



MLC's scenario insights & portfolio positioning

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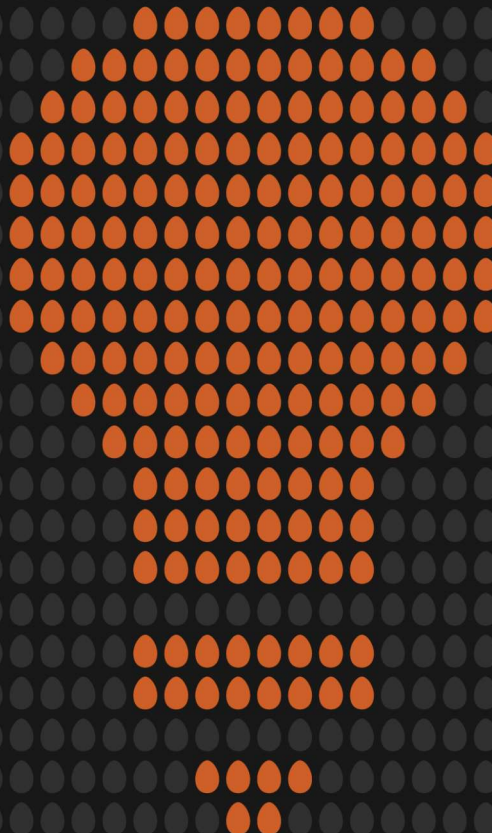
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MLC's investment portfolios

MLC Inflation Plus, MLC Horizon and MLC Index Plus portfolios

MLC's Managed Account Strategies

MLC Premium and Value model portfolios



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MLC Investment Trust:

MLC Wholesale Horizon 1 Bond Portfolio
MLC Wholesale Horizon 2 Income Portfolio
MLC Wholesale Horizon 3 Conservative Growth Portfolio
MLC Wholesale Horizon 4 Balanced Portfolio
MLC Wholesale Horizon 5 Growth Portfolio
MLC Wholesale Horizon 6 Share Portfolio
MLC Wholesale Horizon 7 Accelerated Growth Portfolio
MLC Wholesale Inflation Plus Conservative Portfolio
MLC Wholesale Inflation Plus Moderate Portfolio
MLC Wholesale Inflation Plus Assertive Portfolio
MLC Wholesale Index Plus Conservative Growth Portfolio
MLC Wholesale Index Plus Balanced Portfolio
MLC Wholesale Index Plus Growth Portfolio

MLC Managed Account Strategies:

MLC Premium Conservative 30 Model Portfolio
MLC Premium Moderate 50 Model Portfolio
MLC Premium Balanced 70 Model Portfolio
MLC Premium Growth 85 Model Portfolio
MLC Premium High Growth 98 Model Portfolio
MLC Value Conservative 30 Model Portfolio
MLC Value Moderate 50 Model Portfolio
MLC Value Balanced 70 Model Portfolio
MLC Value Growth 85 Model Portfolio
MLC Value High Growth 98 Model Portfolio

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Quarterly insights

Highlights

- The emerging disinflationary trend in services inflation and the concurrent liquidity stress combined have shifted market expectations for lower interest rates reflecting a view that the peak in rates might be near.
- While the current interest rate hiking cycle started in the context of a very low nominal cash rate and exploding inflation, we are now at a juncture of concurrent ambiguities regarding both inflation and the latent impact of a rapid tightening of financial conditions. That these core ambiguities are occurring when interest rates are neither low, nor high, makes the future path of both interest rates and asset markets highly uncertain.
- Emerging markets are another area of interest. As earnings growth in the US and other developed markets struggle with tightening financial conditions, subdued demand and rising costs; expectations for growth in emerging markets, particularly China, is picking up.
- With core uncertainties continuing to obfuscate a clear path forward for both the real and financial economies and without valuation support, we believe an appropriate descriptor of the current market environment is 'fragile' and see the year ahead as likely continuing to be turbulent.
- The current market environment is well-suited to our proprietary Investment Futures Framework, which seeks to deliver diversified and resilient investment outcomes across a wide range of potential future outcomes.

