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MLC's scenario insights & portfolio positioning

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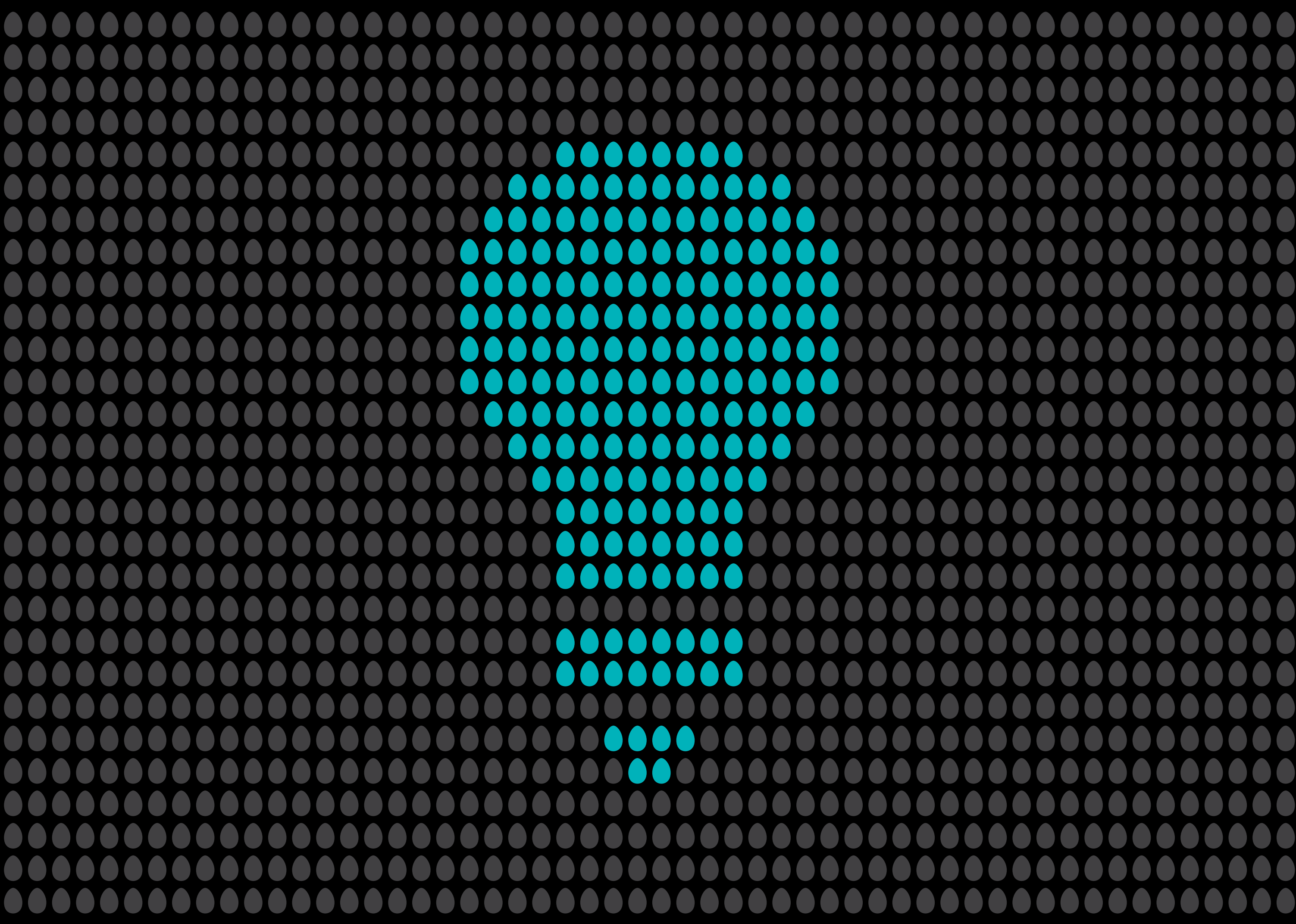
MLC's investment and super portfolios

- *MLC Inflation Plus, MLC Horizon and MLC Index Plus portfolios*

MLC's Managed Account Strategies

- *MLC Premium and Value model portfolios*



Contents

Update for the quarter ending 31 December 2020.

Continued at end of update.

Quarterly insights

Highlights

- **No investment strategy enjoys the luxury of being able to remain stationary. This applies doubly to absolute return expectations of assets and to the framework for asset selection.**
- **The actual experience of capital invested across the last decade has almost consistently been at odds with expectations.**
- **Whatever the outcome for inflation, we can be more certain about the path forward for real rates than we can be for nominal rates. Thus at this stage, assets that generate real cash flows (ie those that are sensitive to inflation) are far more valuable than nominal cash flows.**
- **Facing into a profoundly low real-rate environment, with the risk of both inflation and continued disinflation at the fore, we continue to take measured steps to embrace risk where we believe it will be rewarded and build as much exposure as possible to real cash flows into our portfolios. All in all, a prudent approach to building inflation hedges into a diversified portfolio remains warranted at this point in time.**

Insights

There are perhaps many wrong ways to invest money, yet there is no universal right way. The right way will always depend heavily on beliefs, objectives and constraints. And while beliefs and objectives might remain constant, the constraints faced by both benchmark-relative and real-return investors change at the whim of conditions in the financial and real economy.

