



Pre Select commentaries

Quarter ended 31 December 2022

Contents

Economic and market commentary	1
Contributors to performance	2
Pre Select Conservative Fund	2
Pre Select Balanced Fund	3
Pre Select Growth Fund.....	3
Pre Select High Growth Fund	3

Economic and market commentary

Asset class returns to 31 December 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.
Australian shares	-3.2%	9.4%	-1.1%	5.5%	7.1%	8.7%
Global shares (hedged)	-4.8%	7.1%	-17.7%	3.2%	4.9%	9.5%
Global shares (unhedged)	-5.1%	4.1%	-12.5%	5.3%	8.3%	12.7%
Emerging markets (unhedged)	-2.6%	4.0%	-14.3%	-1.5%	1.5%	5.8%
Australian property securities	-4.0%	11.6%	-20.1%	-0.8%	3.8%	8.5%
Global property securities (hedged)	-3.8%	4.0%	-24.2%	-5.6%	-0.4%	4.6%
Global listed infrastructure (hedged)	-2.8%	6.4%	-4.2%	1.2%	4.8%	8.7%
Australian bonds	-2.1%	0.4%	-9.7%	-2.9%	0.5%	2.3%
Global bonds (hedged)	-1.3%	0.6%	-12.3%	-3.2%	-0.2%	2.3%
Global high yield bonds (hedged)	0.4%	2.8%	-0.9%	1.6%	2.5%	-
Australian Inflation-linked bonds	-1.3%	3.4%	-4.1%	0.6%	2.0%	2.3%
Cash	0.2%	0.7%	1.3%	0.5%	1.0%	1.7%
AUD/USD	1.3%	5.5%	-6.7%	-1.2%	-2.8%	-4.2%

Index data sources: Australian shares - S&P/ASX 200 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged) ; Global shares (unhedged) - MSCI All Countries World; Emerging markets - MSCI Emerging Markets; Australian property securities - S&P/ASX 300 LPT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - BCGA Global Agg (A\$ hedged); Global high yield bonds (A\$ hedged) - Composite of BCGA US Corp HY BB/B (A\$ hedged) & Morningstar LSTA US B/BB Ratings Loan Index; Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index, WM/Reuters Daily (4 pm GMT).

Global

2022 was a year dominated by large scale events and trends, from the invasion of Ukraine in February to sharp interest rate increases and inflation across major economies, Chinese-US tensions, unrest in Iran and pivotal elections in the US and elsewhere. In the final quarter of the year, financial markets were becoming more resilient to inflation and interest rate risks with strong returns in global shares. The Australian dollar increased relative to the US dollar over the quarter. As a result, being hedged to the Australian dollar was beneficial for global share investors over this period with global shares (hedged) returning +7.1% in the December quarter.

Global bonds (hedged) remain weak as bond yields climbed higher in 2022 year given inflation pressures and worries over aggressive interest rate rises by central banks. Global high yield bonds (hedged) managed to stabilise with a positive 2.8% return in the December quarter. However, credit investors are also very cautious given the climate of rising inflation and weaker share markets this year.

Australia

Australian shares have also been shaken by global political and inflation concerns this year but managed a very strong 9.4% return for the three months to December. The Utilities sector lead the gains with a very strong 28% return with signs that bond yields were stabilizing. The Resource sector made strong gains (14.7%) given rising iron ore & base metal prices with hopes that China's economic growth could rebound with a less restrictive Covid strategy. The Financial sector delivered a favourable 11% quarterly gain as credit demand remained solid.

Australia's economy appears solid in contrast to the global recession concerns. There have been encouraging results in business surveys and retail spending. Australia's unemployment rate fell to 3.4% in November given solid jobs gains. Yet the inflation acceleration is very concerning with sharp rises in energy and food prices pushing annual inflation to 6.9% in October. This has warranted the RBA raising interest rates from 0.1% in April to 3.1% in December.

Global prospects

The troubling trio of rising inflation, higher interest rates and the war in Ukraine has provided a painful investing climate in 2022. Inflation has risen to multi-decade highs around the world with consumers being squeezed by the higher 'cost of living'. Central banks are rapidly raising interest rates to cool these inflation pressures.

Investors are very worried about whether central banks can safely navigate the challenge of moderating inflation without severely damaging economic activity. As interest rates sharply rise and financial conditions for borrowers become tougher, investors become naturally concerned that a global recession could occur in 2023.

