



Product Review

MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

About this Review

ASSET CLASS REVIEWED	FIXED INTEREST
SECTOR REVIEWED	ALTERNATIVE INCOME
SUB SECTOR REVIEWED	MULTI-MANAGER
TOTAL FUNDS RATED	2

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	MLC WHOLESALE HORIZON 1 BOND PORTFOLIO
APIR CODE	MLC0669AU
PDS OBJECTIVE	AIMS TO OUTPERFORM THE BENCHMARK, BEFORE FEES, OVER TWO YEAR PERIODS, RETURN HIGHER THAN CASH INVESTMENTS AND TO PRESERVE CAPITAL OVER ONE YEAR PERIODS.
INTERNAL OBJECTIVE	TO OUTPERFORM CASH BY 0.5%-1.0% P.A. (BEFORE FEES).
STATED RISK OBJECTIVE	TRACKING ERROR OF LESS THAN 1.5% OVER ROLLING TWO YEAR PERIODS. A VERY LOW PROBABILITY OF A NEGATIVE ANNUAL RETURN (LESS THAN 5%).
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$39M (28 FEBRUARY 2023)
FUND INCEPTION	05-12-2005
ANNUAL FEES AND COSTS (PDS)	0.55% P.A.
RESPONSIBLE ENTITY	MLC INVESTMENTS LIMITED

About the Fund Manager

FUND MANAGER	MLC ASSET MANAGEMENT
OWNERSHIP	100% OWNED BY INSIGNIA FINANCIAL LTD, AN ASX LISTED COMPANY (ASX: IFL)
ASSETS MANAGED IN THIS SECTOR	\$147.3BN (TOTAL MULTI ASSET FUM, 31 DECEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	38

Investment Team

PORTFOLIO MANAGER	OSVALDO ACOSTA, MARK NORDIO
INVESTMENT TEAM SIZE	2
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	SECTOR SPECIALIST / SYDNEY & MELBOURNE

Investment process

STYLE	MULTI-MANAGER
MAXIMUM SUB-INVESTMENT GRADE	10% (SOFT LIMIT, LOOK THROUGH)
BENCHMARK	30% BLOMBERG AUSBOND BANK BILL INDEX, 42% BBG AUSBOND COMPOSITE 0-3 YRS INDEX, 28% BBG GLOBAL AGGREGATE INDEX 1-3 YRS (AS HEDGED)
DURATION LIMIT	BENCHMARK +/- 1 YEAR
CURRENCY EXPOSURE	FULLY HEDGED
GEARING / ECONOMIC LEVERAGE	NO

Fund rating history

APRIL 2023	INVESTMENT GRADE
APRIL 2022	INVESTMENT GRADE
APRIL 2021	INVESTMENT GRADE

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- The Manager has a long heritage in multi-asset investing.
- Integration of the broader investment team has been progressing well to further enhance the Manager's investment capabilities.
- Increased breadth of resources and tools, in particular manager research, asset allocation, performance analytics, governance and implementation teams.

Weaknesses

- The utilisation of related party capabilities, e.g., Antares requires careful management of perceived conflicts.
- The Fund's benchmark performance is not readily available to investors diminishing transparency related to the Fund meeting its objective.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY		●	
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
INTEREST RATE (DURATION) RISK		●	
LEVERAGE RISK	●		
REDEMPTION RISK		●	
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE				●			

A Standard Risk Measure score of 4 equates to a Risk Label of 'Medium' and an estimated number of negative annual returns over any 20 year period of 2 to less than 3. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: ISRIN KHOR | APPROVED BY: ROBBIE LEW

MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY			●
ESG		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●
FEES VS. SUB-SECTOR			●