No investment strategy enjoys the luxury of being able to remain stationary. This applies doubly to absolute return expectations of assets and to the framework for asset selection. Current low real rates are a case in point for changing return expectations, and the usefulness of simplistic measures of valuation (eg price-to-earnings ratio) for asset selection. While a risk free real return of 3% was a reasonable expectation pre-2010, for the same level of certainty we'd now expect a real return below zero, meaning that investors must accept a reduction in purchasing power in order to hold a risk-free asset. Likewise, the multi-year poor performance of deep-value stocks has taught benchmark-relative investors that simplistic measures of valuation such as price-to-earnings and price-to-book might not reflect relative mispricing across securities as well as in the past.

The **real economy** is the production and flow of goods and services in the economy. The **financial economy** is concerned with asset prices (eg shares) and interest rates. Inflation in the real economy is inflation in prices of goods and services; the Consumer Price Index (CPI) is a measure of the real economy's inflation in Australia. Inflation in the financial economy is asset price inflation.

"All asset classes are expensive, the opportunity for diversification low, and the expected return of nearly all asset classes is depressed well below long-term expectations".

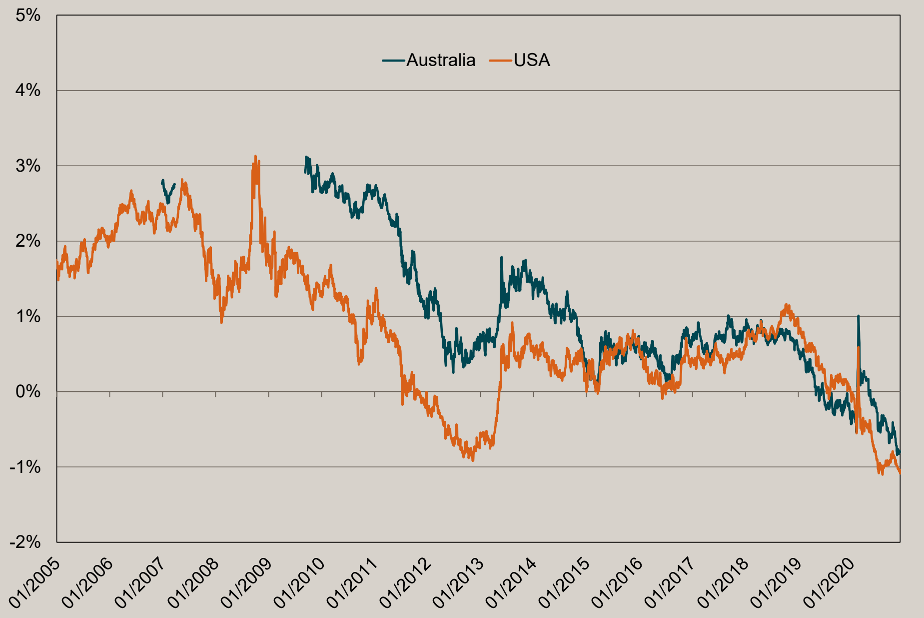
Though not a direct quote, this type of enthusiasm dampening outlook has no doubt been penned in some shape or form at the beginning of many annual investment outlooks over the past decade. Yet, the actual experience of capital invested across the last decade has almost consistently been at odds with expectations. What started as low real and nominal interest rates at the beginning of each year, progressively inched lower rewarding any asset with duration and punishing cash (Chart 1). As a result, the more fully invested a strategy, the better the outcome.

Of course, the pattern of ever decreasing rates cannot go on forever, at some point both nominal and real rates must at least plateau and perhaps even rise. The problem is though, that interest rate cycles can be very prolonged. Real rates in particular can remain depressed for decades. Yet when rates change they can change very fast. And because the risk-free interest rate forms the basis for the cost of capital for more risky assets, capital losses resulting from a rise in core interest rates can have a profound impact across a portfolio. This leaves real-return investors caught in the tension of needing to increase portfolio risk exposure to meet return expectations set when real rates were higher and, as a consequence, facing losses if the rate regime suddenly shifts higher. At a time like this, good investors question everything and search out the cheapest way of trading off the need for more portfolio risk exposure against the consequence of being caught wrong-footed by something unexpected.

MLC'S ACTIVE INVESTMENT APPROACH

- Key to MLC's market-leading investment approach is our unique Investment Futures Framework.
- In an unpredictable world, the Framework helps us comprehensively assess what the future might hold. By taking into account the many scenarios that could unfold – positive and negative – we gain continuing insight into return potential, future risks, and opportunities for diversification.
- The information from the Framework gives us a deep understanding of how risks and return opportunities change over time for both individual assets and total portfolios.
- We can then determine the asset allocations that will help achieve our portfolios' objectives with the required level of risk control, and adjust the portfolio if necessary. We'll generally reduce exposure to assets if we believe risk is too high. We prefer exposures with limited downside risk compared to upside potential.
- More information about MLC's investment approach is available on our website and in Appendix 1.

