Lonsec

Recommended

Product Review
MLC Real Return Assertive

ISSUE DATE 06-02-2024

About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	VARIABLE GROWTH ASSETS
SUB SECTOR REVIEWED	REAL RETURN
TOTAL FUNDS RATED	29

About this Fund

ASIC RG240 CLASSIFIED	YES
FUND REVIEWED	MLC REAL RETURN ASSERTIVE
APIR CODE	MLC0667AU
PDS OBJECTIVE	TO DELIVER A RETURN OF 4.5% P.A. ABOVE INFLATION (AFTER MANAGEMENT COSTS), SUBJECT TO LIMITING THE RISK OF NEGATIVE RETURNS OVER SEVEN YEAR PERIODS.
INTERNAL OBJECTIVE	AS ABOVE.
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	$577M (30 SEPTEMBER 2023)
FUND INCEPTION	31-03-2006
ANNUAL FEES AND COSTS (PDS)	1.08% P.A.
RESPONSIBLE ENTITY	MLC INVESTMENTS LIMITED

About the Fund Manager

FUND MANAGER	MLC ASSET MANAGEMENT SERVICES LIMITED
OWNERSHIP	100% OWNED BY INSIGNIA FINANCIAL LTD, AN ASX LISTED COMPANY (ASX: IFL)
ASSETS MANAGED IN THIS SECTOR	$139.8BN (30 SEPTEMBER 2023)
YEARS MANAGING THIS ASSET CLASS	39

Investment Team

PORTFOLIO MANAGER	BEN MCCAW, GRANT MIZENS
INVESTMENT TEAM SIZE	48
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	SPECIALIST / SYDNEY & MELBOURNE
ASSET CONSULTANT	JANA, MERCER (MANAGER RESEARCH ONLY)

Investment process

ASSET ALLOCATION	FULLY FLEXIBLE
SECTOR EXPOSURE	PREDOMINANTLY ACTIVE
GROWTH / DEFENSIVE SPLIT %	VARIABLE
USE OF ALTERNATIVES	YES

Fund rating history

FEBRUARY 2024	RECOMMENDED
APRIL 2023	RECOMMENDED
APRIL 2022	RECOMMENDED

What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- The Capital Markets Research robust asset allocation process is a key differentiator of the Fund within this peer group.
- 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.
- Active risk management approach that limits downside risk.

Weaknesses

- The utilisation of related party capabilities requires careful management of perceived conflicts.
- The Fund has not met its inflation plus return target over most periods.

Fund Risk Characteristics

	LOW		MODERATE		HIGH
BUSINESS SUSTAINABILITY RISK		●			
CAPITAL VOLATILITY				●	
FOREIGN CURRENCY EXPOSURE			●		
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 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY					●
ESG		●			

ANALYST: MIKE GRDOSIC | APPROVED BY: ROBBIE LEW

MLC Real Return Assertive

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?

- MLC Real Return Assertive (the 'Fund') is an active, multi-manager, unconstrained, real return strategy which has exposure to a wide range of asset classes including equities, fixed income, insurance related investments, private equity, inflation-linked bonds, infrastructure and high yield. The Fund does not have a fixed strategic asset allocation, instead adopting a flexible approach to asset allocation. The Fund aims to deliver a return of 4.5% p.a. above inflation, net of fees, subject to limiting the risk of negative returns over seven year periods.
- The Fund is managed by MLC Asset Management ('MLC' or the 'Manager'). MLC has a long and respected heritage in multi-asset investing. The Manager's investment philosophy is based five beliefs:
  - — A great culture is the foundation for great investing;
  - — Active management adds value;
  - — Skillful diversification delivers over the long-term;
  - — Intelligent risk taking is a must;
  - — The long-term matters but we remain agile.
- The Fund does not have a fixed strategic asset allocation ('SAA'), instead adopting a forward looking and flexible approach to asset allocation. Assets will only be selected for inclusion in the portfolio if they are expected to deliver the appropriate risk/reward characteristics necessary to meet the Fund's overall objective. Asset class ranges are broad with allowable ranges of 40%-100% for growth assets and 0-60% for defensive assets.
- Underlying asset classes are predominantly accessed through external managers, a small number of related party managers, tailored baskets of direct securities, as well as derivatives.
- The Fund relies extensively on internal active asset allocation capabilities rather than traditional approaches of using a static SAA coupled with a diversified exposure to active external asset class managers.
- The Fund's PDS dated 30 November 2023 disclosed the Annual Fees and Cost ('AFC') totaling 1.09% p.a.. This value comprises (1) Management Fees and Costs of 1.01% p.a., (2) Performance Fee of 0.03% p.a., and (3) Net Transaction Costs of 0.05% p.a. 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 spread 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 its design and distribution arrangements 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.
- Multi-Asset Real Return funds are potentially suitable for use as a replacement to a more traditional fixed SAA multi-asset approach, particularly for clients wanting a smoother return profile. Alternatively, these funds may be considered as a component of an alternatives allocation within a broader portfolio.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	●