Insights

While ultimately history will be the judge, market pricing of interest rates now implies that the first quarter of calendar 2023 has a reasonable chance of being very close to the 'high watermark' for the cost of capital in the current economic cycle. Core inflation has begun to roll over, with services inflation now following goods inflation lower in most developed economies. At the same time, tangible signs of stress have begun to emerge in the US banking system after absorbing over 400 basis points of rate rises in under 18 months. The emerging disinflationary trend in services inflation and the concurrent liquidity stress combined have shifted market expectations for lower interest rates reflecting a view that the peak in rates might be near. But while asset prices have benefited from a change in the trend of financial conditions, challenges to earnings growth cast a shadow over prospects for continuation of the current rally in risk assets, particularly in developed markets.

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.

Interest rates

Prior to the recent inflation shock, sceptical investors had queried whether central banks had the wherewithal to snuff out inflation with reactive interest rate policy. The thought being that with both high public and private debt, the supposedly entrenched disinflationary forces would almost certainly ensure that real interest rates would be held low. This would in turn allow prices to return to where they should have been if not for the disinflationary decade and would aid 'inflating away' the substantial central bank debt burden. What this narrative failed to grasp however was that for all its seductive appeal, the benefit that inflation has on the nominal level of indebtedness is far outweighed by the cost that the inherently unstable inflation has across many dimensions of society.

Yet, despite scepticism, central banks quickly showed their nerve and addressed any doubt regarding their resolve to fight inflation. In almost co-ordinated moves, policy rates rose across most of the developed world from historical lows (near zero) to a level close to long term averages. But with rates now neither high, nor low, compared to history, the *relatively* easy work is done, and the *absolutely* hard work begins. All else equal, the lower the cash rate, the inherently easier it is to raise rates. Likewise, the higher the cash rate, the easier it is to cut. It is also *relatively* easier to make decisions, particularly *turning point* decisions, when the threat is clearly defined and easy to observe. By extension, the difficulty lies in adjusting policy when rates are neither low nor high and, due to the considerable lags in the effect of interest rate rises rippling through the broader economy, we believe the 'inflation bogeyman' remains elusive. So, whereas the current hiking cycle started in the context of a very low nominal cash rate and

exploding inflation, we are now at a juncture of concurrent ambiguities regarding both inflation and the latent impact of a rapid tightening of financial conditions. That these core ambiguities are occurring when interest rates are neither low, nor high, makes the future path of both interest rates and asset markets highly uncertain.

One tangible factor that pushes against further tightening of US monetary policy however is the emergence of stress in the US banking system. Failure of Silicon Valley Bank and Signature Bank (both mid-size banking corporations) and a bailout of Credit Suisse provide the first tangible reflux by the financial system in response to the recent rapid tightening in financial conditions. And while it is true that the liquidity impact of changes in the cash rate can be offset to an extent by policy that specifically supplies liquidity, there is no escaping the fact that tighter monetary conditions result in lower liquidity and high liquidity results in looser monetary conditions. We believe this is a circle that cannot be cleanly squared. If that is true, then central banks now have one less degree of freedom than they had prior to the now high-profile failure of a series of financial institutions over the quarter. As a base case, this means that despite what they say, central bankers will likely be less inclined to further dial up the cash rate until signs of stability and/or moving beyond perceived instability emerge in the financial system. The market clearly sees this with short-dated interest rates falling and gold rallying. Short-dated market interest rates have fallen because investors now assess the chance of further increases to the cash rate as less probable, and gold has rallied as it benefits from both instability in the financial system and from the increased chance that central banks will have no choice but to tolerate a slightly higher than comfortable level of CPI inflation.

Growth

Emerging markets are another area of interest. As earnings growth in the US and other developed markets struggle with tightening financial conditions, subdued demand and rising costs; expectations for growth in emerging markets, particularly China, is picking up. During the quarter, the International Monetary Fund (IMF) revised the outlook for China's economy in 2024, raising the growth forecast from 4.4% to 5.2%. This follows on from a 2.2% expansion of China's economy in 2023 due to the strict COVID policy that prevailed for most of the year. After emerging from the widespread and prolonged lockdowns of 2023, both fiscal and monetary policies in China are tilted toward supporting growth. At a high level and in broad strokes this is positive for Australia and the rest of the world. We are of the view however, that the devil remains in the detail. We see this current round of China's approach to supporting growth is markedly different to the stimulus programs of the past, meaning that the downstream beneficiaries of stimulus will also differ. China's current round of support is aimed more at domestic consumption, strengthening of high value-added sectors and fostering entrepreneurship. Property has also factored into the mix of policy supports, but rather than targeting growth, property specific policy is aimed at shoring up confidence in a market with poor sentiment. This mix of policy is consistent with China's longer-term goals and shorter-term pressures. We see this as a more nuanced application. Policy makers have had to quicken the pace of technological investment and development due to an inconvenient friction in cross border trading of high-end semiconductor technology. Green growth is also a priority. Policy makers realise that the state-owned enterprises (SOE) model that served earlier phases of investment and economic development is