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The MLC Horizon 1 Bond Portfolio (the 'Fund') is an active, multi-manager style, fixed income fund which has exposure to a wide range of Australian and global fixed income managers and enhanced cash managers and is designed to be 100% of the defensive component of a client's portfolio. The Fund aims to outperform cash while producing short duration bond market-like volatility (circa 1-2% p.a.) and a very low probability (less than 5%) of a negative annual return. The Fund has a strong focus on capital preservation.
- The Fund is managed by MLC Investment Management ('MLC' or the 'Manager'). With over 37 years' experience, MLC has a long and respected heritage in multi-asset investing. The Manager's investment philosophy is based on the premise that we invest in uncertain environments and the investment process needs to reflect and manage to that reality. Above average risk-adjusted returns can be generated by diversifying across asset classes, investment styles and managers identified as having a competitive edge.
- The Fund invests in enhanced cash, Australian bonds, global non-government bonds, Australian credit, global high yield, global bank loans, and securitised debt. The Fund predominantly invests in Investment Grade securities.
- Investment ranges are deliberately wide to allow for the implementation of medium-term views through the strategic overlay process.
- Derivatives may be used by underlying managers to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to Australian dollars.
- The Fund's PDS dated 30 September 2022 disclosed Annual Fees and Costs ('AFC') totaling 0.55% p.a. This value comprises (1) Management Fees and Cost of 0.55% p.a., (2) Performance Fees of 0.00% p.a., and (3) Net Transaction Costs of 0.00%. In-line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates.
- The Fund charges buy/sell spreads set at 0.10%/0.10%. These spreads can be subject to change, most notably during periods of market volatility, and can be sourced from the Manager's website.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- Diversified Fixed Interest funds will typically form part of the defensive component of a diversified investment portfolio.
- Diversified Fixed Interest funds typically perform better during periods of declining or stable interest rates and contracting or stable credit spreads. Conversely, they will typically perform worse during periods of increasing interest rates (particularly when interest rates increase sharply) and deteriorating credit spreads.
- Diversified Fixed Interest funds generally have higher default risk and lower credit quality than Australian Fixed Interest funds.

Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Effective July 2022, Dan Farmer was appointed as the Chief Investment Officer ('CIO') for the combined heritage IOOF, MLC and OnePath multi-manager businesses. The investment team is structured with responsibilities broadly segmented by Portfolio Construction, Portfolio Enablement and Special Capabilities functions. A number of team member responsibilities will be transitioned in a measured way over time.
- In June 2022, James Tayler was appointed as Head of Responsible Investment.
- Head of Diversified Portfolio Management, Choice and Head of Capital Markets Research Al Clark is departing the Manager in April 2023 to pursue other opportunities. As a result, Grant Mizens and Dr Ben McCaw have been appointed as joint Heads of the Capital Markets Research team and Co-Portfolio Managers of Choice Products.
- There have been additional investment team changes effective 12 September 2022 which include:
 - Paul Crisci departed the Manager and Peter Sumner was appointed as Portfolio Manager for the Australian Equities and A-REIT portfolios;
 - Simon Elimelakh, Head of Investment Portfolio Analytics, transitioned to a contracting role. Furthermore, the analysts previously reporting through to Elimelakh now report to Daniel Ackland, Investment Analytics Manager;

ANALYST: ISRIN KHOR | APPROVED BY: ROBBIE LEW

MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

- David Djukanovic, Head of Exposure Management and Trading, leads a team of five including Head of Derivatives, Clifford Bayne, who reports directly to Djukanovic.
- In January 2023, Insignia Financial entered into a binding share sale agreement to divest its remaining 45% equity stake in JANA to JANA's management team. JANA would become a wholly management-owned business following the transaction. The completion of this transaction is expected to occur in early 2023. Lonsec notes no changes in terms of JANA asset consulting services provided to the investment team.