For investors, assessing these considerable inflation and interest rate risks is very challenging. Given the current investment climate is dynamic with multiple positive and negative scenarios possible, investors should maintain a disciplined and diversified strategy to manage these extraordinary risks.

Portfolio positioning

During the December quarter, we appointed new global shares and bond managers to improve returns and manage risks in the portfolios. Royal London and Pzena have been appointed in global shares replacing Tweedy, Browne and Kiltearn. Janus Henderson Income, Metrics Diversified Australian Senior Loan, Antares Short Maturity Credit, Western Asset Management High Grade Multi -Asset Credit and Wellington 1+years investment grade credit were appointed in bonds replacing Antares 0-3 years, Ardea, Insight, Loomis Sayles and Wellington 1-3 years investment grade credit.

Contributors to performance

Pre Select Conservative Fund

The Fund returned 3.2% for the quarter (before fees) and -3.6% for the year.

Key contributors to performance for the quarter ended 31 December 2022 are:

- In a volatile quarter, that saw large swings in both share and bond markets, **Australian and global shares hedged** had exceptionally strong returns of +8.4% and +9.2%.
- The **listed infrastructure** exposure had a very strong return of +5.6%.
- The **Inflation-linked bonds** strategy has reduced the exposure to inflationary risks while protecting against expectations of lower economic growth.

Note: Returns for the asset classes above are before fees and tax.



Pre Select Balanced Fund

The Fund returned 4.2% for the quarter (before fees) and -5.2% for the year.

Key contributors to performance for the quarter ended 31 December are:

- In a volatile quarter, that saw large swings in both share and bond markets, **Australian and global shares hedged** had exceptionally strong returns of +8.4% and +9.2%.
- The **listed infrastructure** exposure had a very strong return of +5.6%.
- The **Inflation-linked bonds** strategy has reduced the exposure to inflationary risks while protecting against expectations of lower economic growth.

Note: Returns for the asset classes above are before fees and tax.

Pre Select Growth Fund

The Fund returned 5.5% for the quarter (before fees) and -7.2% for the year.

Key contributors to performance for the quarter ended 31 December 2022 are:

- In a volatile quarter, that saw large swings in both share and bond markets, **Australian and global shares hedged** had exceptionally strong returns of +8.4% and +9.2%.
- The **listed infrastructure** exposure had a very strong return of +5.6%.
- The **Inflation-linked bonds** strategy has reduced the exposure to inflationary risks while protecting against expectations of lower economic growth.

Note: Returns for the asset classes above are before fees and tax.

Pre Select High Growth Fund

The Fund returned 6.3% for the quarter (before fees) and -7.5% for the year.

Key contributors to performance for the quarter ended 31 December 2022 are:

- In a volatile quarter, that saw large swings in both share and bond markets, **Australian and global shares hedged** had exceptionally strong returns of +8.4% and +9.2%.
- The **listed infrastructure** exposure had a very strong return of +5.6%.
- The **Inflation-linked bonds** strategy has reduced the exposure to inflationary risks while protecting against expectations of lower economic growth.

Note: Returns for the asset classes above are before fees and tax.



Important information

This information is provided by Navigator Australia Limited (ABN 45 006 302 987, AFSL 236466), part of the Insignia Financial Group of companies (comprising Insignia Financial Ltd ABN 49 100 103 722 and its related bodies corporate) ('Insignia Financial Group').

This information may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs.

You should obtain a Product Disclosure Statement (PDS) relating to the financial products mentioned in this communication issued by Navigator Australia Limited, and consider it before making any decision about the product. A copy of the PDS is available upon request by phoning the MLC call centre on 132 652 or on our website at mlc.com.au.

No member of the Insignia Financial Group guarantees or otherwise accepts any liability in respect of any financial product referred to in this communication.

The capital value, payment of income, and performance of any financial product referred to in this communication are not guaranteed. An investment in any such financial product referred to in this communication is subject to investment risk, including possible delays in repayment of capital and loss of income and principal invested.

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. The performance returns in this communication are reported before deducting management fees and taxes unless otherwise stated.

This information is directed to and prepared for Australian residents only.

Navigator Australia Limited may use the services of any member of the Insignia Financial Group where it makes good business sense to do so and will benefit customers. Amounts paid for these services are always negotiated on an arm's length basis.

The investment managers are current as at the date this communication was prepared. Investment managers are regularly reviewed and may be appointed or removed at any time without prior notice to you.