not well suited to research and development intensive high-end industries across the hardware, software, green tech, and biomedicine spectrum. To this end, monetary policy has been tweaked to aid funding across critical sectors and tax relief continues to support enterprise operations.

At the same time, lessening reliance on exports and increasing reliance on domestic consumption remains important as does reining in leverage within the property sector. This in turn means that hard infrastructure, and direct property stimulus in particular, feature less than in prior stimulation cycles, particularly the broad-based Fixed Asset Investment (FAI) of the recent past.

So, while supportive economic policy in China is a positive for global growth, the downstream impact across sectors is unlikely to share the fingerprint of past stimulus packages. At the highest level, less of the current stimulus will flow outward from China, and where it does flow will likely differ from past stimuli. A heightened focus on consumption should favour Association of Southeast Asian Nations (ASEAN) and regional trade. Support of higher value-added industries will benefit the likes of Japan and Europe, while construction means that steel making ingredients are unlikely to experience the same 'resources super-cycle era' positive demand shock that they have in the past. We see a more nuanced domestic implication where Australia will still incrementally benefit from the uptick in Chinese economic activity, however we should not rely on a squeeze in key commodity markets such as iron-ore and metallurgical coal.

With core uncertainties continuing to obfuscate a clear path forward for both the real and financial economies and without valuation support, we believe an appropriate descriptor of the current market environment is 'fragile' and see the year ahead as likely continuing to be turbulent. While coordinated central bank rate rising activity appears to be reaching its natural conclusion and/or approaching the limits of where tighter credit conditions have meaningful impact on financial market stability, the full effects of this tightening are yet to be seen. We believe an orchestrated economic slowdown seems probable, yet the soft/hard crash landing 'slowdown severity' across major developed market economies is, currently, essentially unknowable. The end-destination for goods and services inflation is also critical. As we mentioned at the outset, core inflation appears to be on a steady 'glide path' to more tolerable levels. The critical question now is "where will disinflation level off?"

Will inflation return to sub-2% pre-pandemic levels, or will it settle uncomfortably above central bank targets? Have the forces of globalisation weakened to the point of turning inflationary? Has labour finally become scarce enough to counter productivity gains from technology? These core questions are interesting to ponder, but impossible to forecast with certainty. It is for this reason we favour a well-balanced posture across our diversified multi-asset portfolios. We've previously described the broad array of investment opportunities which have opened up within credit markets. And by maintaining a diligent 'quality' lens, a range of appealing risk-reward opportunities which can be accessed to deliver attractive total returns, while at the same time markedly reduced risk to capital.

The current market environment is well-suited to our proprietary Investment Futures Framework, which seeks to deliver diversified and resilient investment outcomes across a wide range of potential future outcomes.

Portfolio comments

Early in the quarter, the MLC Inflation Plus portfolios marginally increased their exposure to Australian shares by taking profit on in the money put hedges during the mid-quarter sell off, this allowed the portfolio to participate more in the subsequent market recovery. This is consistent with our view that volatility will remain high while the impact of tighter financial conditions reverberates through the real economy and asset markets. Now that markets have recovered, we are in the process of contemplating adding back hedges to reduce risk. We also reduced the portfolios' exposure to the 'Capital Protected Mining and Energy Income' thematic basket in response to a fall in yields. Outside of shares, we maintain a relatively low level of exposure to foreign exchange out of concern for the potential for a stronger Australian dollar (AUD), particularly against the US dollar (USD). The AUD currently has an array of supportive factors, including a stronger and elevated terms of trade, and improved international funding positions. Interest rate differentials have been the main factor impeding the AUD, meaning that a decrease in US interest rates could provoke a rapid strengthening in the AUD against the USD. Because of this, we prefer to hold less USD but continue to hold Japanese yen (JPY) where the prospect of higher rates is much lower.

