Mercer

welcome to brighter

# IMAP Portfolio Management Conference – Sydney

Themes and Opportunities for 2024 and beyond…

**Rebecca Jacques**, Portfolio Solutions Leader
Mercer Wealth Management

21 March 2024

# Important notices

Past performance is not an indicator of future performance, investment returns can rise as well as fall. Past performance is not a reliable indicator of future performance and the value of any investment in the Funds is not guaranteed. There are risks with any investment, including one in the Funds. Please read the risk section of the relevant PDS for more detail.

Mercers Privacy policy is detailed on the Mercer website - Mercer Australia Privacy Policy | Mercer Australia

Any advice contained in this presentation is of a general nature only, and does not take into account the objectives, financial situation or personal needs of any particular individual. Prior to acting on any information contained in this document, you need to consider the appropriateness of the advice, taking into consideration your own objectives, financial situation and needs, consider the PDS for any product you are considering, and seek professional advice from a licensed financial adviser.

Information is provided to indicate reasons for our investment decisions or represents our views on certain matters and based on certain assumptions and proprietary analysis. It is not intended to be personal financial advice. You should not rely on our commentary to make any investment decision. This is because our views can and do change over time, or may turn out to be incorrect. Finally, please seek professional advice, if necessary.

We have tried to ensure the information in this presentation is accurate in all material respects but cannot provide any guarantee that it is.

# Themes and Opportunities 2024 – Age of Agility

## Mercer's views of structural trends and emerging risks (5 years and beyond) and their impact

Investors must be dynamic in a world now characterised by:

1) a higher cost of capital and lower liquidity;
2) evolving dynamic between cyclical inflationary forces and structural inflationary forces;
3) an accelerating energy transition, nature risk being considered

### Regime Change

**Dispersion and Dislocation**
Geopolitical risk remains elevated. Nimble alpha generators should capitalise on dispersion and dislocation.

**Efficiency Gains**
A more attractive outlook for fixed income implies a greater role in portfolios, but a return to negative equity/bond correlations cannot be assumed.

### Super-cycles

**Inflation tides**
As rate rises bite, and cyclical inflation pressures subside, many structural inflation pressures remain: resources demand; supply chain realignment; the risk of fiscal largesse; greenflation.

**Shifting sands**
Extraordinary debt levels are significant again, as power shifts from borrowers to lenders.

### Mega-trends

**Energy modernisation**
Disruption in energy supply has highlighted the need for energy security, and the connection to the energy transition.

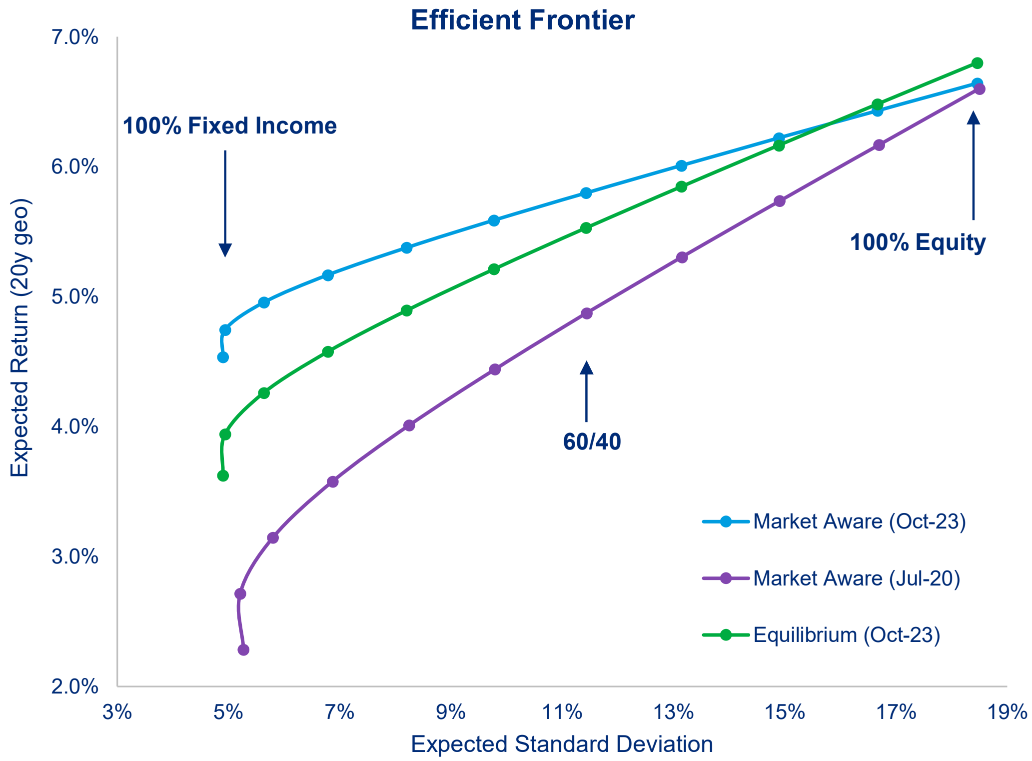
**The natural (re)order**
Awareness of nature loss and its consequences signal regulatory shift but could create opportunities in regenerative and innovative solutions.

