), a tight labour market and positive wage pressures have helped support an increase in consumer spending. Notably, inflation moved higher to 5.2% p.a. in August, up from a 4.9% p.a. in July. While Core CPI, excluding food and energy, showed further softening to 4.5% p.a. in September, down from 5.3% p.a. in August, reaching its lowest level since August 2022. As a result, the Reserve Bank of Australia (RBA) left interest rates steady at 4.1%, noting the need to consider the implications of further lagged effects from previous increases in interest rates on household spending and inflation.

Recent data releases show a softening trend in growth across developed economies. In the US, activities across the manufacturing sector remained subdued, with the US Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) for September staying in contractionary territory, though edging up marginally from 47.6 in August to 49.0. Meanwhile, the US ISM Services index, whilst still in expansionary territory slightly retreated to 53.6 in September, down from August's six-month high of 54.5. Inflation in the US increased slightly to 3.7% p.a. in August, from 3.2% p.a. in July. Core inflation, while still elevated, fell to 4.3% p.a. in August, down from 4.7% in July. Labour market indicators remained resilient in September, with the unemployment rate holding steady at 3.8%, and average hourly earnings increasing by 4.2% p.a. Economic activity in other regions, such as the Eurozone, has slowed down, as both the Manufacturing (at a level of 43.4) and Services PMIs (at a level of 48.7) remained in contractionary territory for September. Inflation in Europe continued to moderate, subsiding to 5.2%, with core inflation falling to 5.3% annually in August.

At their August meeting, the US Federal Reserve (Fed) decided to keep rates unchanged at 5.25%. Fed Chair Jerome Powell continued to reiterate that they will do whatever it takes to bring inflation back in line with the Fed's 2.0% target. Interest rates in Europe moved higher to 4.5%, though the European Central Bank (ECB) was more dovish, signalling a likely pause in interest rates going forward.

Market review

In September global equities (-3.8%) trended down in most regions, mainly driven by the US Fed signalling no immediate end in the current high level of US rates at its August meeting: with the Information Technology and Utilities sectors the notable underperformers. The Australian share market also declined (-2.9%) despite the RBA keeping interest rates unchanged. Notable declines for the Australian market were within Information Technology, Health Care and Telecommunications sectors.

Worldwide, government bond yields continued their upward path following the re-setting of higher US interest rate expectations. The Australian 10-year government bond yield increased by 46 basis points to 4.5%. Similarly, the US 10-year government bond yield increased by 47 basis points to 4.6%, the highest level since 2007. The move higher in US yields resulted in a stronger USD with the Australian dollar (AUD) depreciating to around 64 US cents. Commodities were mixed with oil prices up 9.7% to US\$95.31/barrel, following supply cuts announced by the Organization of the Petroleum Exporting Countries (OPEC). Iron Ore prices were also stronger (1.7%) following some supply disruptions, while gold and copper prices fell over the month (-4.8% and -2.2% respectively), as Chinese demand continued to soften.

