

15 April 2026

Mercer Income Generator Fund – 2026 rate reset

Introduction

The Mercer Income Generator Fund pays a fixed monthly distribution which is adjusted or confirmed from the prior (October) reset, on or around 1 April. I am writing to advise you of the rate that has been set for the next six months. This follows the semi-annual review of the current and likely income generated by the portfolio in the months ahead.

A further update will be provided ahead of the semi-annual rate review on or about 1 October 2026.

Fixed distribution amount

The Income Generator Fund's fixed distribution amount will decrease by 0.33% from the last rate reset to 3.19% (gross), effective 1 April 2026. This equates to an annual gross distribution on a cents per unit (CPU) basis of 0.035, based on the 31 March 2026 unit price.

Rationale for the distribution rate

The reduction in the Fund's fixed distribution amount from 3.52% to 3.19% reflects lower yields across all asset classes held by the Fund. The largest decline came from the Cash allocation, which is 55 basis points (bps) lower than at the last reset in September 2025. This primarily reflects the Reserve Bank of New Zealand's rate cuts in the final quarter of 2025. The distribution rate is derived from the underlying assets within the Fund and represents the weighted average yields of the associated single sector indices.

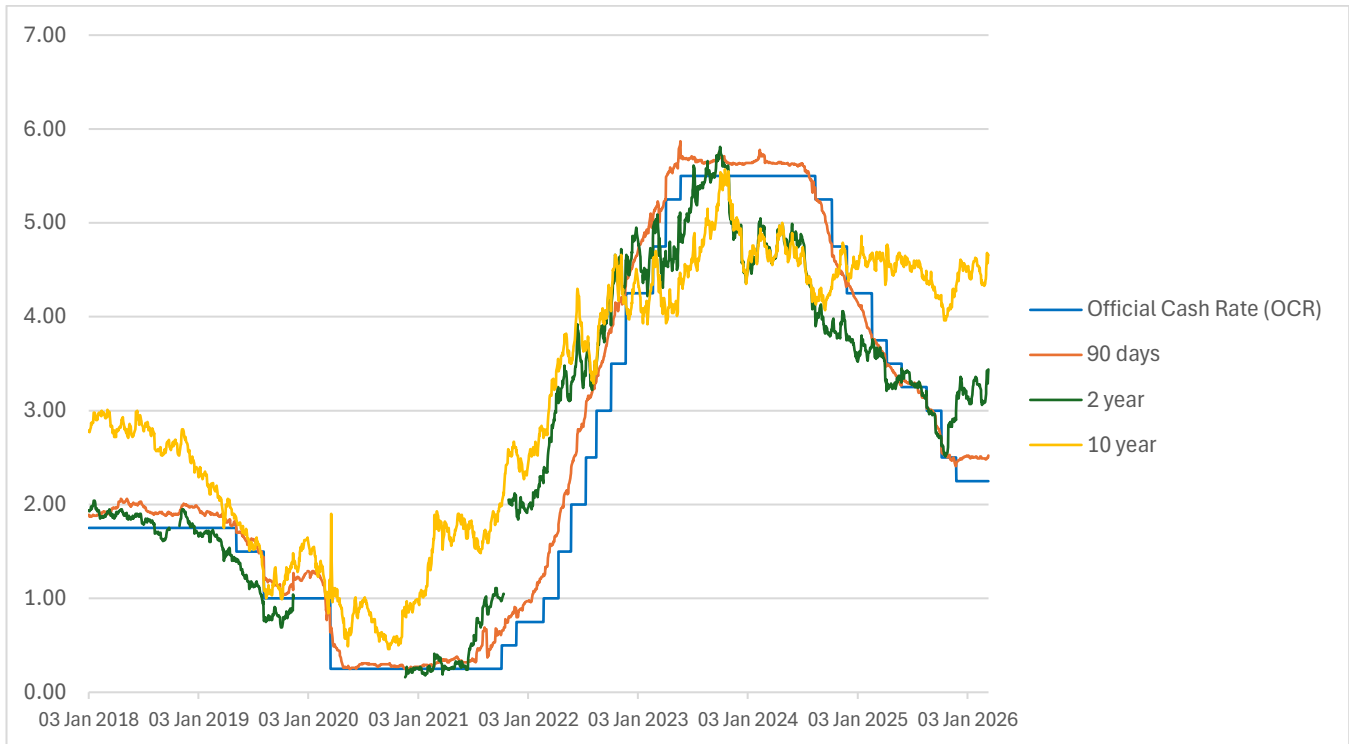
Since the last rate update at the end of September 2025, monetary conditions in New Zealand have continued to loosen. The Reserve Bank of New Zealand (RBNZ) delivered two consecutive rate cuts in Q4 2025, reducing the Official Cash Rate (OCR) by 75 bps to 2.25%. At its first meeting of the year in February, the RBNZ held the OCR at 2.25%, noting that economic activity is recovering, the labour market remains weak, and inflation is slightly above the 2–3% target range. The RBNZ expects inflation to return to the target range during 2026.