Chart 1: 10 year government bond real yields - Australia vs US



Source: Bloomberg.

Changes in the real interest rate are not born equal. The peculiarity of how real interest rates change will influence how asset prices behave. Real interest rates can rise because either inflation falls faster than nominal interest rates fall or because nominal rates rise faster than inflation rises. Conversely, real rates can fall because inflation rises faster than nominal interest rates rise or because nominal rates fall faster than inflation falls. The current regime is one of nominal rates falling faster than inflation; without doubt the most favourable combination of inflation and nominal rates for growth assets. The cost of capital falls, while at the same time revenues and incomes continue to grow albeit at a sub-trend pace. With this as the backdrop it is not surprising shares have delivered as well as they have over the prevailing decade. And while we will never know the counterfactual, should a fall in real rates manifest from a shift to higher inflation (with less change in nominal rates), then it is arguable that while particular businesses with favourable cost-to-income inflation dynamics should provide a decent hedge because their income rises, the share market in general might not generate the same level of performance witnessed while nominal rates fell faster than inflation.

From hereon however, the coalescence of several phenomena that might influence inflation, and by extension interest rates, should make us pause for thought. Continuation of the stable disinflationary growth regime requires maintenance of both supply and demand side factors, both of which are at risk of change. The aggressive fiscal stimulus deployed by governments in response to COVID-19 might eventually spur a shift to unsustainable aggregate demand, while the supply-side risks losing some of the tail winds that have boosted supply and increased productivity over the past two decades. Pre-COVID, deglobalisation had already begun to emerge as an important supply side factor which has now been accelerated by the pandemic. Re-directed supply chains, prohibited investments, increased taxes and tariffs, all undermine efficient transmission of productivity and increase the cost of supply.

Yet, that the threats to disinflation are in place and easy to identify, does not itself guarantee a changed inflation regime is at hand. Aggregate demand is probably the weakest link on the path to inflation. Despite the large stimulus, it is unclear how consumers will behave once an equilibrium is established with COVID-19. Will consumers be inclined to save more? Can government spending overcome the potential loss in private consumption that might eventuate from an increase in precautionary behaviour? These are all impossible to second guess.

What is clearer though, is that maintenance of low real interest rates is critical for highly indebted governments. Low real rates facilitate a slow and less painful pay back of debt than the alternative of eventual outright default. If this is true, then whatever the outcome for inflation, we can be more certain about the path forward for real rates than we can be for nominal rates. Thus at this stage of the cycle, assets with real cash flows are significantly more valuable to us than assets with nominal cash flows. The problem is, though, that real cash flows are either safe and expensive (eg inflation-linked bonds), or cheap and risky (eg energy and other cyclicals).

For real return investors facing into an environment where the outlook for real rates is more stable than it is for inflation, the focus should be on identifying assets that preserve real value whatever the inflation outcome, with some tolerance for loss if real rates rise. Yet seeking any type of certainty comes with it a universal trade-off: the most direct hedge is expensive and the cheapest less reliable. Inflation-linked bonds provide a direct offset to changes in the Consumer Price Index (CPI), but the cost is an almost guaranteed loss in purchasing power given real rates are currently negative. Gold and precious metals offer a degree of certainty in regard to monetary-driven inflation but offer no yield and are significantly more sensitive to changes in the real interest rate than they are to changes in CPI. Shares in general are a source of real cash flows, but there is significant diversity amongst companies and between sectors. Energy has the strongest empirical relationship to changes in inflation expectations, providing a good hedge to rising inflation but brings with it the potential for significant absolute losses if inflation falls. Returns of listed infrastructure assets on the other hand are empirically less sensitive to the rise and fall of inflation expectations compared to peers and more sensitive to changes in the real interest rate, probably due to the balance sheet leverage within the sector. The push-pull relationship of inflation sensitive revenues and leveraged balance sheets conveniently provides an exposure profile that we think makes sense at this time. If the empirical evidence is correct, then listed infrastructure should provide an absolute return risk profile that is partly driven by inflation, partly offset by real rates and is higher yielding than competing alternatives eg inflation-linked bonds and gold.

Portfolio implications

Sensible portfolio construction should avoid dogmatism and over reliance on narrow, concentrated solutions. Facing into a profoundly low real-rate environment, with the risk of both inflation and continued disinflation at the fore, we continue to take measured steps to embrace risk where we believe it will be rewarded and build as much exposure as possible to real cash flows into the MLC Inflation Plus portfolios. Listed infrastructure plays a dual role here, bringing an element of inflation protection, but low cyclicality and a robust real yield. The allocation to infrastructure complements more direct exposure to reflation added to the portfolios in 2020 via metals and mining and energy in the defensive Australian shares strategy, as well as an increase in risk-controlled strategies deployed in Chinese shares and emerging markets.