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

- The recent personnel changes include:
  - — During March 2023 quarter, Shiv Kalra joined the Alternatives Team as a Senior Analyst, reporting directly to Head of Alternatives; and Doreen Goh, Investment Analyst, reporting directly to Co-Head of Choice Diversified Portfolio;
  - — At the end of April 2023 David Jennings, Assistant Portfolio Manager, left the Investment Team;
  - — Patrick Nicoll, Senior Investment Strategist, Asset Allocation Manager joined the team in August to replace David Jennings.
  - — Also, CEO Renato Mota to step down from the role in February 2024. Mota has been with the firm for 20 years, including the past five years as CEO.
- Effective 30 September 2022, the Fund has an allocation to Private Assets via MLC (GPE).
- Effective 30 November 2023, the Fund has changed its name to MLC Real Return Assertive. The previous name was MLC Wholesale Inflation Plus – Assertive.

ANALYST: MIKE GRDOSIC | APPROVED BY: ROBBIE LEW

MLC Real Return Assertive

Lonsec Opinion of this Fund

People and resources

- MLC Asset Management Services Limited ('MLC' or the 'Manager') is 100% owned by Insignia Financial Limited ('Insignia Financial', ASX code: IFL), a leading provider of wealth management services including superannuation, platform administration and investment management, with over $293.1bn assets under management and administration ('AUMA') as 30 September 2023. Following the completion of the acquisition of MLC Wealth from National Australian Bank in May 2021, the Manager is now one of the largest multi-asset managers in the Australian market. The Manager is in a strong financial position at this level of AUMA and has a demonstrated track record in multi-asset investing. The integration of the heritage IOOF, OnePath and MLC multi-manager businesses are expected to deliver meaningful synergies from the breadth of resources, investment and risk management tools and significant collective industry experience. The investment team members continue to collaborate effectively to manage their respective products. The Manager has demonstrated multiple layers of compliance and risk monitoring, with oversight from multiple trustee boards, external board directors and separate audit committees. In addition, the Manager has not reported any regulatory findings in recent years.
- The broader MLC Asset Management investment team ('Investment Team') is well-resourced consisting of 48 people in total with responsibilities broadly segmented by Portfolio Construction, Portfolio Enablement and Special Capabilities functions. The integration of the investment teams from the heritage multi-manager businesses has provided further depth of expertise within investment management, asset allocation and risk management capabilities. The Investment Team has been led by Chief Investment Officer, Dan Farmer since 4 July 2022. Farmer possesses the appropriate experience and skillset to lead the team and has skillfully navigated the significant changes arising from the MLC /IOOF merger. The key decision makers on asset allocation across all portfolios are highly experienced, which include Dan Farmer, Grant Mizens, Ben McCaw, Stanley Yeo, Kerry Gill.
- The Capital Markets Research Team ('CMR') team of six is led by Co-Heads Grant Mizens and Dr Ben McCaw following the departure of Head of Diversified Portfolio Management, Choice and Head of Capital Markets Research Al Clark. Both are jointly responsible for the performance and the implementation of portfolio management decisions for the MLC diversified strategies including the Fund. While Clark's departure is noteworthy, Lonsec has high regard for McCaw and Mizens given their experience and tenure overseeing the process. Specifically, Lonsec believes McCaw to be a high-quality investor aligned with the CMR investment philosophy, having played an important role in developing the scenarios analysis models and enhancing MLC's stochastic modelling processes. The CMR team is adequately resourced for the management of the Fund. Positively, the CMR team has access to the broader investment team.
- The senior members have long co-tenure at their respective heritage businesses. Although the co-tenure of the combined investment team is considered relatively short following the recent acquisitions and the departures of a number of senior members in 2022, the team integration has been progressing well with early signs of team stability. The MLC Investment Committee members remain largely the same and have a long co-tenure between them.
- The key person risk is considered to be moderately high and currently resting with McCaw and Mizens who have been involved with the management of the MLC diversified funds. However, the co-portfolio management and Investment Committee structures seek to mitigate key person risk.
- The alignment of interest to investors is considered to be moderate. Majority of the remuneration of the investment team members are directly linked to the performance of the multi-manager range of funds, which is heavily weighted to three and five year returns, with a deferral component which promotes further alignment across the team.