Lonsec Opinion of this Fund

People and resources

- Insignia Financial Limited ('Insignia Financial', ASX code: IFL) is a leading provider of wealth management services including superannuation, platform administration and investment management, with over \$285.1bn assets under management and administration as 31 December 2022. Following the completion of the acquisition of MLC Wealth ('MLC') from National Australian Bank (ASX Code: NAB) in May 2021, Lonsec believes there are meaningful synergies realised from the breadth of resources, investment and risk management tools and significant collective industry experience of the combined businesses. The investment team members continue to collaborate effectively to manage their respective products.
- Effective 4 July 2022, Dan Farmer was appointed as the Chief Investment Officer ('CIO') for the combined heritage IOOF, OnePath and MLC multi-manager businesses. Lonsec believes that Farmer possesses the appropriate experience and skillset to lead the team and has skillfully navigated the significant changes arising from the MLC/Insignia Financial Ltd merger. Farmer previously was CIO of the IOOF investment management division and prior to this role, he was the Portfolio Manager for the Australian equities portfolios. Prior to joining the Insignia Financial, Farmer was Senior Executive Investments at Telstra Super. Furthermore, succession planning efforts also saw the appointment of Stanley Yeo as Deputy CIO and Head of Equities in 2021. Moreover and subsequent to the investment team restructure occurring in 2022, Yeo was appointed to Head of Strategy and Equities.
- Head of Fixed Interest Assets, Osvaldo Acosta assumed the Portfolio Manager role after the Fund's former Portfolio Manager, Nicholas Hofmeyr, departed in September 2021. Acosta joined the IOOF Investment Team in December 2016. Lonsec considers Acosta to be a capable investment professional with the ability to manage a multi-manager portfolio, particularly given the broader expertise residing in the MLC multi-manager team. Acosta exhibits a high degree of awareness concerning liquidity constraints and seeking out opportunities that offer additional alpha without compromising on quality. In the management of the Fund, Acosta is well supported by his primary backup, Senior Manager (Fixed Interest Assets & Strategy), Mark Nordio who possesses 29 years of experience. Lonsec is cognisant

that Acosta and Nordio are further supported by the Mercer Research and JANA Advice & Research team.

- The broader investment team is well-resourced consisting of 46 people in total, including Acosta and Nordio. The investment team has been recently restructured with responsibilities broadly segmented by Portfolio Construction, Portfolio Enablement and Special Capabilities functions. A number of team members' responsibilities will be transitioned in a measured way over time. While there has been a number senior team member departures which is disappointing, Lonsec believes the reporting lines, roles and responsibilities remain clearly defined under the current structure with team integration progressing well.
- Lonsec views key person risk associated with Acosta as low to moderate given the support and backup structure implemented.
- Lonsec assesses the alignment of interests between the CMR team and external investors to be moderate with about 55% of the total potential remuneration being variable. Lonsec believes that, while adequate, alignment with investors could be strengthened.

Research and portfolio construction

- MLC's portfolio construction process combines the predominantly qualitative evaluation of underlying managers with detailed quantitative analysis to blend complementary managers. Lonsec considers the research approach is appropriately structured and consistently applied.
- The Manager accesses most underlying managers via discrete mandates which Lonsec views positively as this can facilitate tighter portfolio construction, better product design control, the opportunity for better pricing and more efficient management of implementation and transitions.
- Asset consultants JANA and Mercer provide key inputs in manager research, although Lonsec notes the interaction in this regard is predominantly via the SPM team and that the SPM team will undertake their own research if they are unable to obtain the appropriate exposure. Lonsec considers JANA's research team to be well resourced across most asset classes. Lonsec will continue to monitor the team's relationship with JANA in future reviews following the binding share sale agreement to divest Insignia Financial's remaining 45% equity stake in JANA to JANA's management team. Lonsec views Mercer is well-equipped to provide guidance and advice to the team. While Lonsec has a positive view of the depth and breadth of Mercer's domestic and global manager coverage, Lonsec is seeking stability at Mercer following an increased turnover within Mercer's Manager Research Boutique (MRB) over recent years.
- The Fund at present employs a related party manager, Antares. Lonsec views the utilisation of related party capabilities as a potential compromise to objectivity in the day-to-day decision-making process. That said, at present, Lonsec takes comfort in the internal objectivity of the manager selection and portfolio construction process, whereby related capabilities are subject to a higher compliance hurdle, e.g., the veto power bestowed upon two non-aligned

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MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

board members. Lonsec will continue to monitor the Manager's discipline in manager selection to ensure the integrity of the Fund is not compromised, although the Manager has in the past demonstrated the willingness to terminate related capabilities where warranted.

- In addition to investments in underlying managers, the Portfolio Manager has the ability to express his macro views via strategic overlays which are generally implemented by tweaking individual mandates or changing the allocation to managers in different sectors.

ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as behind peers. The Manager has an articulated commitment to the integration of ESG within their investment process with a public positioning and policy framework. The Responsible Investment Position Statement together with proxy voting policy is freely available on the firm's website. The Responsible Investment Position Statement also provides details on engagement practices, however, is considered rather high-level compared to peers. The level of details with respect to the proxy voting policy and voting outcomes is lagging peers. The policy and reporting on voting outcomes lack depth compared to peers.
- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Stewardship" Managers will usually focus their ESG strategy on Engagement and Voting as the key tool in managing their ESG risks. While stewardship approaches are common across most Managers, they can form the key ESG strategy employed by some Managers. Due to the qualitative nature of this style Lonsec highlights the need for Managers to provide clear and detailed reporting on both engagement and voting activities and recommends investors review the fund stewardship reporting where available.
- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection of underlying strategies or managers. It does not review the ESG integration at the level of each of the underlying funds or strategies.
- While the Manager does have some minimum standards for Manager selection and monitoring they are seen by Lonsec as being very light touch.
- There are no signs that company engagement on ESG issues is a component of the Manager's current investment approach for this Fund.

- ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging.
- In June 2022, James Tayler was appointed as Head of Responsible Investment. Lonsec expects Tayler's appointment to expand the scope of the Manager's ESG integration through time.

Risk management

- Lonsec has been satisfied with the structure of the risk management functions embedded within the investment process. While continually evolving, the Manager has integrated compliance systems that enable underlying mandates to be implemented to ensure compliance with their predefined guidelines.
- Risk control is embedded within the portfolio construction process where the Manager will reduce exposure to particular asset class or strategy as risk increases. Importantly the Manager defines risk broadly as 'the potential for negative returns', and not just in terms of more commonly used quantitative measures such as volatility or value at risk. The Manager has a strong emphasis on managing downside risk through its scenario-based approach and believes that by limiting significant negative returns. Lonsec notes the Fund's focus on risks may result in the Fund lagging peer returns in strong equity market environments.
- Lonsec considers the Investment Portfolio Analytics team led by Daniel Ackland to be a valuable resource and a key strength of the capability.
- The Manager has a separate Asset Management Services Implementation team whose responsibilities include asset exposure management, cash flow management, rebalancing and transition management. In Lonsec's view, the separation of the implementation function from the roles of manager research/portfolio construction enhances the integrity of the overall process by allowing the CMR team to concentrate more closely on their core functions. Lonsec considers monitoring and compliance functions at the Manager to be thorough and at the higher end of the peer group.

Fees

- The Fund's fee comprises of management fee of 0.55% p.a., an estimated performance fee of 0.00% p.a., and net transaction costs of 0.00% p.a. Lonsec considers the total fee load for the Fund (AFC of 0.55% p.a.) as high relative to peers.

Products

- The Fund is a multi-manager strategy that invests across a range of growth and defensive asset classes. Hence Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high quality 'tier 1' service providers.
- The Fund is a registered managed investment scheme (MIS) for which MLC Investments Limited (the 'RE'), a related entity. The RE is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. Lonsec notes the RE has built experience in operating and managing a number of schemes over an extended period of time.

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MLC Wholesale Horizon 1 Bond Portfolio

Performance

- The Fund aims to outperform 30% Bloomberg AusBond Bank Bill Index, 42% Bloomberg AusBond Composite 0-3 yrs Index, 28% Bloomberg Barclays Global Aggregate Index 1-3 yrs (A\$ hedged) before fees (the 'Benchmark'), over two-year periods. The Fund also aims to deliver returns higher than cash investments and to preserve capital over one-year periods.
- Over the three years to 28 February 2023, the Fund performed below the Benchmark, returning -0.1% p.a. (net of fees) versus a 1.2% p.a. return for the Benchmark. The Fund has also underperformed the Benchmark over a five-year period, returning 0.7% p.a. versus the Benchmark return of 1.6% p.a.
- Due to the lack of comparable funds, relative peer assessment is not possible.

Overall

- Lonsec has maintained the Fund's 'Investment Grade' rating at its latest review. The rating reflects the high regard and conviction for the experience and calibre of the broader investment team. Further, lead Portfolio Manager, Osvaldo Acosta is considered sufficiently skilled and experienced to manage the Trust effectively. The rating is also underpinned by Lonsec's positive view of the Fund's robust and repeatable investment process. The increased resourcing from the combined heritage IOOF, OnePath and MLC businesses, provides further depth of expertise within investment management, asset allocation and risk management.
- Lonsec notes the utilisation of related party capabilities requires careful management of perceived conflicts. Lonsec seeks a performance track record under the current portfolio structure to build conviction in the strategy.