The rally in shares provided a meaningful boost to returns for the Inflation Plus portfolios during the March 2023 quarter. Gold also contributed to performance as a favourable combination of a fall in interest rates and rise in liquidity risk helped push gold back towards US\$2000 per ounce. Alongside this, real bonds added to performance as both nominal and real rates fell in Australia boosting bond prices.

Stock stories

The Australian shares exposure of the Inflation Plus portfolios outperformed the broader market in the March quarter. During the quarter, the strategy reduced its exposure to banks in late January as the risk/return outlook for the sector deteriorated. Valuations again reached rich levels, while earnings growth remains constrained, and the chance of a balance sheet driven sentiment change increased. We also decreased the portfolios' exposure to metals and mining with a reduction in BHP Group Ltd, RIO Tinto Ltd, IGO Ltd and South32 Ltd (ASX: S32). Alongside this, the portfolios increased its exposure to domestic pathology stocks as valuations are attractive and the outlook for earnings has improved. High quality domestic pathology providers such as Sonic Healthcare and Australian Clinical Labs should provide reasonable insulation from a slowdown in economic growth now that cost pressures experienced by the sector in 2022 have subsided. From a risk management perspective, the portfolios capitalised on heightened volatility by buying near the money put protection in late January as upside volatility dominated, and then subsequently monetised the puts as the market sold off in March.

The Inflation Plus portfolios also continued to benefit from its exposure to the 'Capital Protected Mining and Energy Income' thematic basket during the quarter as large dividends were received from most holdings, and hedges offset some of the volatility in capital prices.

Our investment approach

Our Investment Futures Framework is designed to first understand the risks facing our portfolios and to then assess the cost associated with mitigating those risks. We accept the inherent complexity of markets makes it difficult to predict their path with any consistency, and so we consider the portfolio impact of multiple different potential paths. It is our belief this open approach, which by design incorporates a wide range of investment perspectives, will be helpful for our clients as we continue to navigate our way through the current inflationary episode.

The Investment Futures Framework: Changes in return potential and portfolio positioning

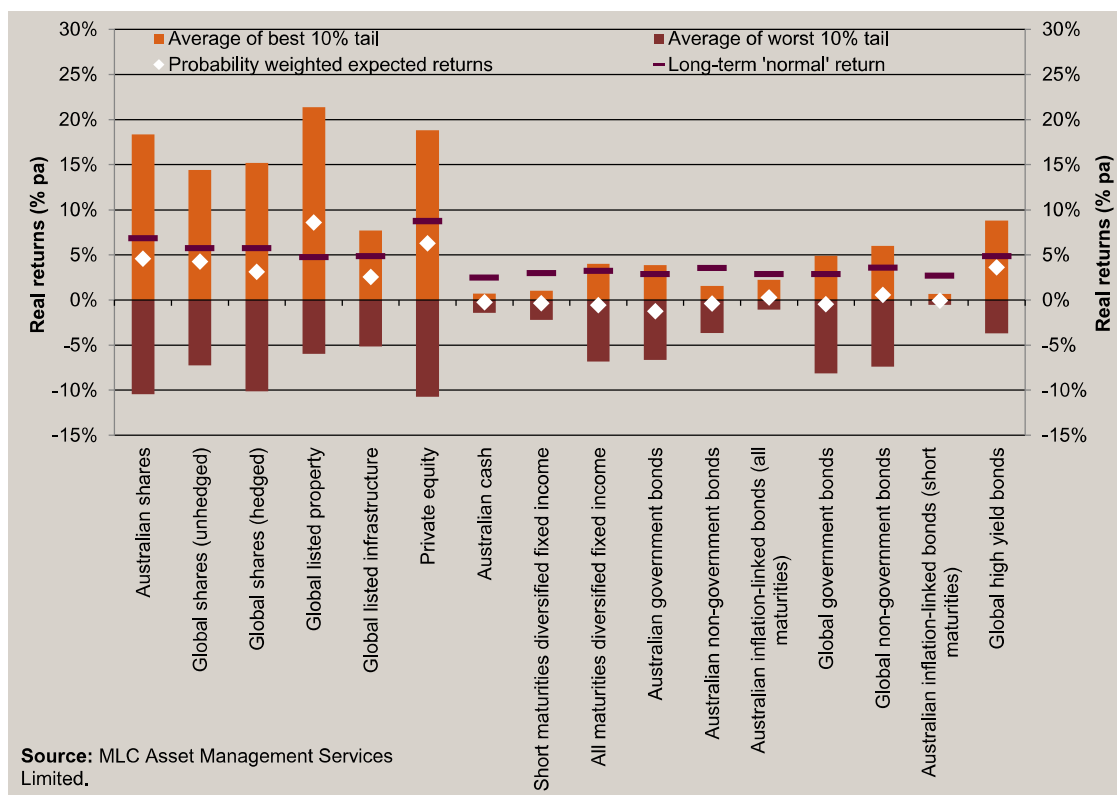
Changes in return potential for asset classes