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	-3.2	-0.7	12.3	10.6	6.0	7.5	6.9
Mercer Australian Shares Fund for Tax Exempt Investors	-2.2	0.1	13.5	12.7	8.7	9.7	9.0
Mercer Australian Shares Plus Fund	-3.5	-0.8	12.0	10.2	5.9	7.6	7.0
Mercer Sustainable Plus Australian Shares Fund	-3.4	-1.6	11.0	9.4	5.7	7.0	6.9
Mercer Australian Small Companies Fund	-3.8	-1.1	6.9	4.1	4.8	6.3	6.2
Mercer International Shares Fund	-3.8	-0.7	20.5	10.7	8.8	11.3	11.8
Mercer Hedged International Shares Fund	-3.5	-3.2	18.7	7.2	5.7	8.4	8.8
Mercer Sustainable Plus International Shares Fund – Unhedged	-4.9	-3.5	14.2	6.3	6.6	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-4.7	-5.9	12.2	2.9	3.8	n/a	n/a
Mercer Passive Sustainable International Shares Fund	-4.3	-1.1	22.5	n/a	n/a	n/a	n/a
Mercer Global Small Companies Shares Fund	-5.3	-1.9	14.2	9.3	5.0	8.6	9.6
Mercer Emerging Markets Shares Fund	-2.8	-2.0	9.7	0.6	2.0	4.9	5.2
Mercer Passive Emerging Markets Shares Fund	-2.3	0.0	10.1	1.2	2.5	5.4	n/a
Real Assets							
Mercer Australian Direct Property Fund	-0.3	-1.7	0.5	8.6	7.4	8.5	9.1
Mercer Passive Australian Listed Property Fund	-8.6	-3.0	12.0	4.3	2.2	2.8	7.0
Mercer Global Listed Property Fund	-5.6	-5.5	-2.2	0.1	-1.7	0.0	3.5
Mercer Global Listed Infrastructure Fund	-5.5	-9.4	-2.1	0.2	1.4	2.6	5.9
Mercer Global Unlisted Infrastructure Fund	0.0	1.6	8.2	11.6	10.8	10.2	11.4
Fixed Interest							
Mercer Australian Sovereign Bond Fund - Class 1	-1.9	-0.9	0.4	-4.9	0.0	0.3	2.0
Mercer Global Sovereign Bond Fund - Class 1	-0.7	-1.0	-1.2	-4.2	0.2	0.6	2.8
Mercer Global Short Term Bond Fund	0.3	1.5	5.9	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.7	1.7	4.6	4.0	4.4	3.9	3.3
Mercer Global Absolute Return Bond Fund	-0.4	0.0	3.5	0.4	1.2	1.3	n/a
Mercer Global Credit Fund	-2.2	-2.5	1.8	-5.3	-0.4	-0.1	2.1
Mercer Emerging Market Debt Fund	-3.9	-1.7	14.8	2.4	2.9	2.4	2.4
Mercer Global High Yield Bond Fund	-1.1	0.8	9.4	0.4	1.4	2.7	n/a
Mercer Global Private Debt Fund	0.4	2.2	5.9	5.3	4.8	5.4	n/a
Cash							
Mercer Cash Fund – Cash Units	0.3	1.1	3.5	1.2	1.2	1.4	1.7
Mercer Cash Fund – Term Deposit Units	0.3	1.0	3.5	1.3	1.3	1.5	1.8
Diversified							
Mercer Diversified Shares Fund	-3.5	-1.2	14.4	9.1	6.1	8.1	8.2
Mercer High Growth Fund	-2.7	-0.6	10.0	7.6	5.6	7.2	7.3
Mercer Growth Fund – Active Units	-2.2	-0.6	9.5	6.8	5.6	6.7	6.9
Mercer Moderate Growth Fund – Active Units	-1.7	-0.2	7.5	4.8	4.2	5.0	5.5
Mercer Conservative Growth Fund – Active Units	-1.2	-0.1	4.8	2.7	3.1	3.7	4.2
Mercer Growth Fund – Enhanced Passive Units	-2.7	-0.9	11.3	6.1	n/a	n/a	n/a
Mercer Moderate Growth Fund – Enhanced Passive Units	-2.3	-0.9	8.4	4.2	n/a	n/a	n/a
Mercer Conservative Growth Fund – Enhanced Passive Units	-1.5	-0.2	6.5	2.1	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	-0.2	0.3	0.3	0.7	0.2	0.5	0.4
Mercer Australian Shares Fund for Tax Exempt Investors	0.5	0.6	0.1	1.5	1.7	1.4	1.1
Mercer Australian Shares Plus Fund	-0.5	0.3	0.1	0.6	0.3	0.9	0.8
Mercer Sustainable Plus Australian Shares Fund	-0.4	-0.4	-0.7	-0.2	0.2	0.2	0.7
Mercer Australian Small Companies Fund	0.3	1.2	1.4	3.0	4.6	3.5	2.3
Mercer International Shares Fund	0.3	0.0	-0.1	-0.1	0.1	0.2	0.4
Mercer Hedged International Shares Fund	0.3	-0.1	0.5	0.2	0.2	0.3	0.4
Mercer Sustainable Plus International Shares Fund – Unhedged	-0.9	-2.8	-6.3	-4.6	-2.1	n/a	n/a
Mercer Sustainable Plus International Shares Fund – Hedged	-0.8	-2.8	-6.0	-4.4	-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	-0.3	-0.2	2.0	0.3	0.6	0.7	0.4
Mercer Emerging Markets Shares Fund	-0.5	-2.0	-0.3	-0.1	0.2	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	-0.8	-3.3	-8.2	1.0	1.5	3.0	2.8
Mercer Passive Australian Listed Property Fund	0.1	0.0	-0.1	-0.1	0.1	0.0	0.0
Mercer Global Listed Property Fund	0.1	0.0	-0.7	0.1	0.9	1.2	1.2
Mercer Global Listed Infrastructure Fund	-1.3	-1.8	1.7	-1.3	-0.3	-0.4	0.0
Mercer Global Unlisted Infrastructure Fund	-0.6	0.0	-0.5	4.0	5.0	5.7	7.3
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	1.3	1.7	0.5	1.8	1.2	1.4	1.2
Mercer Global Short Term Bond Fund	0.0	0.5	2.7	n/a	n/a	n/a	n/a
Mercer Australian Inflation Plus Fund	0.4	0.8	-1.9	-1.9	0.4	0.4	0.3
Mercer Global Absolute Return Bond Fund	-0.7	-1.0	-0.2	-1.5	-0.5	-0.6	n/a
Mercer Global Credit Fund	0.0	-0.2	0.2	0.1	0.3	0.2	0.3
Mercer Emerging Market Debt Fund	-0.8	-1.2	3.4	3.0	1.9	1.2	0.6
Mercer Global High Yield Bond Fund	-0.1	0.5	0.6	0.4	0.1	0.2	n/a
Mercer Global Private Debt Fund	-0.1	0.8	1.2	2.9	2.1	2.3	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	0.4
Diversified							
Mercer Diversified Shares Fund	-0.1	0.0	0.2	0.4	0.1	0.2	0.2
Mercer High Growth Fund	-0.2	0.2	-2.0	-0.2	0.0	0.4	0.3
Mercer Growth Fund – Active Units	0.0	-0.1	-1.8	0.3	0.3	0.6	0.5
Mercer Moderate Growth Fund – Active Units	0.0	0.1	-1.4	0.3	0.1	0.3	0.3
Mercer Conservative Growth Fund – Active Units	0.1	0.2	-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	0.1	0.3	-0.1	-0.2	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 5. 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

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