Asset allocation

- The asset allocation process aligns well with the Manager's belief that predictability of outcomes can be improved over the long term. The well-tested CMR's asset allocation process and the resulting dynamic portfolio positioning are key strengths of the Fund. A key tool utilised in the process is the scenario-based analysis developed by the CMR team. The Fund further employs an active asset allocation process, which aims to take advantage of short to medium-term factors to improve risk-adjusted returns. This approach provides a systematic framework to assess a large number of potential scenarios and corresponding risk exposures which are particularly informative when protecting against tail risk events. Having said that, the approach is reliant on the team's skills to assess the impact of each scenario, the outputs of which are used to finalise the Fund's asset allocation.
- The investment team has access to a significant breadth of asset classes including traditional and non-traditional asset classes which are designed to be lowly correlated with equities and bonds, as well as derivatives trades. The Fund's asset exposure via the allocation to internal strategies have the ability to benefit in multiple market environments and generate an alternative source of return to market beta. The team has a competitive edge in this area given access to expertise in the Derivatives team. Moreover, the Fund has recently included allocations to other diversifying assets including private equity and insurance related investments. These exposures are likely to increase the proportion of illiquid assets in the Fund, however the Manager has appropriate safeguards in place to manage illiquidity risk.
- The strategy does not have a static Strategic Asset Allocation (SAA), rather allocations are actively managed and aim to deliver returns above inflation over a particular time frame, through different market environments. The strategy also aims to deliver a smoother return path than traditional portfolio approaches by limiting the risk of big losses

that can permanently reduce capital. Downside risk management is a key feature of this Fund which impacts the decision to allocate higher proportions to listed growth assets that would typically be needed to achieve the real return target.

Research approach

- The Manager implements a robust and consistently applied investment process underpinning manager selection and portfolio construction functions. The CMR team's approach to research is guided by the Manager's development and assessment of over 40 scenarios that seek to provide the framework for considering potential investment risks and returns. Furthermore, the Manager has been committed to evolving and enhancing the process where required, which Lonsec views positively. Lonsec believes the approach is well structured and relies on the Manager's depth of experience in the scenario based approach. The Manager has access to sophisticated tools and systems to manage these multi-manager portfolios.
- The large size of the team provides depth to the Manager's process. There is an ongoing flow of ideas from the CMR team and Sector Portfolio Management ('SPM') team. The CMR team is responsible for determining the most efficient and effective ways to implement their AA decisions, while the SPM team is primarily responsible for conducting manager research with input from JANA and Mercer and is structured as follows: Fixed Income (led by Osvaldo Acosta), Australian Equities/REITs (led by Peter Sumner), and Global Equities (led by Liam Wilson), Private Equity (led by Marek Herchel and Kristian Zimmermann) and Alternatives (led by Gareth Abley and Jehan Sukhla) teams.
- The Manager uses JANA and Mercer in manager research. Lonsec considers JANA and Mercer's research team to be well resourced to conduct in-depth global manager research across most asset classes. Lonsec will continue to monitor the team's relationship with JANA in future reviews following the divestment of Insignia's remaining 45% equity stake in JANA to JANA's management team in 2023.