The return potential of core fixed income strategies declined slightly during the March quarter due to a general fall in interest rates across most markets. Despite the fall, yields remain significantly higher than they did prior to the beginning of 2022. On balance the probability weighted return for core fixed income looks uninspiring, but it is worth noting that yields are at a level where the asset class can provide valuable diversification against a demand led slowdown in growth. Inflation-linked bonds have

less downside than nominal bonds due to their inherent protection against a rise in inflation. Inflation poses the greatest risk to the pricing of nominal bonds. High yield stands out amongst fixed income as having a favourable return profile.

Compared to last quarter, the return potential of shares declined marginally and now sits 1.5% to 2% below long-term expectations for global and domestic markets (Chart 1). The reduction in return potential during the quarter was mainly driven by an expansion in valuation as prices rose and expectations for earnings declined slightly. Alongside broader shares, global listed property continues to stand out as an opportunity for yield with lower downside risk.

Chart 1: 40 scenario set (generic scenarios) potential real returns (March 2023) - 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.

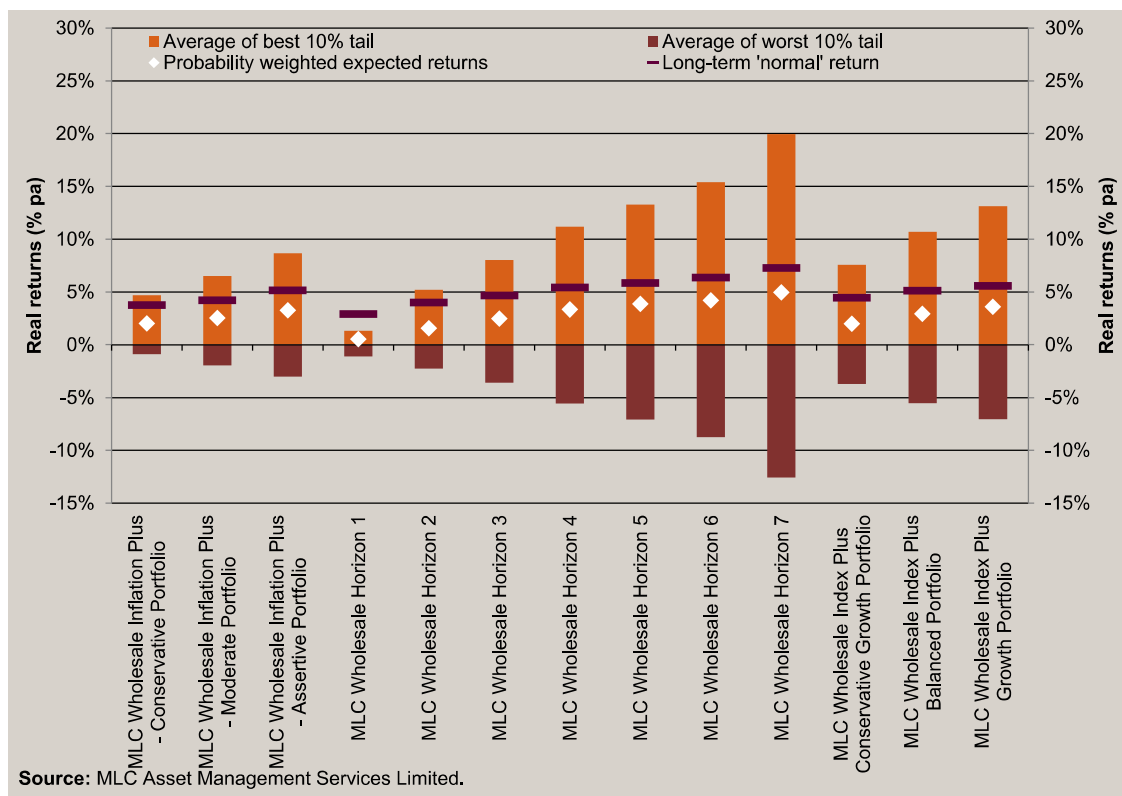
Return potential

Charts 2 and 3 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 March 2023.