Globally, monetary policy has also eased. The US Federal Reserve (the Fed) made two consecutive 25 bps cuts in Q4, and the Bank of England cut its reference rate by 25 bps in December, both to 3.75%. The Fed's January meeting minutes showed division among officials about the path for interest rates, reflecting tension between those prioritising inflation containment and those emphasising labour market support. Given inflationary pressures in the US – including the impact of the current tariff regime and the appointment of the new Fed Chair, Kevin Warsh, who is known to favour higher rates – the US policy path could remain more restrictive than many global peers.

Equity markets began 2026 on a more volatile footing after a very strong 2025. Hedged global equities returned 3.1% in Q4 and 17.8% for the year. Continued optimism around AI was a key performance driver in 2025; the information technology sector returned 22.8% over the year. Performance on a hedged basis has remained strong into 2026, but unhedged returns have been materially weaker due to a pronounced weakening of the US dollar (USD) – particularly in January, when the NZ dollar (NZD) gained 5.2% against the USD. Higher domestic inflation prints and a broader shift away from the USD were central contributors. The New Zealand share market lagged global peers, reflecting limited exposure to IT-related gains in Q4 and ongoing domestic economic weakness.

Bond yields have been volatile since the last rate update. Yields fell to lows not seen since 2022 amid New Zealand economic weakness and market speculation that the RBNZ’s terminal OCR could be as low as 2%, before subsequently retracing those declines. Late-quarter speculative profit-taking and stronger-than-expected economic prints helped push yields higher, as illustrated in the chart below by the 2- and 10-year treasury yield lines.

Chart 1: New Zealand interest rates



Source: Reserve Bank of New Zealand

The Income Generator Fund’s distribution rate currently lags the prevailing term deposit (TD) rate. The 6-month TD rate has fallen along with the OCR, from 3.80% to 3.46%. Based on the most recent New Zealand yield curve, we believe we are at, or very close to, the bottom of the rate-cutting cycle. Commentary in the February Monetary Policy Statement said that “monetary policy is likely to remain accommodative for some time”, but this depends on the economy evolving as expected. The RBNZ will assess data carefully, and if the recovery strengthens and inflation returns to the target range, monetary policy settings are expected to gradually normalise, which would push the OCR higher.

We recognise the Fund's gross annual payout is currently lower than prevailing term deposit rates. However, the Income Generator Fund offers greater liquidity and the potential for capital appreciation. The Fund returned 8.1% over the year to 28 February 2026, supported by strong equity markets and declining interest rates that benefited fixed income. We believe the current asset allocation is appropriate to provide downside protection in a market sell-off while also delivering potential capital growth in more risk-on environments. The Fund's positioning remains consistent with its dual objective of delivering an attractive yield alongside moderate capital growth over time.

The outlook for 2026 is subject to substantial uncertainty, much of it originating from developments in the United States. At the time of writing, the US and Israel aerial operations involving Iran have created significant complications for the global energy market and broader logistics – particularly given the effective closure of the Strait of Hormuz to safe shipping transit. Continued application of tariffs by the US, despite legal challenges to earlier measures, remains a headwind for global trade and growth; the intermittent and unpredictable nature of tariff actions adds further uncertainty about their economic impact.

The continued advancement of AI remains an important structural theme, with ongoing implications for productivity and employment. Domestically, 2026 is an election year, which can contribute to elevated market volatility. In such periods the importance of diversification is heightened, and we remain confident in the Fund's ability to navigate these conditions.

When will the rate apply?

The monthly fixed distribution applies for the period from 1 April 2026 to 30 September 2026. The distribution is paid at the close of business on the last business day of each month.

Further information

If you have any questions about this update or your Mercer Investment Funds, please contact me or your Relationship Manager, Jenny Edwards, on 021 076 0271 or email jenny.edwards@mercer.com.

Yours sincerely



Adam McKenzie
Head of Wealth, NZ
adam.mckenzie@mercer.com