ESG Integration

- The Manager has indicated that their Responsible Investment style is "Ethical". Lonsec highlights that this ESG review is not a measure of how ethical the ultimate portfolio is but is an assessment of the process the Manager undertakes to assess the degree to which Environmental, Social and Governance factors are considered when assessing investment opportunities. This may be a completely separate and additional capability on top of any ethical screening. Lonsec recommends investors review the exclusions and materiality thresholds applying to each exclusion to ensure an alignment with any ethical requirements. With a primary ESG style of "Risk or Value" Managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result this approach may mean that lower quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.
- 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. This product does not make any specific claim to being a sustainable, ethical or impact offering. As such Lonsec does not apply its alignment review to the product and thus scores its risk of misalignment as not applicable.
- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection underlying strategies or managers, or the extent to which ESG impacts asset allocation. 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.
- While ESG does not form a component of the Managers broader compliance framework, Lonsec looks very favourable on the level of transparency the Manager provides into portfolio holdings.

Portfolio construction

- The Fund is considered diversified with 20-30 underlying managers. The Fund predominantly employs high conviction, tax-aware and low turnover strategies. The Manager accesses most underlying investment managers via discrete mandates which Lonsec views positively as this can facilitate tighter portfolio construction, better product design control, the opportunity for better pricing, improved tax efficiency for investors and more efficient management of implementation and transitions. Lonsec has also observed the Manager's willingness, albeit infrequently, to adjust mandates as required.
- The Fund at present employs related party managers, e.g., 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 board members. The Manager has in the past demonstrated the willingness to terminate related capabilities where warranted.
- Lonsec notes the sophisticated use of derivatives in recent years to supplement the strategic overlay process, both as an exposure and risk management tool, with encouraging results. Where appropriate,

the Fund may employ derivatives to synthetically create or hedge exposures alongside its allocations to active strategies. Lonsec highlights that the use of these derivative strategies aligns well with the active oriented characteristics of the Fund.

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. Although the Manager does balance risk with return opportunities, the strong focus on managing downside risk may potentially lead to 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. 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.
- There are no capacity management concerns given the diversification of the multi-asset strategy and the current levels of AUM. The Manager appears to have appropriate processes and systems to manage liquidity risk.

Fees

- The Fund's fee comprises of management fee of 1.01% p.a., an estimated performance fee of 0.03% p.a., and net transaction costs of 0.05% p.a. Lonsec considers the total fee load for the Fund (AFC of 1.09% p.a.) as moderate to high relative to peers.

Product

- 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.
- The Fund is a registered managed investment scheme (MIS) for which MLC Investments Limited (the 'RE'), is 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 and is expected to have governance framework in place to deal with any perceived conflicts in place. Additionally, the Manager employs high quality 'tier 1' service providers.
- The Fund has experienced net inflows over the last 12 months and at current levels of AUM, the wind-down risk of the Fund is considered low.

Performance

- The portfolio's objective is to deliver a return of 4.5% p.a. above inflation (after management costs) over seven year periods subject to limiting the risk of negative returns over this time frame.
- To 31 December 2023, the Fund returned 5.8% p.a. and 6.3% p.a., net of fees, over three and five years respectively. These returns outperformed CPI over three and five years. Over a seven year period to 31 December 2023, the Fund returned net of fees, 5.4% p.a., outperforming CPI by 2.2% p.a. but not meeting the return objective of CPI plus 4.5% p.a..
- Over three and five year periods respectively, the Fund's annualised standard deviations were 5.7% p.a. and 6.0% p.a., resulting in risk-adjusted returns (measured by Sharpe ratio) that were 0.7 and 0.8 over the same periods. The Fund's largest drawdown was -8.7% over the same period.

Overall

- Lonsec has maintained the Fund's **'Recommended'** rating at its latest review. This rating is underpinned by the Manager's long heritage in multi-asset investing and the robust asset allocation framework developed by the Capital Markets Research (CMR) team and research process. Lonsec retains conviction in the high calibre investment team overseeing this important function. 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 that the Manager will require careful management of the perceived conflicts given the utilisation of related party capabilities. Although the Fund has not met its return target over most periods, downside risk has been carefully managed.

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 30 September 2023, Insignia Financial had $293.1bn in Funds Under Management and Administration.

