



Pre Select commentaries

Quarter ended 30 June 2022

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Economic and market commentary

Asset class returns to 30 June 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.
Australian shares	-8.8%	-11.9%	-6.5%	3.3%	6.8%	9.3%
Global shares (hedged)	-7.7%	-14.3%	-13.6%	5.6%	6.7%	10.4%
Global shares (unhedged)	-4.5%	-7.9%	-8.0%	6.9%	9.4%	13.2%
Emerging markets (unhedged)	-2.6%	-3.3%	-18.4%	1.2%	4.4%	7.3%
Australian property securities	-10.4%	-17.5%	-11.2%	-1.9%	5.0%	9.5%
Global property securities (hedged)	-7.8%	-15.6%	-10.5%	-1.4%	1.9%	6.6%
Global listed infrastructure (hedged)	-5.1%	-5.5%	5.4%	3.7%	5.9%	9.8%
Australian bonds	-1.5%	-3.8%	-10.5%	-2.6%	0.9%	2.6%
Global bonds (hedged)	-1.6%	-4.7%	-9.3%	-1.6%	0.8%	3.1%
Global high yield bonds (hedged)	-2.3%	-4.6%	-3.1%	1.0%	2.2%	0.0%
Australian Inflation-linked bonds	-0.8%	-2.1%	-4.7%	0.3%	1.9%	2.3%
Cash	0.1%	0.1%	0.1%	0.3%	0.9%	1.7%
AUD/USD	-4.1%	-8.4%	-8.4%	-0.7%	-2.2%	-3.9%

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) & S&P LSTA BB/B Leveraged 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

Global shares (hedged) delivered a weak return of -14.3% for the quarter ending 30 June 2022. June concluded the worst first-half year for share markets in decades, with the US share market, as measured by the S&P 500 Index, declining by 20.1% in local currency terms. Rising inflation and interest rates, supply chain woes intensified by ongoing zero-COVID measures in China, and the Russian invasion of Ukraine have sent a wave of uncertainty across the global economy.

Global bonds (hedged) delivered a weak -4.7% return for the quarter. Government bond yields have climbed as persistent inflation pressures is seeing central banks signal higher interest rates are likely over coming years.

Australia

Australian shares were not immune to the sharp sell-off in global share markets over the course of the second quarter of 2022 and delivered a weak return of -11.9% in the three months to June 2022. Many central banks engaged in monetary tightening, raising interest rates to combat high inflation. This in turn heightened investor fears of a global economic recession. The concerns over a slowing global economy and a reduction in demand saw oil prices pull back as the quarter progressed. Iron ore prices also fell sharply as China's zero-COVID policy continued to weigh negatively on economic activity and therefore demand for iron ore.

There continued to be a rotation out of growth and higher multiple companies into value stocks, particularly in defensive areas of the market. The Australian share market's heavy fall over the June quarter saw all sectors finish lower except for the Utilities and Energy sectors which both eked out small gains. Particularly hard hit were the Information Technology, Materials and Consumer Discretionary sectors as investors repositioned their portfolios more defensively for the expected softer economic times ahead.

Looking forward...

The troubling trio of rising inflation, higher interest rates and the war in Ukraine is providing a more challenging and painful investing climate. Inflation has moved to multi-decade highs around the world. Central banks with inflation targets are compelled to rapidly raise interest rates to cool these price pressures. This implies that the cost for lowering inflation is to reduce demand to meet the limited available supply of goods.

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

Investors face a difficult task in assessing these considerable inflation, interest rate and economic activity risks in the coming financial year. 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.

MLC believes that maximising returns over time is about getting the balance right between understanding opportunities and managing risks. MLC's 'participate and protect' investment philosophy aims to gather returns from a diverse range of assets while also keeping a watchful eye out for any potential setbacks.

Portfolio positioning

During the June quarter, we appointed new bond managers to improve returns and manage risks in the portfolios. These new managers have more flexibility to take market opportunities. Ardea Investment Management and Janus Henderson Investors have been appointed as Australian bond managers in the all maturities strategy, replacing UBS Asset Management. Brandywine Global Investment Management and PGIM Fixed Income have been appointed as global bond managers in the all maturities strategy, replacing Amundi Asset Management, Insight Investment Management, Loomis Sayles and Wellington Management.

Contributors to performance

Pre Select Conservative Fund

The Fund returned -3.5% for the quarter (before fees) and -4.0% for the year.

Key contributors to performance for the quarter ended 30 June 2022 are:

- The exposure to inflation-linked bonds has been important in the recent environment where rising inflation has battered nominal fixed income prices and the sustainability of positive economic growth is being questioned as financial conditions tighten.
- The fund also invests in the MLC Inflation Plus portfolios, providing important real return exposure and sources of low correlation return streams. In a volatile quarter that saw negative returns in both share markets and fixed income, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy both produced strong positive returns of 1.8% and 1.5% respectively.

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



Pre Select Balanced Fund

The Fund returned -5.4% for the quarter (before fees) and -5.3% for the year.

Key contributors to performance for the quarter ended 30 June 2022 are:

- The exposure to inflation-linked bonds has been important in the recent environment where rising inflation has battered nominal fixed income prices and the sustainability of positive economic growth is being questioned as financial conditions tighten.
- The fund also invests in the MLC Inflation Plus portfolios, providing important real return exposure and sources of low correlation return streams. In a volatile quarter that saw negative returns in both share markets and bonds, within Inflation Plus, the Low Correlation Strategy and insurance-related investments strategy produced strong positive returns of 1.8% and 1.5% respectively.

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

Pre Select Growth Fund

The Fund returned -7.5% for the quarter (before fees) and -6.7% for the year.

Key contributors to performance for the quarter ended 30 June 2022 are:

- The exposure to inflation-linked bonds has been important in the recent environment where rising inflation has battered nominal fixed income prices and the sustainability of positive economic growth is being questioned as financial conditions tighten.
- The fund also invests in the MLC Inflation Plus portfolios, providing important real return exposure and sources of low correlation return streams. In a volatile quarter that saw negative returns in both share markets and bonds, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy produced strong positive returns of 1.8% and 1.5% respectively.

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

Pre Select High Growth Fund

The Fund returned -8.5% for the quarter (before fees) and -6.9% for the year.

Key contributors to performance for the quarter ended 30 June 2022 are:

- The exposure to inflation-linked bonds has been important in the recent environment where rising inflation has battered nominal fixed income prices and the sustainability of positive economic growth is being questioned as financial conditions tighten.
- The fund also invests in the MLC Inflation Plus portfolios, providing important real return exposure and sources of low correlation return streams. In a volatile quarter that saw negative returns in both share markets and bonds, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy produced strong positive returns of 1.8% and 1.5% respectively.

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



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