Quarterly commentary and outlook September 2018^

Economy and Markets

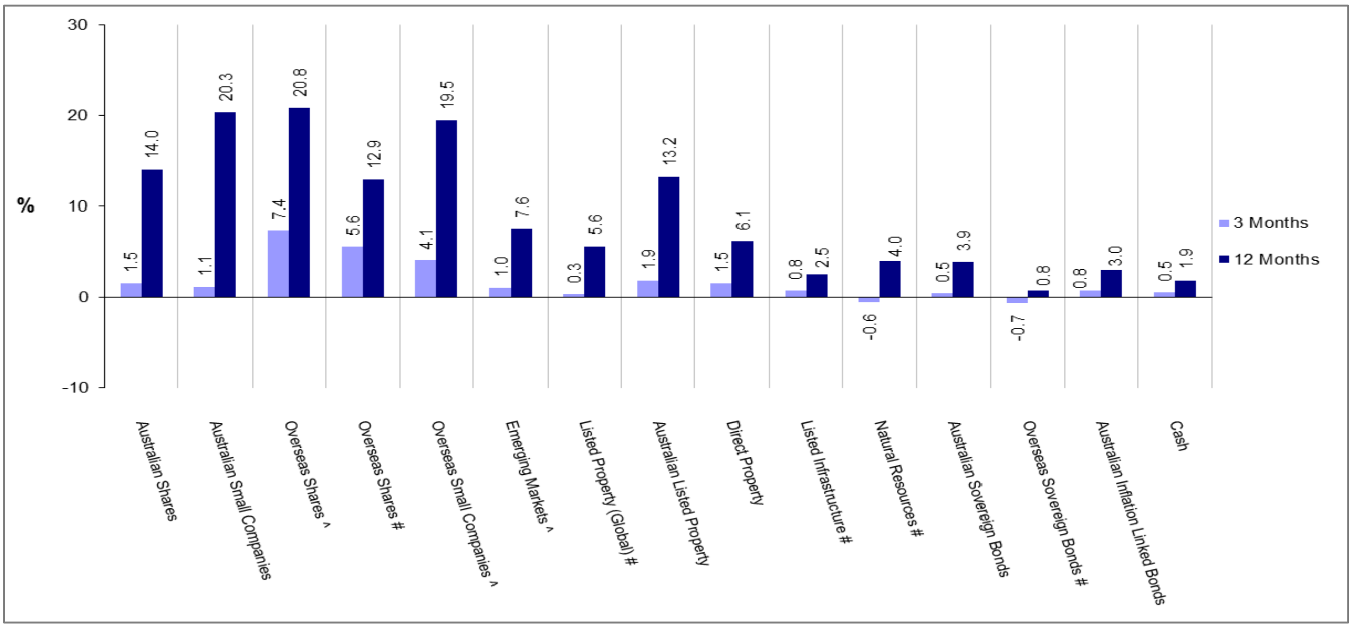
The third quarter of 2018 generally saw positive returns across markets, with greater volatility arising towards the end of the quarter. A strong market in the United States (US) contributed to the gains made by overseas developed shares, returning 5.6% (hedged) in Q3. The US Dollar (USD) continued to appreciate and US economic growth and earnings data remained solid, which helped to soften concerns surrounding the continuous trade conflict between the US and China. The US initially targeted US$34 billion of Chinese products with a 25% tariff in early July. Following this, tariffs on another US$16 billion began in late August, before a 10% tariff was implemented on another US$200 billion of Chinese goods in September. Amongst all these tariff introductions in August, the bull market characterising US equities became the longest in US history.

Australian Q2 economic growth data was released by the ABS in September, which showed a positive growth rate (+0.9%) for the second quarter and 3.4% growth over the past year to June 2018. Australian shares posted a positive gain over the quarter, as the S&P/ASX 300 rose 1.5%. This gain was driven primarily by the Communication Services and IT sectors, whilst the Utilities sector was a key detractor.

Following ongoing economic and corporate strength, the US Federal Reserve (Fed) continued to tighten monetary policy settings, hiking rates by 0.25% in September to a range of 2.00% to 2.25%. This rate hike was in line with market expectations and contributed to a stronger USD. September data showed wages in the US to be growing at the fastest rate since 2009. Positive economic data contributed to the increasing yields of government bonds, as US 10-year (10Y) yields rose from 2.86% to 3.06% over the September quarter, and Italian 10Y government bond yields increased by 0.47%, amid political concerns. Consequently, returns of hedged overseas government bonds decreased by 0.6% over the September quarter.

The MSCI Emerging Markets Index experienced a slight increase (+1.0%) over the September quarter, as the strengthening USD and US-China trade dispute continued to pressure emerging market performance. Notable detracting events in emerging markets included the geopolitical tensions in Turkey, which caused a sharp sell-off in the Lira and South Africa's underperformance, which has led to the economy falling into a recession. Contrastingly, Thailand recorded a strong gain and Mexico outperformed following its general elections and a trade agreement renegotiation with the US.

Financial Market Returns to 30 September 2018



Note: Past performance is not a reliable indicator of future performance.

Performance shown only for asset classes that are applicable to sector MMFs benchmarked against a single index.

Fully hedged return.

^ Unhedged return.

Source: Mercer Multi-Manager Funds Quarterly Report - Three Months to 30 September 2018

Returns are based on actual investment options, and are net of all investment fees, administration fees and taxes. Past performance should not be relied upon as an indication of future returns.

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