The MLC Horizon and Index plus portfolios continue to maintain a strong preference for real bonds (inflation-linked Australian government bonds) over nominal bonds and hold exposure to real return strategies (via investments in MLC Inflation Plus and real return strategies) as part of the overall asset allocation to manage changes in inflation and growth dynamics.

All in all, a prudent approach to building inflation hedges into a diversified portfolio remains warranted at this point in time. Yet, we must remain attune to the consequence of continued disinflation or indeed deflation. Rather than betting on reflation by simply buying expensive assets that are linked to inflation and hoping we're right, we prefer to invest time to identify exposures that are likely to react positively to a reflationary environment but are not as sensitive to a continuation of what is now a very long period of disinflation. This obviously brings with it a series of trade-offs that limit the reward of being 'right', but at the same time reduce the consequence of being wrong. Given that it's impossible to have perfect foresight, and that we are ultimately risk managers not gamblers, we believe this is the right way to invest in these highly unusual times.

The Investment Futures Framework: Scenarios, changes in return potential, and portfolio positioning

Scenarios

In managing MLC's multi-asset portfolios using our Investment Futures Framework, following are the short-term scenarios that we have assessed as currently providing the highest potential future risks and opportunities.

This remains a highly unusual time. Following on from last quarter, the near-term set of future scenarios that are important for financial markets continue to pivot around evolution of the COVID-19 pandemic, and as such our three key scenarios remain more or less unchanged. Political change in the US, the consequences of Brexit and a shift in global geopolitics are also important and we continue to consider these in the context of the evolving pandemic situation.

Despite large parts of the northern hemisphere battling severe outbreaks of COVID-19, the rollout of several vaccines has buoyed sentiment towards risk assets. Continued vaccination as well as growing innate immunity should begin to reverse the worsening pandemic situation over the course of the coming months. Markets seem to be erring on the optimistic side with multiples paid for risk assets suggesting anticipation of strong growth over the ensuing quarters. Markets are also anticipating a return of reflation in response to widespread large government stimulus. Key breakeven inflation rates, a measure of expected inflation rates, have returned to pre-COVID levels.

We too have revised the likelihood of a strong reflationary outcome in the next year, but our expectations are likely more tempered than the overall market. Risks to successful reflation cannot be overlooked. The highly infective nature of COVID-19 means that emergence of a vaccine resistant strain will hang over the pandemic for quite some time. And while antigen diversity across the currently approved vaccine panel somewhat reduces the risk of rapid emergence, we could find ourselves quickly back near square one if the viral genome is more unstable than currently believed. We also maintain a degree of scepticism that consumer behaviour will quickly return to pre-COVID times. There is good reason to believe that precautionary behaviours might linger, leading to changes in consumption and lower overall growth.

Our core short-term scenarios continue as:

- **Global pandemic: Immunity drives a return to growth**
  - Rollout of vaccines and innate immunity supress COVID-19 across the northern hemisphere winter and spring season.
  - Lockdowns end.
  - Government stimulus fades.
  - Consumer behaviour returns to near pre-COVID profile.
- **Global pandemic: Slow return to normality**
  - Vaccine rollout continues at a moderate pace.
  - Infection rates fall slowly.
  - Earnings suffer in both FY21 and FY22.
  - Consumers remain cautious.
- **Global pandemic: Emergence of vaccine resistance**
  - A severe vaccine-resistant strain of COVID-19 emerges. Full lockdowns are re-established.
  - Fiscal and monetary stimulus near the point of exhaustion.
  - Acceleration of populism.
  - High risk of global depression.

Changes in return potential for asset classes

The return potential for Australian and global shares rose slightly in the December quarter (Chart 2). Rising valuations were more than offset by the combined impact of an increase in expectations for earnings growth and assignment of a higher probability to economic recovery scenarios. While not guaranteed, the likelihood of an economic recovery is higher than it was at the end of the third quarter due to the rollout of several vaccines against COVID-19. As such we have revised both sales and margin forecasts for shares and increased the probability of recovery-type scenarios in the short-term probability set.

The stronger Australian dollar (AUD) has helped increase the return potential of unhedged overseas shares compared to hedged but we remain cognisant of risks to the US dollar (USD). This is reflected in several scenarios including the 'weak USD' scenario introduced last year. Nominal bonds continue to offer a poor risk reward with strong performance restricted to a narrow range of weak growth near deflationary scenarios.

Portfolio positioning

In line with the stability in return potentials, there were no major changes to the MLC Horizon and Index Plus portfolios' positioning during the December quarter.

There was activity in the Inflation Plus portfolios, which MLC Horizon, Premium and Value portfolios inherit through investments in Inflation Plus, and MLC Index Plus portfolios through the real return strategy which is managed similarly to Inflation Plus.