People and Resources

Corporate overview

MLC Asset Management is one of Australia's largest wealth managers offering a range of multi-asset and single-asset funds. MLC Asset Management includes a range of businesses and partners.

In May 2021, the sale of MLC Wealth to Insignia Financial Ltd was completed. As of 31 December 2022, Insignia Financial had \$285.1bn in Funds Under Management and Administration.

Size and experience

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
OSVALDO ACOSTA	HEAD OF FIXED INTEREST & PORTFOLIO MANAGER	22 / 6
MARK NORDIO	SENIOR MANAGER, FIXED INTEREST ASSETS & STRATEGY	29 / 4

The Investment Team is structured along specialist lines. Osvaldo Acosta is Head of Fixed Interest Assets and joined IOOF in December 2016. Acosta possesses 22 years of experience within fixed income and capital markets across a number of roles. Most recently he worked at Western Asset Management where he was part of the team responsible for portfolio management, trading, and implementation of interest rate strategies across a variety of fixed income portfolios. Prior to that he oversaw multi-manager style portfolios at Australian Unity Investments and was a Treasury Manager at Westfield Group. Acosta's primary backup is Senior Manager (Fixed Interest Assets & Strategy) Mark Nordio who possesses 29 years of experience. Nordio joined from CommInsure in August 2019 where he was a Senior Analyst for their Multi-Manager Fixed Income Strategies. Nordio previously worked at, Barclays Global Investors, Blackrock, and Antares Fixed Income.

In total, the investment team consists of 46 personnel across several specialised asset classes and functions. The senior members of the investment team comprise an average of 25 years of industry experience. The Team is led by CIO, Dan Farmer and includes 10 Heads of Asset Classes and Implementation, with additional support from approximately 40 Portfolio Managers and supporting analysts.

The Portfolio Manager conducts qualitative and quantitative research and provides overall data support and recommendations to the six-member MLC Investment Committee ('MIC'). The MIC ultimately considers and approves asset allocation decisions and manager appointments.

The MIC meets bi-monthly or more frequently if required, and comprises chair Dan Farmer (CIO), Ben McCaw and Grant Mizens (represent one vote), Steven Gameraov, Abley, Bayne, and Simon Elimelakh.

The Manager has a separate MLC Asset Management Services team that is responsible for implementing and maintaining investment strategies, including cash flows, performance reporting and transition management. The Information Management Team provides efficient access to information and supervises data and Knowledge Management systems.

Remuneration / alignment of interests

Remuneration of the investment teams is directly linked to the performance of the MLC multi-manager range of funds. Typically, 60% of a team member's variable remuneration is linked to the performance of the funds with 20% linked to broader product development initiatives and the remaining 20% related to behaviours and risk metrics.

Variable remuneration is heavily weighted to longer-term performance, with 85% based on three and five-year returns, and can be taken as cash, salary sacrifice to superannuation or a combination of the above.

Asset Consultant

IOOF appointed Mercer as its primary external asset consultant in July 2017 and MLC has a long standing relationship with JANA (JANA was previously a fully owned subsidiary of NAB. Insignia Financial Ltd sold its remaining minority share to JANA in January 2023). Post IOOF's acquisition of MLC, the broader Insignia Financial multi manager business benefit from consultancy and research services provided by both Mercer and JANA. These services include manager

MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

research and consultancy services when performing due diligence on prospective and currently appointed underlying managers, designing neutral benchmarks, stress testing, strategic tilting advice and performing various other risk management functions.

In addition to Mercer and Jana, Neuberger Berman assists in Alternative’s research. Neuberger Berman is an 80-year old private employee-owned investment manager. The firm manages equities, fixed income, private equity and hedge fund portfolios for institutions and advisors. With offices in 36 cities worldwide, Neuberger Berman’s team employs more than 2,400 professionals and manages more than US\$402bn in assets under management as at December 2021.