Increasing Time Horizon

# Efficiency gains

## Investing on a flatter efficient frontier

- The global efficient frontier has been fundamentally reshaped by shifts in the financial landscape.
- On a 20-year time horizon, additional equity risk leads to substantially less return pick-up compared to bonds than it did three years ago (it is even more pronounced over a 10-year time horizon).
- In light of these developments, we recommend expediting a strategic asset allocation review if it has been a while since the last review.
- The conclusion drawn from that review, in particular equities vs bonds, will depend heavily on the investor's time horizon.




Source: Mercer Capital Markets Output over 20 years as of September 30, 2023. Market Aware refers to our assumptions considering current market valuations as reflected in price earnings ratios for equities and yields for bonds as of analysis date. Equilibrium refers to assumptions based on assumed long term steady state earnings, dividends and yields with no impact from valuations.

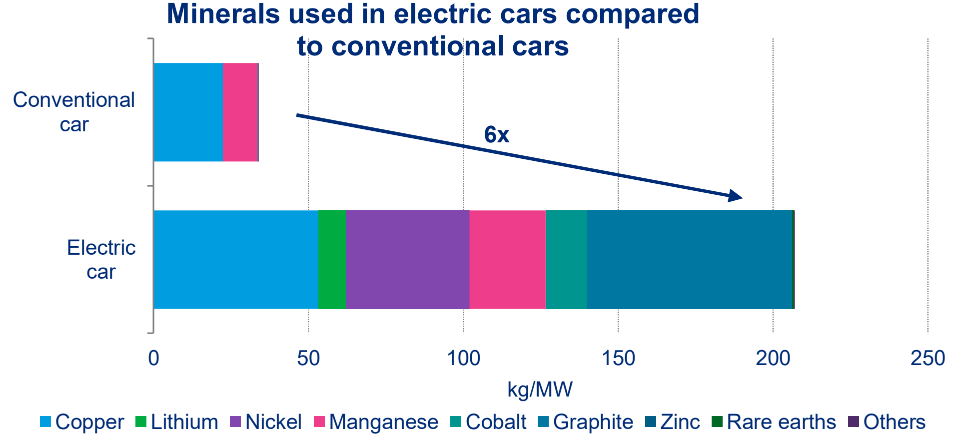
# Energy Modernisation



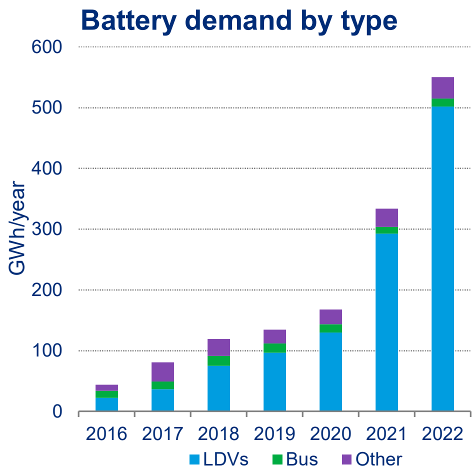
## Mining is required for transition

- The move from ICE vehicles to EVs[1] is being pursued because an EV has around half of the lifetime emissions of an ICE vehicle.
- However, an EV requires around 6 times as many minerals.

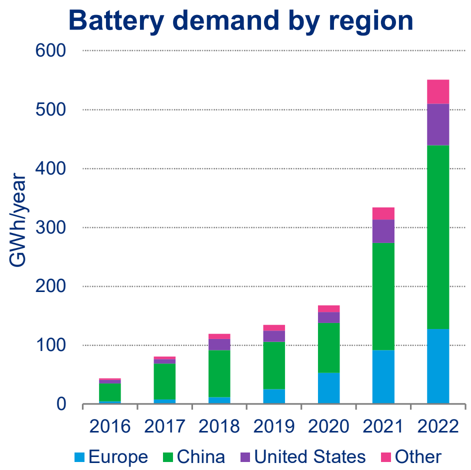
- This is partly driving a demand surge for critical minerals. Wind, solar and electrification in general are mineral intensive.
- Global battery demand for clean energy applications increased by two-thirds in 2022, with energy storage becoming a growing part of the total demand.




Source: International Energy Agency (IEA), Mercer. Data as of May 4, 2021.