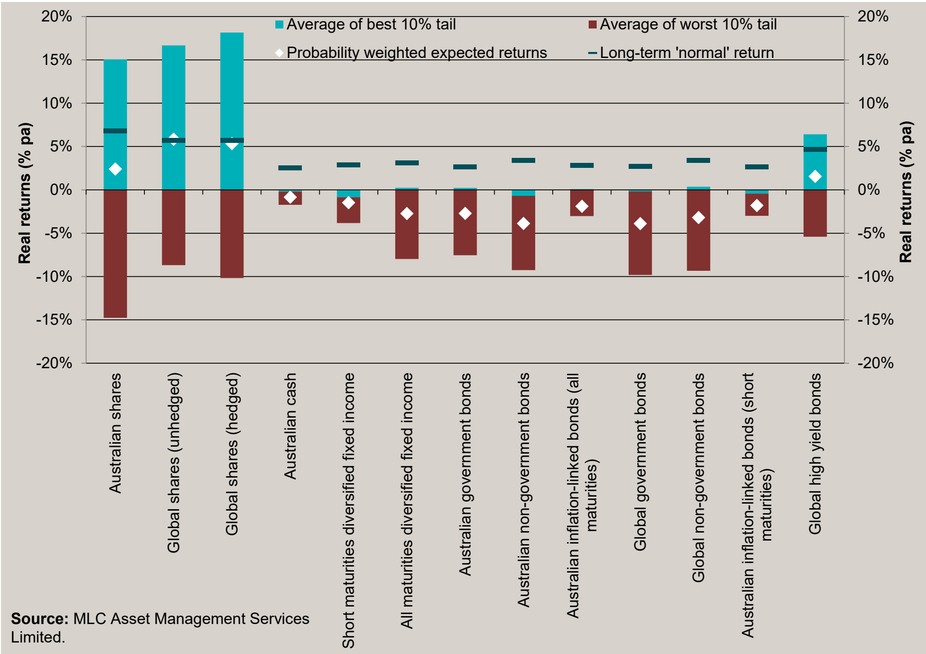
Listed infrastructure was introduced into all three Inflation Plus portfolios during the quarter. The allocation is expected to provide valuable 'carry' returns to Inflation Plus Conservative, and a low beta exposure to inflation-sensitive cash flows to Inflation Plus Moderate and Assertive.

Also during the quarter, meaningful exposure to a profitable USD put (AUD call) expired well in-the-money. The team took settlement of the contract to maintain ongoing lower exposure to the USD post its expiry.

While there were no changes to target allocations of the MLC Value and Premium portfolios (MLC Managed Account Strategies), we have allowed the allocation to growth assets to drift higher at the expense of defensive assets. The deliberate decision not to rebalance reflects our view that slightly more risk is warranted in the strategies at this point in time and pre-empts the outcome of a review of the target allocations, due this quarter.

More information on portfolio positioning is in the sections: MLC Inflation Plus, Horizon, Index Plus, Premium, and Value portfolios.

Chart 2: 40 scenario set (generic scenarios) potential real returns (December 2020) - 5 years, 0% tax with franking credits, pre-fees, pre-alpha



The potential real returns for each asset class are shown above. The probability-weighted real returns are shown as diamonds. For comparison we've included long-term 'normal' return expectations which are set by considering a stable fair value world – these are shown by the horizontal lines. Also, as an indicator of how uncertain these returns are, we've taken the bottom (and top) 10% of the scenario real returns and calculated the probability-weighted average in those 'tail' outcomes. These are shown in the bars. Asset classes with wider ranges could have more extreme return outcomes than those with narrow ranges.

Return potential

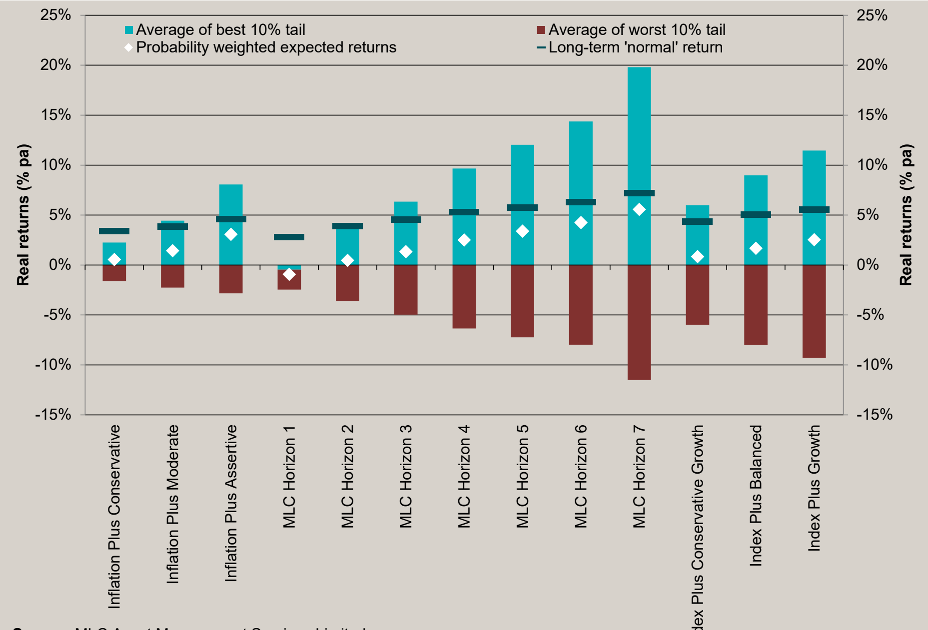
Charts 3 and 4 show return potential for the MLC Horizon, Inflation Plus and Index Plus portfolios, and the Managed Account Strategies respectively, based on our generic (40) scenario set, looking forward from the end of December 2020.