Research Approach

Overview

When analysing potential managers, MLC’s focus is on identifying those managers who display a ‘sustainable competitive edge’. Research is conducted primarily from a qualitative perspective; however, quantitative tools are also used to analyse the style characteristics of each manager and to validate analysts’ views. MLC uses in-house diagnostic software and is therefore not reliant on external consultants for such analysis.

The evaluation process conducted by MLC is exhaustive and involves considerable contact hours with each manager.

Managers are evaluated on the following criteria:

- Philosophy
- Process
- People
- Skill
- Resources
- Research
- Organisational structure
- Implementation.

An opinion template is used to capture all research inputs and a 1-5 scoring mechanism helps to formally quantify the qualitative elements. Portfolio managers will generally be involved in the review/interview of fixed income managers.

Portfolio Construction

Overview

BENCHMARK	30% BLOOMBERG AUSBOND BANK BILL INDEX, 42% BLOOMBERG AUSBOND COMPOSITE 0-3 YRS INDEX, 28% BLOOMBERG BARCLAYS GLOBAL AGGREGATE INDEX 1-3 YRS (AS HEDGED)
RETURN OBJECTIVE (INTERNAL)	TO OUTPERFORM CASH BY 0.5-1.0% P.A. (BEFORE FEES)
RISK OBJECTIVE (INTERNAL)	SHORT DURATION BOND MARKET VOLATILITY (CIRCA 1-2 % P.A), WITH A VERY LOW PROBABILITY OF A NEGATIVE ANNUAL RETURN (<5%)
INVESTMENT STYLE	MULTI-MANAGER
CREDIT MANAGEMENT	UNDERLYING MANAGER
DURATION MANAGEMENT	UNDERLYING MANAGER AND MLC
CURRENCY MANAGEMENT	UNDERLYING MANAGER
TYPICAL NUMBER OF MANAGERS	9

Acosta is primarily responsible for underlying manager selection and blending and expressing his macro views through strategic overlays as the Fund’s portfolio manager.

MLC employs a combination of specialist strategies and broad discretionary strategies in order to exploit the fixed income opportunity set and individual manager strengths. The Fund invests across a wide range of active strategies, covering sovereign, FX and credit.

In analysing the characteristics of a manager, MLC makes use of significant quantitative resources, such as Barra, FactSet and Bloomberg.

All investment proposals initiated by the Portfolio Management team must be approved by the Investment Committee. A key feature of MLC’s structure is the ‘Peer Review’ process, which is primarily responsible for ensuring that there is a degree of consistency in the investment process prior to investment changes being recommended to the Investment Committee. The Internal Review Panel is made up of the Portfolio Managers and most of the relevant analysts.

Implementation is predominantly through investment mandates.

Underlying Manager line-up as at 28 February 2023:

- **Enhanced Cash**
 - Antares
- **Australian Bonds**
 - Antares
 - Janus Henderson
 - Metrics
- **Australian Non-Government Bonds**
 - Antares
- **Global Non-Government Bonds**
 - Western Asset Management
 - Wellington Management
- **Global High Yield and Bank Loans**
 - Muzinich
 - Oaktree Capital
 - Shenkman Capital
 - Loomis Sayles
- **Securitized Debt**
 - TCW Asset Management

While most managers are external appointments, the Manager employs the use of internal funds through its allocation to Antares.

Risk Management

Risk limits

RISK MONITORING RESPONSIBILITY	SEPARATE FROM INVESTMENT TEAM
DURATION RISK LIMITS	BENCHMARK +/- 1 YEAR
MINIMUM ISSUE CREDIT RATING	CCC+
MAXIMUM PORTFOLIO WEIGHT TO ONE OBLIGOR	5% (FOR NON-GOVERNMENT)
MAXIMUM LOOK THROUGH SUB-INVESTMENT GRADE EXPOSURE	10% (SOFT LIMIT)
GEARING	NO
SYSTEMS AND TOOLS	FACTSET, BARRA, BLOOMBERG, UNISON

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MLC Wholesale Horizon 1 Bond Portfolio

ISSUE DATE 21-04-2023

At the broad level, MLC controls risk by diversifying across asset classes. Existing managers are subject to rigorous ongoing review as well as formal six-monthly reviews that ensure that incumbent managers are regularly reassessed.

