

IMAP Portfolio Management Conference – Sydney

Themes and Opportunities for 2024 and beyond...

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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.

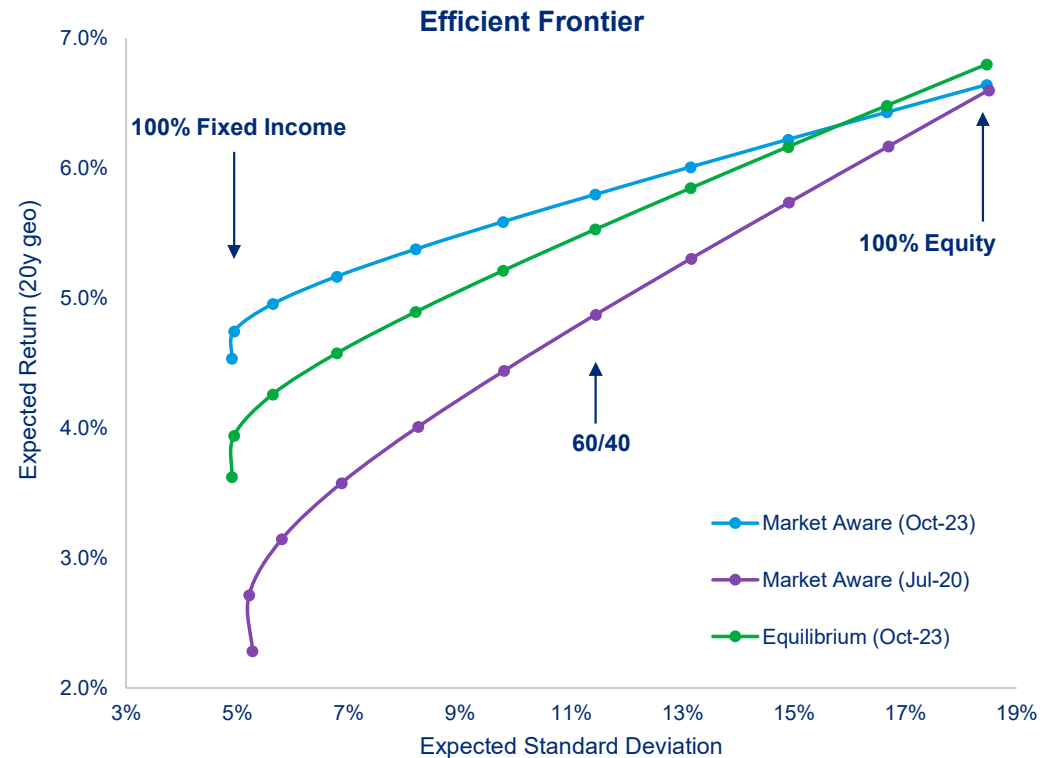
Increasing Time Horizon

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.

Regime Change

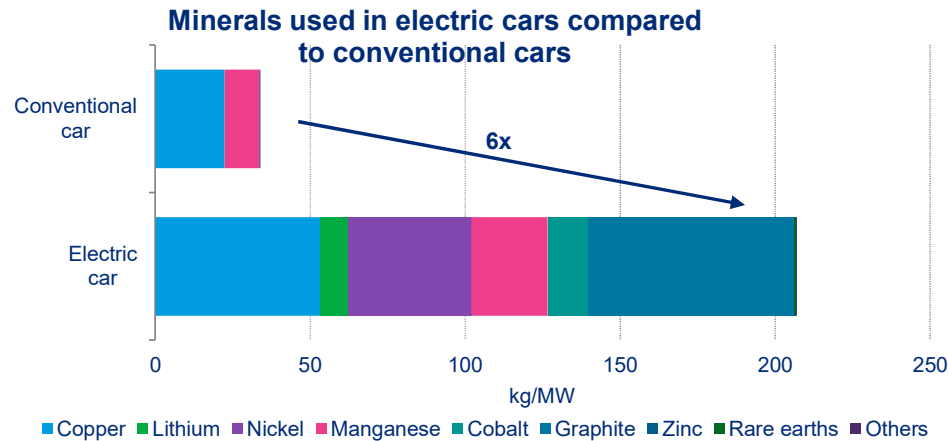


Source: Mercer Capital Markets Output over 20 years as of September 30, 2023. Market Aware refers to our assumptions considering current market valuations as reflected in price earnings ratios for equities and yields for bonds as of analysis date. Equilibrium refers to assumptions based on assumed long 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 EVs¹ 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.