MLC Real Return Assertive

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DANIEL FARMER	CIO	28 / 14
BEN MCCAW	CO-HEAD OF CAPITAL MARKETS RESEARCH	20 / 16
GRANT MIZENS	CO-HEAD OF CAPITAL MARKETS RESEARCH	18 / 18
KERRY GILL	FUND STRATEGIST	22 / 19
STANLEY YEO	HEAD OF STRATEGY AND EQUITIES	24 / 14
ANTHONY GOLOWENKO	PORTFOLIO MANAGER	25 / 3
ALEX LEUNG	INVESTMENT ANALYST	6 / 3
DOREEN GOH	INVESTMENT ANALYST	8 / <1
OSVALDO ACOSTA	HEAD OF FIXED INTEREST ASSETS	23 / 7
MARK NORDIO	SENIOR MANAGER, FIXED ASSET STRATEGY	30 / 5
PETER SUMNER	PORTFOLIO MANAGER, AUSTRALIAN EQUITIES	35 / 35
LIAM WILSON	PORTFOLIO MANAGER, GLOBAL EQUITIES	21 / 18
GARETH ABLEY	HEAD OF ALTERNATIVES	26 / 22
JEHAN SUKHLA	PORTFOLIO MANAGER, ALTERNATIVES	23 / 21
JAMES TAYLER	HEAD OF RESPONSIBLE INVESTMENT	30 / 2
MAREK HERCHEL	CO-HEAD OF PRIVATE EQUITY, UNITED STATES	27 / 7
KRISTIAN ZIMMERMANN	CO-HEAD OF PRIVATE EQUITY, AUSTRALIA	23 / 3

The Capital Markets Research ('CMR') team is responsible for the management of this Fund, including day-today implementation of the asset allocation process. The CMR team of six is led by Grant Mizens and Dr Ben McCaw. The investment team conducts qualitative and quantitative research and report to CIO Daniel Farmer.

The CMR team is supported by the Sector Portfolio Management ('SPM') team for sector-specific manager research, the Derivatives team (led by Clifford Bayne) for derivative idea generation and implementation, as well as the Alternatives team (led by Gareth Abley and Jehan Sukhla) for alternative strategies. The SPM team is primarily responsible for carrying out the manager selection and portfolio construction function for the underlying sector funds. These teams also leverage off the Manager's broader functions, including the Private Equity team (currently co-led by Marek Herchel and Kristian Zimmermann) and the Investment Portfolio Analytics team (led by Daniel Ackland).

All investment proposals initiated must be approved by the Investment Committee, comprising chair Dan Farmer (CIO), Ben McCaw and Grant Mizens (represent one vote), Steven Gamerov, 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 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 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 39 cities worldwide, Neuberger Berman's team employs more than 2,800 professionals and manages more than US$463bn in assets under management as at December 2023.

Asset Allocation

Strategic asset allocation

The Fund does not employ a static SAA rather it sets a target asset allocation that is periodically reviewed with an aim of meeting the return objective over a specific period but with a focus on managing downside risk. The portfolio's actual asset allocation can deviate around this target allocation.

The Fund's asset allocation as at 31 December 2023 is:

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	-	0%	40%	18.5%
GLOBAL EQUITIES	-	10%	80%	28.0%
PROPERTY	-	0%	20%	-
INFRASTRUCTURE	-	0%	20%	2.7%
FIXED INCOME	-	0%	50%	28.6%
ALTERNATIVES	-	0%	65%	20.4%
CASH	-	0%	30%	2.0%
TOTAL GROWTH ASSETS	-	40%	100%	51.2%

MLC Real Return Assertive

Tactical/Dynamic asset allocation

The Manager acknowledges that it invests in an uncertain world and recognises that over longer periods, predictability can be improved. As such, the Manager tries to avoid short-term information flows and emotional responses, focusing instead on the prospective evolution of the investment environment over the medium to longer term. The Manager aims to build robust portfolios that will outperform across the majority of market conditions.

The Manager uses scenario-based analysis as a key tool in determining the asset allocation. Return estimates for key asset classes are forecast under 40 generic scenarios. These scenarios cover a broad range of market conditions that include 'steady state' growth, deflation, rising inflation etc. The resultant asset allocation is designed to increase the robustness of outcomes by increasing portfolio efficiency and exploiting asymmetries where they exist.

The asset allocation process is continually evolving, with refinements predominantly made to the scenario testing capabilities. A formal review of the asset allocation is undertaken quarterly although it is monitored on a daily basis.