The Specialist Capabilities team provides a number of risk, performance and attribution services to assist Portfolio Managers in better understanding the risks and exposures within their respective portfolios. A number of high-quality tools (e.g., BarraOne and FactSet) are employed.

The Manager only uses managers who have internal management systems and procedures that comply with a separate due diligence review, which is conducted by the MLC Asset Management Services team before a manager is appointed.

Risk monitoring

MLC has an extensive risk management framework, including MLC Wealth Management Executive Risk, Compliance and Audit Committee, Wealth Management Risk and Compliance Committee and additional support and oversight from the Risk and Compliance team and business unit risk committees, ensuring that the highest level of attention is paid to risk and compliance.

Existing managers are subject to rigorous ongoing review as well as formal six-monthly reviews ensure that incumbent managers are regularly reassessed. Mandate compliance is monitored on a daily basis and senior management is notified of any non-compliance immediately. Portfolio strategy and performance is monitored on a monthly basis.

The MLC Asset Management Services team is responsible for dealing with compliance issues at the investment manager level. Primary responsibility for the negotiation of investment management guidelines/agreements rests with the Portfolio Managers.

Implementation

The MLC Asset Management Services Implementation team is responsible for re-balancing and the transition process. The team are dedicated to transition management. A structured five-stage process aims to help minimise execution costs, market impact, opportunity costs and adverse tax impacts. Where necessary external organisations will be employed to assist in the transition process.

Currency management

The Fund aims to limit foreign currency exposures by being fully hedged. The responsibility for currency management lies with the appointed underlying managers, whose performance is effectively measured against hedged benchmarks.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Interest rate risk

The movement in interest rates and bond yields directly impacts the market value of a fixed interest fund's

holdings. Market prices of fixed-rate securities are typically inversely related to the movement of interest rates or bond yields, e.g. rising bond yields reduce the market value of securities. Duration is a measure of the interest rate risk in a fund.

Credit risk

Investing in non-sovereign debt securities, such as corporate bonds, typically carries with it an increased level of credit risk. Credit risk generally refers to the extent of a borrower's willingness or ability to repay their debt. Higher credit risk generally infers a greater risk of capital loss. Credit investments are typically split between investment grade (AAA to BBB-) and sub-investment grade (BB+ to D). The Fund has a 10% limit, on a 'look-through' basis, to sub-investment grade debt.

Derivatives risk

The Fund may use derivatives extensively to hedge the risk associated with physical securities. The value of a derivative is derived from the value of an underlying asset. This involves basis risk as the derivative may not move in line perfectly with the physical security. Other risks associated with derivatives include counterparty risk and the potential for leverage risk.

Counterparty risk

Counterparty Risk is a special case of credit risk, where a fund is indirectly exposed to the credit risk of a counterparty for the completion of a trade or investment, e.g. over-the-counter derivatives such as interest rate swaps.

Currency risk

Global Fixed Interest securities are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor perspective. The Fund is managed on a 'currency hedged' basis with the aim of reducing the impact of currency movements.

ANALYST: ISRIN KHOR | APPROVED BY: ROBBIE LEW

MLC Wholesale Horizon 1 Bond Portfolio

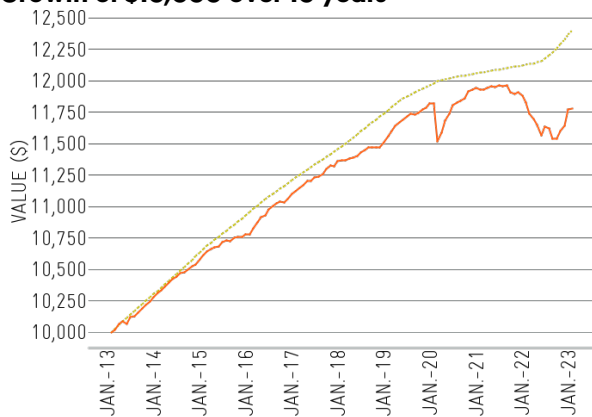
Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2023)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-0.43	-	-0.11	-	0.71	-	1.65	-
STANDARD DEVIATION (% PA)	2.06	-	2.10	-	1.67	-	1.26	-
EXCESS RETURN (% PA)	-2.69	-	-1.28	-	-0.85	-	-0.53	-
OUTPERFORMANCE RATIO (% PA)	33.33	-	50.00	-	50.00	-	47.50	-
WORST DRAWDOWN (%)	-2.46	-	-3.57	-	-3.57	-	-3.57	-
TIME TO RECOVERY (MTHS)	NR	-	NR	-	NR	-	NR	-
SHARPE RATIO	-1.06	-	-0.37	-	-0.21	-	-0.02	-
INFORMATION RATIO	-1.48	-	-0.61	-	-0.52	-	-0.44	-
TRACKING ERROR (% PA)	1.82	-	2.08	-	1.63	-	1.20	-