The stronger risk focus of the Inflation Plus portfolios is evident (Chart 2). Consistent with their objectives, the Inflation Plus portfolios have responded to shrinking return potential and

weakening risk diversifiers by continuing to pursue a 'Participate and Protect' strategy – adding to appropriately priced sources of return potential in a risk-controlled way. This reduces the return potential in strong scenarios but provides tighter risk control in the event of an adverse environment.

Chart 2: 40 scenario set (generic scenarios) potential real returns (March 2023) - 5 years, 0% tax with franking credits, pre-fees, pre-alpha



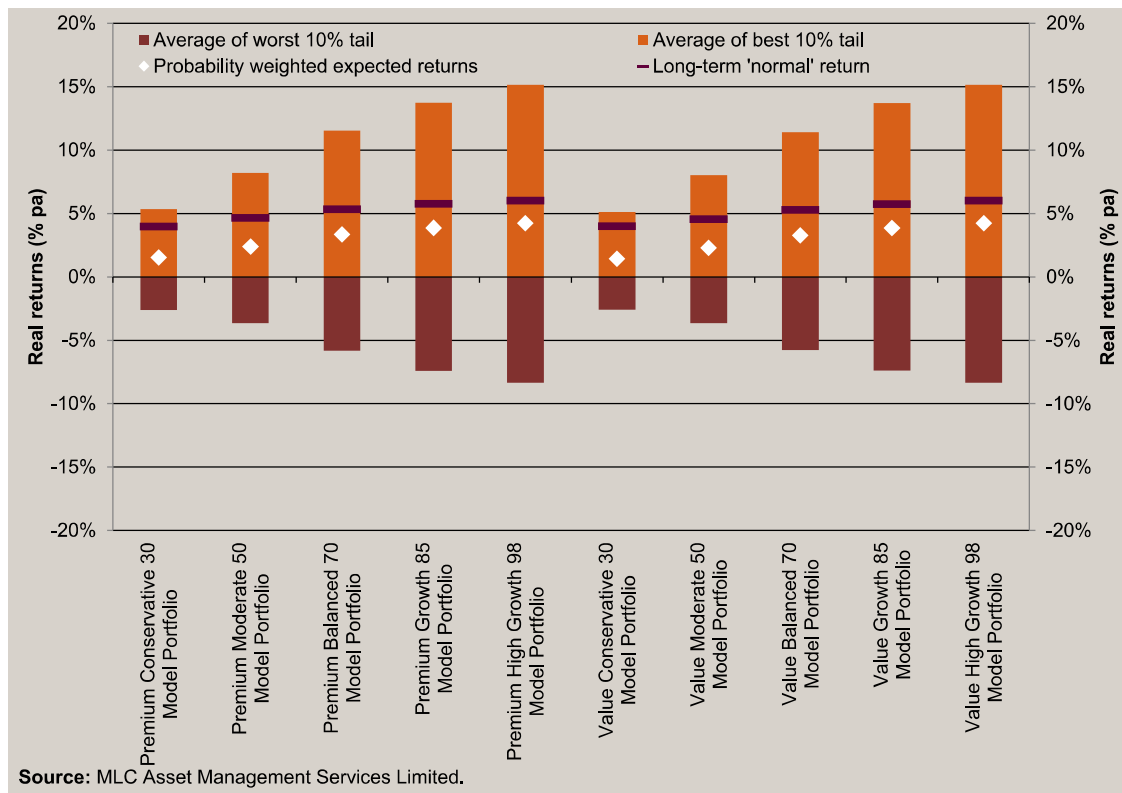
The probability-weighted real returns are shown above (diamonds). For comparison we've included long-term 'normal' return expectations which are set by considering a stable fair value world - these are shown by the horizontal lines. Also, as an indicator of how uncertain these returns are, we've taken 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.