Source: IEA (2023) Global EV outlook 2023. IEA. Licence: CC




Source: IEA (2023) Global EV outlook 2023. IEA. Licence: CC

[1]ICE = Internal Combustion Engine, EV = Electric Vehicle

01_08_2023-Critical-Raw-Materials.pdf (allianz.com)

2 Key market trends – Critical Minerals MarketReview 2023 – Analysis - IEA

# Dispersion and dislocation

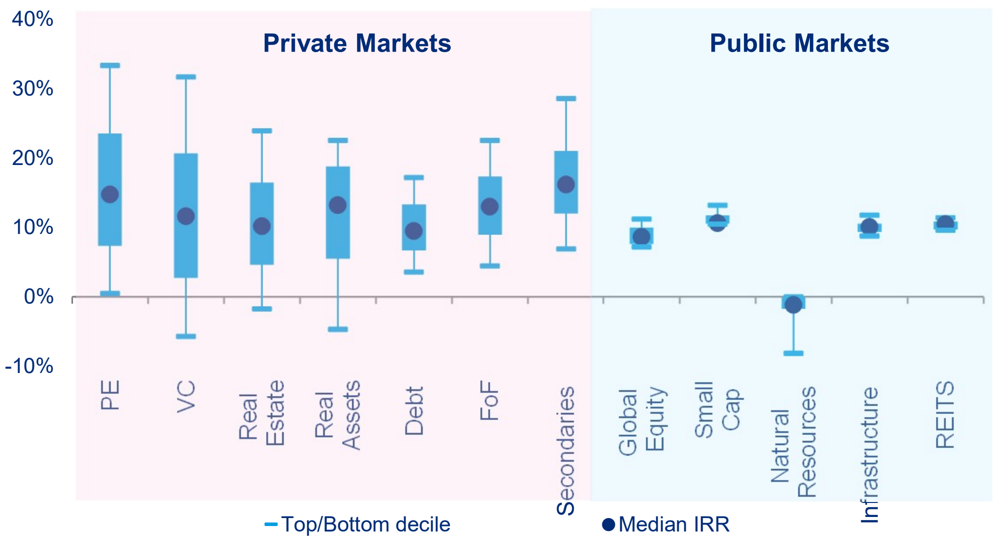
## Alpha generation in private markets

Megatrends

- Private market fundraising has slowed recently which could lead to well-respected, but closed, GPs re-opening.
- GP-led secondaries could be worth looking at, star assets in such portfolios have tended to ride out the storm

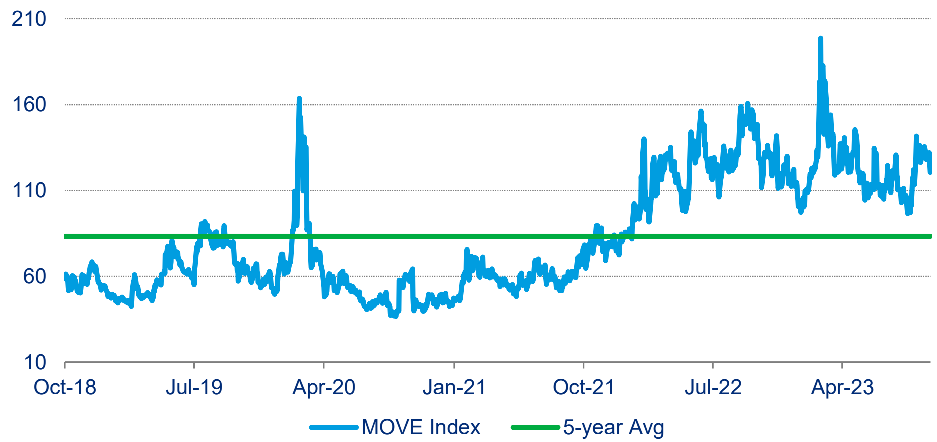
- Hedge funds were not rewarded during a period when risk was benign due to central bank puts, but conditions for alpha have improved on a variety of fronts.
- High cross-sectional spread dispersion provides alpha opportunities

**Dispersion in private versus public markets**




Source: Pitchbook and Mercer Analysis. Data as of March 31, 2023. Dispersion of returns calculated using a 23 year look back period except from Natural Resources (10yr), Infrastructure (10yr) and REITS (18yr).

**MOVE Index (Interest Rate Implied Vol) Last 5 Yrs**

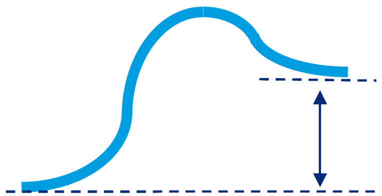



Source: Bloomberg. Data as at October 31, 2023.

# Themes and Opportunities – 2024 and beyond…

## Age of Agility

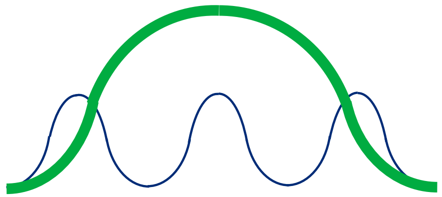
### Regime Change
**(Shifts and shocks)**



### Dispersion and dislocation
Opportunities in credit
Alpha, especially hedge funds
Secondaries
Emerging markets

### Efficiency gain
*Revisit Strategic Asset Allocation*
*(in light of flatter frontiers)*

### Super-cycles
**(Lasting supply/demand imbalances)**



### Inflation tides
Unlisted real estate and infra
Transition-aware natural resource equity
Inflation-linked bonds

### Shifting sands
Private debt
Opportunities in credit

### Mega-trends
**(Multi-decade directions)**

### Energy modernisation
Transition-aware natural resource equity
Next wave infrastructure

### The natural (re)order
*Broaden transition risk management*
Natural capital
Circular economy

Mercer



A business of Marsh McLennan