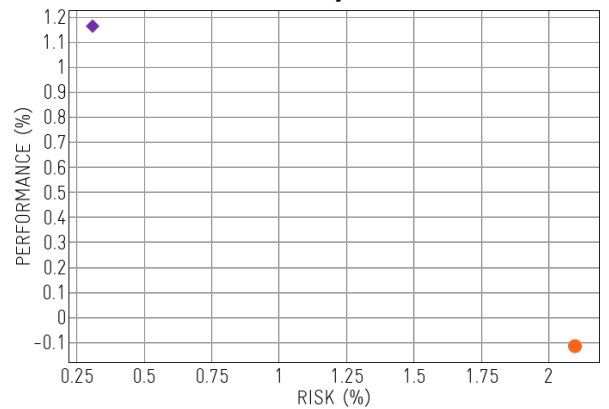
PRODUCT: MLC WHOLESALE HORIZON 1 BOND PORTFOLIO
 LONSEC PEER GROUP: FIXED INTEREST - ALTERNATIVE INCOME - MULTI-MANAGER
 PRODUCT BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD + 0.50%
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of \$10,000 over 10 years



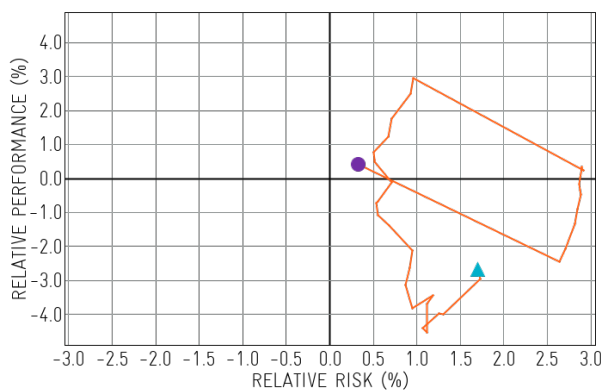
— MLC WHOLESALE HORIZON 1 BOND PORTFOLIO
 BLOOMBERG AUSBOND BANK BILL INDEX AUD + 0.50%

Risk-return chart over three years



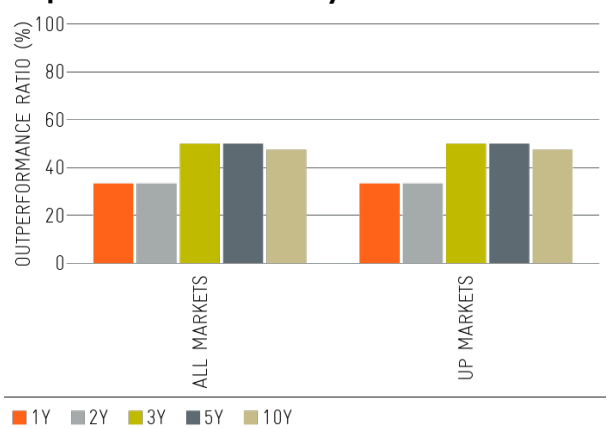
● MLC WHOLESALE HORIZON 1 BOND PORTFOLIO
 ◆ BLOOMBERG AUSBOND BANK BILL INDEX AUD + 0.50%
 ▲ PEER MEDIAN
 ● PEERS

Snail trail



● START (02-2020) ▲ END (02-2023)

Outperformance consistency



■ 1Y ■ 2Y ■ 3Y ■ 5Y ■ 10Y

MLC Wholesale Horizon 1 Bond Portfolio

Glossary

Total return ‘Top line’ actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss (‘peak to trough’) experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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