Consistent with their Horizon and Index Plus multi-asset counterparts, the medium-term return potential of all the MLC Managed Account Strategies remains somewhat below the returns similar asset allocations have produced in the past (Chart 3).

While both the Premium and Value Model Portfolios are expected to deliver similar returns, the additional levers and active management dimensions afforded by the higher cost of the Premium Model

Portfolios result in slightly more positively skewed potential outcomes, with incrementally higher or equivalent returns in the most positive scenarios and less negative or equivalent returns in the worst.

Chart 3: MLC Managed Account Strategies - 40 scenario set (generic scenarios) potential real returns (March 2023) - 5 years, 0% tax with franking credits, pre-fees, pre-alpha



The probability-weighted real returns are shown above (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.

MLC Inflation Plus portfolios

The key portfolio activities during the March 2023 quarter, including up until the time of writing, were:

- We reduced exposure to the 'Capital Protected Mining and Energy Income' thematic basket. While we continue to expect high quality miners to generate a high level of free cash flow for shareholders, yields have fallen to the point where a reduction in exposure is sensible.
- The portfolios sold out of put hedges against decline in the Australian share market. The hedges were in the money during the mid-quarter fall in prices.

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.

- There was a small increase in option-based hedging of the USD exposure. The strong USD makes holding foreign currency less attractive. Based on the prevailing fundamentals, we believe that the balance between upside AUD risk and the scope for further gains from AUD weakness warrants lower exposure to foreign currency. Despite the unfavourable balance between upside and downside risk we still expect a short AUD to provide a level of diversification, particularly in a tail event, hence we continue to retain some exposure to foreign exchange, some of which is offset by option collars.

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

Asset class	MLC Wholesale Inflation Plus portfolios change in target asset allocation over the 3 months ended 31 March 2023		
	Conservative	Moderate	Assertive
Chinese government bonds (derivative strategies)	Steady	Steady	Steady
China A-shares with downside limit of -20% (derivative strategies)	Steady	Steady	Steady
Emerging market shares (derivative strategies)	Steady	Steady	Steady
USD/JPY call option	Decreased	Decreased	Decreased
Defensive Australian shares (including protected income mining and energy shares)	Decreased	Decreased	Decreased
Global shares (derivative strategies)	Increased	Increased	Increased
Global listed infrastructure	Steady	Steady	Steady
Global shares (unhedged)	Steady	Steady	Steady
Private equity	No allocation	Steady	Steady
Foreign currency exposure	Diversified basket reduced	Diversified basket reduced	Diversified basket reduced
Gold exposure (derivative strategies via call options)	Steady	Steady	Steady
Opportunistic growth strategy	Steady	Steady	Steady
Real return strategy	Steady	Steady	Steady
Australian inflation-linked bonds	Steady	Steady	Steady
Insurance-related investments	Steady	Steady	Steady
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)	Steady	Steady	No allocation
Cash	Steady	Steady	Steady
Borrowings	Not permitted	Not permitted	No borrowings

MLC Horizon portfolios

The key portfolio activities during the March 2023 quarter were:

- Fixed income manager changes occurred in the short maturity credit strategy with a focus on improving the short duration, high quality credit exposure. Managers Janus Henderson, Metrics and Western Asset Management were added, while Insight, Loomis Sayles and Ardea were removed from the strategy. The short maturity credit strategy is biased towards Australian credit. More details are available at mlc.com.au
- Select Horizon portfolios also underwent an increase to the MLC Opportunistic Growth Strategy (formerly known as the MLC Low Correlation Strategy). The Opportunistic Growth Strategy continues to offer exposure to attractive speciality finance investments with little to no sensitivity to the performance of listed credit and share markets. It provides a powerful diversifying allocation. The increased allocation was funded from inflation-linked bonds that have performed well over the past year.

