

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 share market posted reasonable returns over the March 2023 quarter. The S&P/ASX200 Total Return Index (market benchmark) returned 3.5% and the MLC Australian Share Fund returned 5.2% (before fees and tax) outperforming the market benchmark by 1.7%.

The fund over one year returned 1.7% (before fees and tax) to 31 March 2023. This was 1.6% better than the market benchmark's 0.1% return and was due to the strong outperformance from two of our appointed managers, Northcape and Antares.

As mentioned earlier, the Australian share market delivered positive returns, rising alongside both its developed and emerging markets peers. The quarter had a particularly strong start in January as investors focused on easing inflationary fears and hopes that central banks could start slowing their pace of interest rate hikes. Iron ore prices also rebounded in January, rising on the expectation of an improving Chinese economy in 2023 following the removal of COVID restrictions in December, but paused for breath towards the end of the quarter as investors looked for evidence of the strength of China's economy following its re-opening.

Most sectors were positive with Consumer Discretionary performing strongly, up 11.4%, driven by investors' willingness to take on more risk and some strong individual performances followed by Communication Services (9.4%) off the back of Telstra's strong performance. Financial Services was the weakest, down 2.7%, on worries about the unfolding banking crisis and mortgage competition. The real estate sector was one of the weaker performing sectors over the quarter. This mirrored the sell-off in property names in other markets including the US and Europe as investors worried that the turmoil in the US banking sector could tighten access to credit and put property prices under further pressure.

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:

"Technology stocks peaked in 2021 at extremely high valuations and then sold off somewhat indiscriminately as interest rates rose in 2022. We took the opportunity to add to high quality names like **Xero** where we saw a credible path to profitability and a defensible business model even in the face of changing macroeconomic conditions.

In 2023, the sector is entering a new phase where the market is being highly discerning based on the perceived ability of tech companies to generate profits and cash flow. This is a favourable development for investors like us who are more focused on business model strength than growth in user metrics. Some of the companies in our portfolio have been able to pivot their strategy to prioritise profitability as well as growth, as opposed to growth alone. Meanwhile other one-time high flying tech companies have crashed as their weaker business models have not allowed a pivot to profitability.

In March, Xero announced it would be cutting up to 800 staff (c.15% of its workforce) and targeting a lower operating expense to revenue ratio compared to recent years. This decision signalled to the market an inflection point in strategy where strong growth would now also be balanced with profit-generation and the stock rebounded by 27% during the March quarter. We were pleased to see this outcome as we had been agitating for this change with management."

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.