Due to a slight increase in the return potential for growth assets, the medium-term return potential of all the MLC multi-asset portfolios rose slightly during the December quarter.

The stronger risk focus of the Inflation Plus portfolios is evident (Chart 3). Consistent with their objectives, the Inflation Plus portfolios have responded to shrinking return potential and weakening risk diversifiers by reducing exposures to riskier assets. This reduces the return potential in strong scenarios but provides tight risk control in the event that an adverse environment occurs.

The medium-term return potential of all the MLC Managed Account Strategies, like the other multi-asset portfolios, remain significantly below the returns similar asset allocations have produced in the past (Chart 4). While both the Premium and Value Model Portfolios are expected to deliver similar returns, the additional levers afforded by the higher cost of the Premium Model Portfolios result in more positively skewed potential outcomes, with higher returns in the most positive scenarios and less negative returns in the worst.

Chart 3: 40 scenario set (generic scenarios) potential real returns (December 2020) - 5 years, 0% tax with franking credits, pre-fees, pre-alpha



Source: MLC Asset Management Services Limited.

The probability-weighted real returns are shown above and below (diamonds). For comparison we've included long-term 'normal' return expectations which are set by considering a stable fair value world - these are shown by the horizontal lines. Also, as an indicator of how uncertain these returns are, we've taken the bottom (and top) 10% of the scenario real returns and calculated the probability-weighted average in those 'tail' outcomes. These are shown in the bars. Portfolios with wider ranges could have more extreme return outcomes than those with narrow ranges.

Chart 4: MLC Managed Account Strategies - 40 scenario set (generic scenarios) potential real returns (December 2020) - 5 years, 0% tax with franking credits, pre-fees, pre-alpha

Source: MLC Asset Management Services Limited.

MLC Inflation Plus portfolios

Following on from adding risk in the September quarter, key portfolio activities during the December 2020 quarter, including up until the time of writing, were:

- Locking in profit from an in-the-money AUD call, (USD put).
- Continuing to broaden exposure to risk by adding listed infrastructure to all three portfolios in December. The allocation to listed infrastructure was funded by a reduced allocation to Ruffer, domestic credit and global shares.
- Reducing exposure to the USD.
- Established an exposure to insurance-related investments in Inflation Plus Conservative, funded from cash.
- Terminating one of our global shares managers IVA, and replacing with Arrowstreet. Details are available at mlc.com.au

> The MLC Inflation Plus portfolios have flexible asset allocations with few constraints which enable us to target tight control of risk over each portfolio's time horizon.

- At the time of terminating value manager IVA, we put in place an option providing exposure to the outperformance of value versus growth. As a result, the portfolio will continue to benefit if value comes back into favour after its long period of underperformance. This option will pay-off if value shares outperform growth shares but will not create additional losses over and above the premium paid for the option if value shares underperform growth shares.

Here is a summary of the changes to positioning of the MLC Inflation Plus portfolios over the recent quarter.

Asset class	**MLC Inflation Plus portfolios (in MLC MasterKey's super and pension products) change in target allocation over the 3 months ended 31 December 2020**		
	Conservative	**Moderate**	**Assertive**
Chinese government bonds (through derivative strategies)	Steady	Steady	Steady
China A-shares with downside limit of -20% (through derivative strategies)	Steady	Steady	Steady
Emerging market shares (through derivative strategies)	Steady	Steady	Steady
Defensive Australian shares	Steady	Steady	Steady
Global shares (through derivative strategies)	Steady	Steady	Steady
Listed infrastructure (through derivative strategies)	**New**	**New**	**New**
Global shares (unhedged)	**Reduced**	**Reduced**	**Reduced**
Foreign currency exposure	Call options protection maintained **USD exposure reduced**	Call options protection maintained **USD exposure reduced**	Call options protection maintained **USD exposure reduced**
Gold exposure (through derivative strategies via call options)	Steady	Steady	Steady
Low correlation strategy	Steady	Steady	Steady
Real return strategy	**Reduced**	**Reduced**	**Reduced**
Global private assets	Steady	Steady	Steady
Australian inflation-linked bonds	Steady	Steady	Steady
Insurance-related investments	**New**	**Increased**	**Increased**
Global high yield bonds and loans	Steady	Steady	Steady
Global non-government bonds (short-maturity)	Steady	Steady	Steady
Global non-government bonds (all-maturity)	Steady	Steady	Steady
Australian non-government bonds (short-maturity)	**Reduced**	**Reduced**	**Removed**
Cash	**Reduced**	**Reduced**	**Reduced**
Borrowings	Not permitted	Not permitted	No borrowings

MLC Horizon portfolios

Positioning of the MLC Horizon portfolios was little changed in the December quarter. The portfolios achieved a relatively defensive orientation partly from exposures to Inflation Plus (explained above), and partly from exposure to foreign currency through unhedged global shares.