For the active management of the MLC Horizon portfolios, risk is primarily benchmark-related. Strategic (benchmark) asset allocations 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 Wholesale Horizon 4 Balanced Portfolio target asset allocation at 31 March 2023		
	Under	Strategic asset allocation	Over
Australian shares		•	
Global shares (unhedged)		•	
Global shares (hedged)		•	
Private equity		•	
Global property securities		•	
Global listed infrastructure		•	
Cash	•		
Australian inflation-linked bonds	•		
Fixed income (short maturity credit)			•
Fixed income (all maturities)		•	
Global non-investment grade bonds (high yield bonds and loans)		•	
Real return strategies (including Inflation Plus)		•	
Insurance-related investments		•	
Opportunistic growth strategy			•

MLC Index Plus portfolios

During the March quarter fixed income manager changes occurred in the MLC Index Plus portfolios' short maturity credit strategy with a focus on improving the short duration, high quality credit exposure. Managers Janus Henderson, Metrics and Western Asset Management were added, while Insight, Loomis Sayles and Ardea were removed from the strategy. The short maturity credit strategy is biased towards Australian credit. More details are available at mlc.com.au

Index Plus asset allocations were unchanged over the March quarter, after a 12 month period that included changes to currency exposure, the introduction of listed infrastructure and changes to fixed income allocations towards longer duration nominal bonds as yields improved.

Risk is primarily benchmark-related for the Index Plus portfolios. Strategic (benchmark) asset allocations 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 Wholesale Index Plus Balanced Portfolio target asset allocation at 31 March 2023		
	Under	Strategic asset allocation	Over
Australian shares		•	
Global shares (unhedged)		•	
Global shares (hedged)		•	
Global property securities		•	
Infrastructure		•	
Cash	•		
Australian inflation-linked bonds		•	
Fixed income (short maturity credit)			•
Fixed income (all maturities)	•		
Real return strategies		•	

MLC Managed Account Strategies

There were no changes in our target asset allocation over the March quarter across the suite of Managed Account Strategies.

Within the Premium and Value series fixed income program, we implemented a 'like-for-like' manager switch within Australian fixed income (all maturities), **removing UBS Australian Bond Fund and adding Janus Henderson Australian Fixed Interest Fund.**

The rationale for making this change within the model portfolios is our higher level of manager conviction and our ability to access a lower total indirect cost ratio (ICR) owing to the significance of our broader institutional investment relationship with Janus Henderson.

We've positioned the portfolios for diverse and resilient returns across asset classes in the following key ways:

- **Maintaining growth asset exposure** – Continuing to seek out the benefits of accessing real cash flows of assets with revenues linked to inflation. The recent reporting season in Australia, as well as other major global share markets, highlighted what we see as increasing margin pressures due to elevated raw material, transport, energy and staffing costs. Quality generally, and margin resilience specifically, will likely become increasingly valuable in the year ahead. Maintained Australian and global shares exposures over the quarter.
- **Foreign currency diversification** – During the quarter we maintained our foreign currency exposure (unhedged global shares) and valued the diversification benefits of having exposure to foreign currencies should global share markets weaken, while at the same time recognised the valuation appeal of the AUD, as reflected in the hedged global share exposure. We continue to see foreign currency exposure as an important diversifier (holding both hedged and unhedged global shares) and being valuable through periods of increased volatility and potential market turbulence.
- **Active fixed income** – We believe active management is necessary to effectively navigate a rising interest rate and potentially more turbulent environment. While somewhat moderating their inflation fighting resolve, in light of increasing banking system stresses, central bank rate rising activity continues to drive bouts of elevated bond market volatility. As outlined in the December 2022 quarterly update, within fixed income we see duration appearing more attractive as a mechanism for providing portfolio protection against the deflationary effects from a potential recession and recognise the markedly improved starting value and more attractive risk-reward potential across a range of potential future outcomes provided by all maturity nominal bonds.

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.

- **Inflation Plus changes** – MLC Wholesale Inflation Plus portfolios' provide important real return exposure and sources of low correlation return streams. As outlined above, Inflation Plus' activity this quarter included:
 - Reduced exposure to the 'Capital Protected Mining and Energy Income' thematic basket.
 - Sold out of put hedges against decline in the Australian share market.
 - Slightly increased the option-based hedging of the USD exposure.

Beyond the switch from UBS to Janus Henderson in Australian fixed income (all maturities), portfolio rebalancing activity over the March quarter was essentially limited to the direct ASX sub-portfolio within the Premium series of model portfolios. This included the addition/upweighting of BlueScope Steel (BSL) and QBE Insurance (QBE) funded via a removal/reduction in exposure in Coles Group (COL) and Westpac Banking Corporation (WBC).

Details of recent stock changes are available in the portfolio activity reports at mlcam.com.au

The latest portfolio updates are available at mlcam.com.au

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.



**For more information, visit
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