Research Approach

Manager due diligence

The Fund predominantly employs high conviction, tax-aware, low turnover managers. Most investment managers, including index managers, are also subject to the JANA manager research process. The research process has a bias to qualitative factors with quantitative analysis used primarily as a mechanism to validate analysts' views and confirm the stability of managers' portfolio characteristics through time.

The evaluation process conducted by the investment team, JANA and Mercer is exhaustive and involves considerable contact with each manager. Managers are evaluated on philosophy; process; people; skill; resources; research; organisational structure; and implementation.

An opinion template is used to capture all research inputs and a scoring mechanism formally quantifies the qualitative elements.

Tailored Australian Equities

In addition to employing external managers, the Manager also internally manages the Australian equities component of the portfolio. The objective of this allocation is to provide a lower risk Australian equities exposure with better risk/return efficiency than the S&P/ASX 200.

The process uses insights from the Manager's scenario analysis to identify sectors with significant tails and define maximum and minimum sector weights. Screening of the ASX200 universe occurs to filter out low quality stocks using financial statement based quality metrics, as well as using non-financial statement risks such as ESG, industry structure, credit quality and valuation. Stocks with significant tails are identified. An optimisation is conducted that results in a final portfolio of 50-150 securities.

The Manager will aim to control the risk outcomes via the use of protective puts to reduce the risk from potential idiosyncratic outcomes and tail scenarios. In addition to the Tailored Australian Equities portfolio, the Manager has also built out thematic equity baskets leaning into certain thematics and to generate asset allocation tilts through stock selection decisions

Portfolio Construction

Overview

Responsibility for manager selection rests with the investment team. All investment proposals initiated by the investment team must be approved by the Investment Committee, which has delegated authority from MLC Asset Management Services Limited.

The Peer Review process is responsible for ensuring that there is a degree of consistency in the investment process prior to investment changes being recommended to the Investment Committee. All strategy changes are also subject to pricing, legal, tax and implementation review and approval to optimise returns for investors.

The Fund provides access to a range of underlying managers across several asset classes. A list of underlying managers is available via the Manager's website.

Liquidity

Investments such as those in private, unlisted or small specialised markets, mortgages, or alternative investments, are difficult to buy or sell quickly. Therefore, they may have to be sold at a discount to their market value in some environments. However, the illiquid assets are managed within tight limits.

Leverage

The Trust may leverage through investments in derivatives, including futures and options. The Manager uses derivatives predominantly for risk management purposes however the Trust can leverage up to 25% of the Trust's net asset value through derivatives. This means it can leverage up to $250 for every $1,000 you invest. However, if asset values fall dramatically (such as in unusually adverse market conditions), the Trust's leverage level may temporarily rise above 25%.The Trust may also invest in funds managed by specialist managers that can use leverage. These specialist managers can also, in turn, invest in underlying funds that use leverage.

Underlying manager allocation

Australian equities

- MLC (Tailored Equities strategy)

Global equities

- Arrowstreet
- Walter Scott

Fixed Interest

- Bentham
- Stone Harbor
- Muzininch
- Oaktree
- Shenkman
- MLC Opportunistic Growth Strategy
- Short Maturities Credit Strategy
- Antares
- Mt Logan

MLC Real Return Assertive

- AlphaCat

Private Assets

- MLC GPE

Global Listed Infrastructure

- Macquarie True Index

Alternatives

- MLC Derivatives Strategy
- Ruffer

Cash

- Antares

Risk Management

Risk limits

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

Tight +/- 2% re-balancing bands ensure the target AA positions are maintained. Clear sell decisions are in place, the Manager maintains a reserve list of replacement managers for each manager within the Fund.

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

In addition to the risk focused investment asset allocation process, the Investment Portfolio Analytics team, led by Daniel Ackland, provides a number of risk services to assist Portfolio Managers in better understanding the risks and exposures within their respective portfolios. The Investment Portfolio Analytics team replicates the CMR team's scenarios and risk implications of the two approaches are compared as a robustness check, and to seek additional insights from this alternative analysis. A number of high-quality tools (FactSet,IRESS, Mercer GIMD and eVestment) are employed. The Investment Portfolio Analytics team's work is divided into three areas: reporting on underlying managers to Portfolio Managers, high level quarterly reports to the Board and Investment Committee, and quarterly 'risk books' which summarise the risk characteristics of every manager in each sector. The Investment Portfolio Analytics team also undertakes stress testing based on historical and extreme scenarios as well as ad-hoc risk analysis at the request of Portfolio Managers.