Exposure to fixed income continues to offer some defensiveness, but lower yields mean that the scope for interest rates to protect the funds under adverse economic conditions remains challenged.

We also implemented changes resulting from our strategic asset allocation review, outlined last quarter. Details are available at mlc.com.au

For the active management of the MLC Horizon portfolios, risk is primarily benchmark-related. Benchmarks have been designed to efficiently generate above-inflation outcomes on the basis of long-term investment assumptions and taking into account that over time a broad range of scenarios could play out.

Here is a summary of the positioning of the MLC Horizon 4 Balanced Portfolio.

Asset class	MLC Horizon 4 Balanced Portfolio (in MLC MasterKey's super and pension products) target asset allocation at 31 December 2020		
	Under	Strategic asset allocation	Over
Australian shares		•	
Global shares (unhedged)			•
Global shares (hedged)	•		
Global property securities		•	
Cash			•
Australian bonds - short maturities			•
Australian bonds - all maturities	•		
Australian inflation-linked bonds		•	
Global bonds - short maturities			•
Global bonds - all maturities	•		
Global non-investment grade bonds (high yield bonds and loans)		•	
Global private assets		•	
Real return strategies (including Inflation Plus)		•	
Low correlation strategy		•	

MLC Index Plus portfolios

Positioning of the MLC Index Plus portfolios was little changed in the December quarter. The portfolios achieved a relatively defensive orientation partly from exposures to the real return strategy which is managed similarly to Inflation Plus (explained earlier) and partly from exposure to foreign currency.

Exposure to fixed income continues to offer some defensiveness, but lower yields mean that the scope for interest rates to protect the funds under adverse economic conditions remains challenged.

We also implemented changes resulting from our strategic asset allocation review, outlined last quarter. Details are available at mlc.com.au

Risk is primarily benchmark-related for the Index Plus portfolios. Benchmarks have been designed to efficiently generate above-inflation outcomes on the basis of long-term investment assumptions and taking into account that over time a broad range of scenarios could play out.

Here is a summary of the positioning of the MLC Index Plus Balanced Portfolio.

Asset class	**MLC Index Plus Balanced Portfolio target asset allocation at 31 December 2020**		
	Under	**Strategic asset allocation**	**Over**
Australian shares		•	
Global shares (unhedged)			•
Global shares (hedged)	•		
Global property securities		•	
Cash	•		
Australian bonds – short maturities			•
Australian bonds – all maturities	•		
Australian inflation-linked bonds		•	
Global bonds - short maturities			•
Global bonds - all maturities	•		
Real return strategies		•	

MLC Managed Account Strategies

The MLC Managed Account Strategies were launched on 1 July 2020. No major changes have been made to the portfolio asset allocations since then. However unlike in the September quarter, we made a deliberate decision not to rebalance outperforming growth assets during the quarter. The decision not to rebalance is consistent with the increase in likelihood of reflation and a recovery in growth.

Foreign currency exposure was maintained and remains an important diversifier as global shares and the Australian dollar tend to move in the same direction. Further, we've reinvested across the portfolio any dividends and distributions received for those accounts where they are retained in the model.

The MLC Managed Account Strategies are focused on providing investors with above-inflation returns through professionally managed portfolios that are extensively diversified across asset classes, specialist investment managers, and stocks.

Here is a summary of the changes to positioning of the MLC Managed Account Strategies over the quarter.

Asset class	MLC Premium Model Portfolios change in target allocation over the 3 months ended 31 December 2020		
	Moderate	**Assertive**	**Aggressive**
Australian shares	Steady	Steady	Steady
- Active, direct, all cap	Steady	Steady	Steady
- Active, ex-20	Steady	Steady	Steady
- Active, small cap	Zero	Steady	Steady
Global shares	Steady	Steady	Steady
- Active, quant, hedged	Steady	Steady	Steady
- Active, growth, unhedged	Steady	Steady	Steady
- Active, value, unhedged	Steady	Steady	Steady
- Active, emerging markets, unhedged	Zero	Steady	Steady
Global property securities	Steady	Steady	Steady
- Active, hedged			
Alternatives and other	Steady	Steady	Steady
- Inflation Plus	Steady	Steady	Steady
- Active, absolute return, hedged	Steady	Steady	Steady
Fixed income	Steady	Steady	Steady
- Australian, active, short maturity	Steady	Steady	Steady
- Australian, active, all maturity	Steady	Steady	Steady
- Global, active, all maturity, hedged	Steady	Steady	Steady
- Global, active, high yield, hedged	Steady	Steady	Steady
Cash	Steady	Steady	Steady