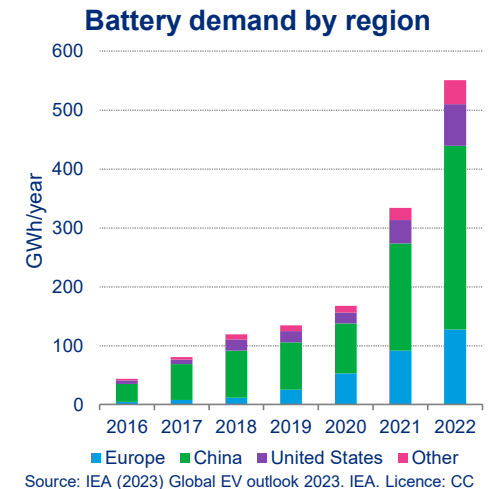
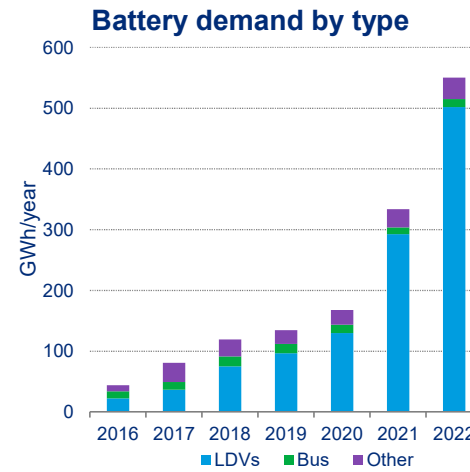


¹ICE = Internal Combustion Engine, EV = Electric Vehicle

[01_08_2023-Critical-Raw-Materials.pdf \(allianz.com\)](#)

[2 Key market trends – Critical Minerals MarketReview 2023 – Analysis - IEA](#)

- 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.



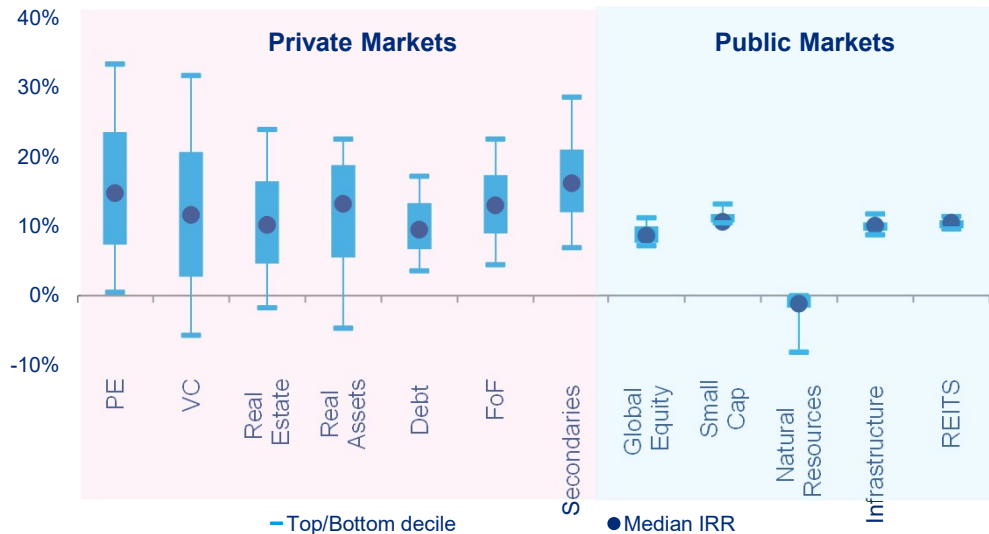
Dispersion and dislocation

Alpha generation in private markets

- 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



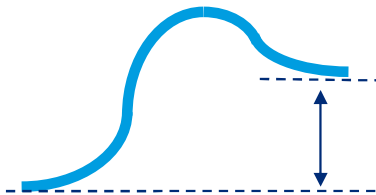
Source: Bloomberg. Data as at October 31, 2023.

Themes and Opportunities – 2024 and beyond...

Opportunities

Age of Agility

Regime Change (Shifts and shocks)



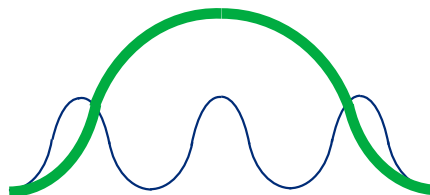
Dispersion and dislocation

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



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