



Pre Select commentaries

Quarter ended 30 September 2022

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Economic and market commentary

Asset class returns to 30 September 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.
Australian shares	-6.2%	0.4%	-7.7%	2.7%	6.8%	8.4%
Global shares (hedged)	-9.0%	-5.5%	-18.1%	3.3%	4.6%	9.1%
Global shares (unhedged)	-3.6%	-0.3%	-10.9%	5.4%	8.7%	12.6%
Emerging markets (unhedged)	-5.9%	-5.4%	-19.2%	-0.5%	2.2%	6.0%
Australian property securities	-13.6%	-6.9%	-21.1%	-4.6%	3.1%	8.0%
Global property securities (hedged)	-11.8%	-10.5%	-19.7%	-6.6%	-0.5%	4.9%
Global listed infrastructure (hedged)	-10.9%	-7.6%	-3.4%	-0.1%	3.9%	8.6%
Australian bonds	-1.4%	-0.6%	-11.4%	-3.4%	0.8%	2.3%
Global bonds (hedged)	-3.5%	-3.8%	-12.8%	-3.6%	-0.2%	2.4%
Global high yield bonds (hedged)	-2.6%	1.2%	-2.9%	1.2%	2.2%	0.0%
Australian Inflation-linked bonds	-2.8%	-1.5%	-6.4%	-0.6%	1.6%	2.0%
Cash	0.1%	0.4%	0.5%	0.4%	0.9%	1.7%
AUD/USD	-6.2%	-6.5%	-11.0%	-1.6%	-3.9%	-4.7%

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

The troubling conflict in Ukraine, persistent inflation pressures and central banks aggressively raising interest rates remain the dominant issues for investors. Global shares (hedged) delivered a weak -5.5% return for the three months to September. The sharp fall in the Australian dollar mitigated most of the pain for global shares (unhedged) portfolios with a milder -0.3% negative return.

Global bonds (hedged) remain weak after a poor start for the year. Government bond yields have climbed higher this 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 1.2% return. 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 but managed a mild positive 0.4% return for the three months to September. The Energy sector continued its strong run with a 5.9% quarterly gain given the surge in coal and gas prices. Health Care stocks provided a haven with a solid 3.3% return while the Financial sector was resilient with a mild 1.5% quarterly gain. However, there were disappointing returns from the Utilities (-12.5%) and Real Estate Investment Trusts (-6.7%) sectors given their sensitivity to rising interest rates.

Australia's economy appears solid in contrast to the global recession concerns judging by encouraging results in business surveys, employment, and retail spending. Australia's unemployment rate has fallen to 3.5% in August. Yet the inflation acceleration is very concerning and has warranted the Reserve Bank of Australia (RBA) raising interest rates from 0.1% in March to 2.6% in October. Australia's consumer inflation appears on track to meet the RBA's forecast inflation peak of 7.75% at the end of this year.

Global prospects

The troubling trio of rising inflation, higher interest rates and the war in Ukraine is providing a painful investing climate this year. Inflation is now at multi-decade highs around the world with consumers acutely pressured by the higher 'cost of living'. Central banks are rapidly raising interest rates to cool these inflation pressures.

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 global recession could occur.

Investors face a very difficult task in assessing these considerable inflation and interest rate risks. 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

We have reviewed the strategic (benchmark) asset allocation (SAA) and ranges for each fund so they remain relevant. We considered new asset classes and strategies that are available, changes in the competitive landscape, and risk and return efficiency of the portfolios. We believe the changes will reduce the funds' volatility and improve returns. The main change from the review is the introduction of a new asset class, global listed infrastructure, effective 30 September 2022.

Contributors to performance

Pre Select Conservative Fund

The Fund returned -0.8% for the quarter (before fees) and -5.6% for the year.

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

- The exposure to inflation-linked bonds has reduced exposure to inflationary risks while protecting against expectations of lower economic growth.
- The overweight to global shares unhedged was beneficial due to the persistent strength in the US dollar.
- 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 for share markets and fixed income, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy both produced strong positive returns of 2.3% and 2.0% respectively.

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



Pre Select Balanced Fund

The Fund returned -1.3% for the quarter (before fees) and -7.6% for the year.

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

- The exposure to inflation-linked bonds has reduced exposure to inflationary risks while protecting against expectations of lower economic growth.
- The overweight to global shares unhedged was beneficial due to the persistent strength in the US dollar.
- 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 for share markets and fixed income, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy both produced strong positive returns of 2.3% and 2.0% respectively.

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

Pre Select Growth Fund

The Fund returned -1.9% for the quarter (before fees) and -9.8% for the year.

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

- The exposure to inflation-linked bonds has reduced exposure to inflationary risks while protecting against expectations of lower economic growth.
- The overweight to global shares unhedged was beneficial due to the persistent strength in the US dollar.
- 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 for share markets and fixed income, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy both produced strong positive returns of 2.3% and 2.0% respectively.

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

Pre Select High Growth Fund

The Fund returned -1.8% for the quarter (before fees) and -10.2% for the year.

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

- The exposure to inflation-linked bonds has reduced exposure to inflationary risks while protecting against expectations of lower economic growth.
- The overweight to global shares unhedged was beneficial due to the persistent strength in the US dollar.
- 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 for share markets and fixed income, within Inflation Plus, the Low Correlation Strategy and the insurance-related investments strategy both produced strong positive returns of 2.3% and 2.0% respectively.

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



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