MLC MasterKey Investment Service Fundamentals (Investments)

MLC Wholesale Australian Share Fund

Fund Commentary

Performance drivers and positioning of the fund for the recent calendar quarter are explained below. Our investment experts also provide regular investment updates at mlcam.com.au/insights

The Australian equity market posted strong returns over the December 2022 quarter. The S&P/ASX200 Total Return Index ('market benchmark') returned 9.4% and the MLC Australian Share Fund returned 8.3% (before fees and tax) underperforming the market benchmark by -1.13%.

The fund over 1 year returned -1.4% (before fees and tax) to 31 December 2022. This was -0.3% worse than the market benchmark's -1.1% return, and was due to the underperformance from one of our appointed managers, Northcape.

The often mentioned Santa rally failed to materialise in Australian equities and the market fell in December 2022 but still posted gains over the quarter as a whole. For calendar year 2022, the Australian market was one of the best performing equity markets globally, easily outperforming both developed and emerging markets peers. This was not a bad outcome given the current geopolitical environment; credit for which can largely be given to our exposure to energy and resource companies.

Market performance drivers were notably concentrated in energy and utilities this year, that is, only a handful of names drove overall returns. In fact, circa 70% of the ASX 300 companies underperformed the market this year.

The Materials sector rose strongly to finish the quarter up 15% as BHP, Rio and Fortescue all had very strong quarters, rising on a stronger iron ore price in hopes that demand for the commodity will increase rapidly as China continues to reopens its economy, reversing its severe and widespread Covid lockdown policies.

Please refer to the 'Market commentary' for an overview of what happened in other domestic and global markets over the quarter.

Stock story

One of our Australian shares managers, Northcape, provided the following stock story for one of the fund's holdings, which you may find interesting:

"We added to our weighting in **Seek** over the December quarter as the valuation became more compelling. Forecast earnings are presently at their lowest since the company listed.

The stock underperformed the market considerably over the year, driven by two factors. The first was the global derating of all tech related stocks, a reaction to very high valuations in a rising interest rate environment. Seek's valuation at the time was not historically that high so it moved to a discount to fair value. Secondly, as the year progressed fears of recessionary conditions that may impact employment hiring levels continued to place pressure on the share price. From an earnings perspective, Seek enjoyed on average earnings upgrades over the year due to the buoyant employment conditions, resulting in a further expansion of the discount to our valuation.

While we do expect employment conditions to temper in Australia these are already in our forecasts and Seek is on the front foot in terms of reducing costs. As 2023 progresses the company will benefit from significant reduction in development costs as they complete the platform unification of the Southeast Asian business. This platform will also deliver operating efficiencies and some revenue opportunities.

Should sentiment towards the stock remain poor we are likely to continue to add to the position."

Notes:

- As our investment managers are constantly reviewing and making changes to their holdings, this company may no longer be included in the portfolio.

- Commentary for this fund will be updated approximately three weeks after the end of the calendar quarter.