MLC Managed Account Strategies

Asset class	MLC Value Model Portfolios change in target allocation over the 3 months ended 31 December 2020		
	Moderate	Assertive	Aggressive
Australian shares	Steady	Steady	Steady
- Passive, direct, large cap	Steady	Steady	Steady
- Passive, all cap	Steady	Steady	Steady
- Active, small cap	Zero	Steady	Steady
Global shares	Steady	Steady	Steady
- Passive, developed markets, unhedged	Steady	Steady	Steady
- Passive, developed markets, hedged	Steady	Steady	Steady
- Active, emerging markets, unhedged	Zero	Steady	Steady
Global property securities	Steady	Steady	Steady
- Passive, hedged			
Alternatives and other	Steady	Steady	Steady
- Inflation Plus			
Fixed income	Steady	Steady	Steady
- Australian, active, short maturity	Steady	Steady	Steady
- Australian, active, all maturity	Steady	Steady	Steady
- Global, active, all maturity, hedged	Steady	Steady	Steady
- Global, active, high yield, hedged	Steady	Steady	Steady
Cash	Steady	Steady	Steady

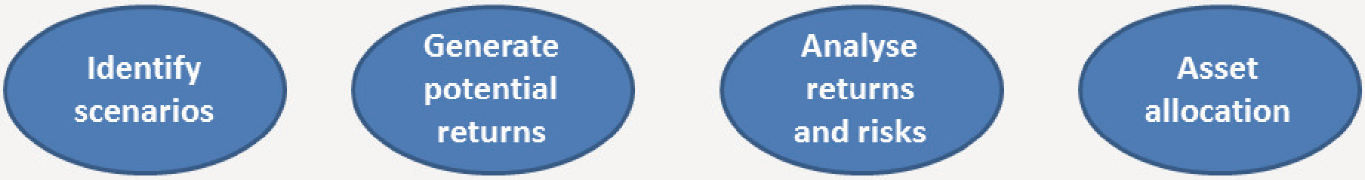
Any portfolio change shown above is not a guarantee of a change to a client's portfolio. There may be differences between the Model Portfolio and a client's portfolio due to the timing and transaction prices for portfolio changes, client investments and withdrawals during the period, timing of receipt of dividends and income distributions, platform administration fees, transactional costs associated with the client's portfolio, and any portfolio exclusions required by the client.

Appendix 1 – MLC's market-leading investment process

Step 1

Scenario analysis and portfolio construction

The Investment Futures Framework



- We can never be certain what the future will hold. To adequately understand risk we must take into account the things that *could* happen.
- We do this by building a comprehensive understanding of the possible future investment environments or scenarios that could occur. This includes not just those things most likely to occur, but also unlikely but very distinctive environments (such as financial crises and other 'tail risk' environments).
- The Investment Futures Framework builds a detailed understanding of how returns vary in each scenario. This also provides detailed information about the nature and extent of investment risks, the means to diversify those risks and how these change through time.
- Understanding how returns and risks can change over time means we can determine the best combination of assets, strategies and managers to generate returns while controlling risks in all scenarios - the asset allocation.

Step 2

Implementation

We implement the asset allocation as efficiently as possible to minimise costs.

Step 3

Review

We continuously apply our Investment Futures Framework to determine if portfolio adjustments are appropriate.

Appendix 1 – MLC's market-leading investment process

Important information (continued from page 2)

MLC funds and Managed Account Strategies referenced in this communication are listed below. These funds appear on MLC's platforms, in addition to a number of external platforms:

MLC Investment Trust:	MLC Super Fund:	MLC Managed Account Strategies:
MLC Wholesale Horizon 2 Income Portfolio	MLC Horizon 2 Capital Stable Portfolio	MLC Premium Moderate Model Portfolio
MLC Wholesale Horizon 3 Conservative Growth Portfolio	MLC Horizon 3 Conservative Growth Portfolio	MLC Premium Assertive Model Portfolio
MLC Wholesale Horizon 4 Balanced Portfolio	MLC Horizon 4 Balanced Portfolio	MLC Premium Aggressive Model Portfolio
MLC Wholesale Horizon 5 Growth Portfolio	MLC Horizon 5 Growth Portfolio	MLC Value Moderate Model Portfolio
MLC Wholesale Horizon 6 Share Portfolio	MLC Horizon 6 Share Portfolio	MLC Value Assertive Model Portfolio
MLC Wholesale Horizon 7 Accelerated Growth Portfolio	MLC Horizon 7 Accelerated Growth Portfolio	MLC Value Aggressive Model Portfolio
MLC Wholesale Inflation Plus Conservative Portfolio	MLC Inflation Plus Conservative Portfolio	
MLC Wholesale Inflation Plus Moderate Portfolio	MLC Inflation Plus Moderate Portfolio	
MLC Wholesale Inflation Plus Assertive Portfolio	MLC Inflation Plus Assertive Portfolio	
MLC Wholesale Index Plus Conservative Growth Portfolio	MLC Index Plus Conservative Growth Portfolio	
MLC Wholesale Index Plus Balanced Portfolio	MLC Index Plus Balanced Portfolio	
MLC Wholesale Index Plus Growth Portfolio	MLC Index Plus Growth Portfolio	

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