The Manager has an extensive risk management framework, including Investment Management Committee, Funds Management Committee, Investment Governance team, and additional support and oversight from the Enterprise 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 are monitored on a monthly basis.

The Product Operational Accounting and Compliance 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 has allocations to both hedged and unhedged global equities and is therefore exposed to movements in the Australian dollar. Unhedged global equities will outperform hedged when the Australian dollar falls in value against global currencies.

Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:

Market risk

Investment returns are influenced by the performance of the market as a whole. This means that investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes invested in and the timeframe considered.

Security and investment-specific risk

Within each asset class individual securities like mortgages, shares, fixed interest securities or hybrid securities can be affected by risks that are specific to that investment or that security. For example, the value of a company's shares can be influenced by changes in company management, business environment or profitability.

Currency risk

Investments in global markets or securities which are denominated in foreign currencies give rise to foreign currency exposure. This means that the value of these investments will vary depending on changes in the exchange rate.

Leverage risk

The Fund and its underlying managers may use derivatives or borrow to create gearing/leverage, which at times may be substantial. The maximum gearing level within the Fund is 25%, however in extreme market conditions the gearing level may be higher. The use of leverage may magnify the Fund's losses and gains.

Short Selling

Short selling is used by an investment manager when they have a view that an asset's price will fall. Short selling is typically used to reduce exposure to an asset they believe has become too risky for the Trust. The Trust may also invest in funds managed by specialist managers that can use short selling. The key risk of short selling is that, if the price of the asset increases, the loss could be significant. It is anticipated that the investment manager would only use short selling where the Trust holds an asset similar to the asset being short sold, so price movements largely offset each other.

MLC Real Return Assertive

ISSUE DATE 06-02-2024

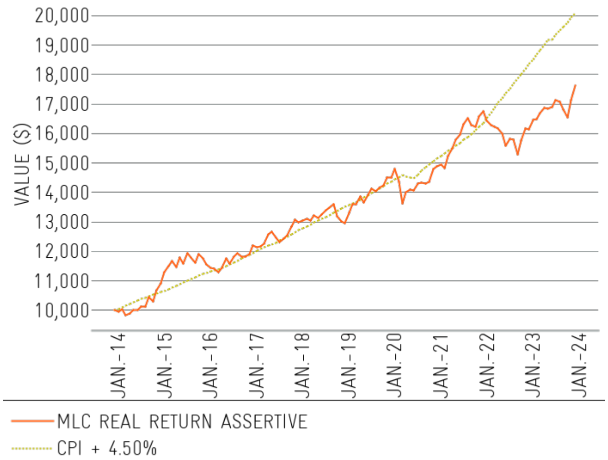
Quantitative Performance Analysis - annualised after-fee % returns (at 31-12-2023)

Performance metrics

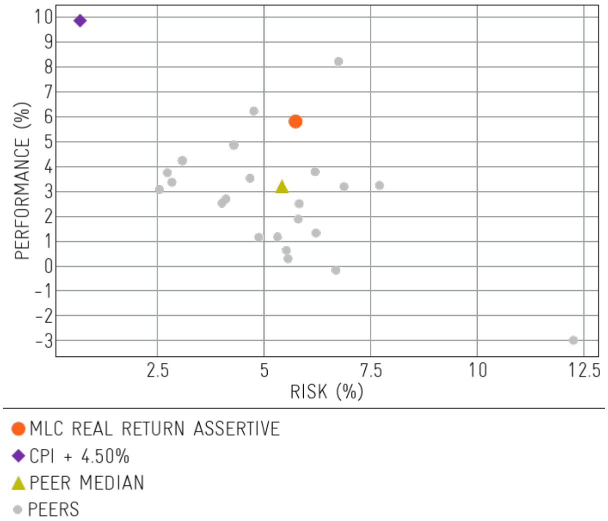
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	9.19	6.94	5.81	3.22	6.34	4.38	5.83	4.23
STANDARD DEVIATION (% PA)	5.44	5.44	5.74	5.42	5.98	5.56	5.71	5.04
EXCESS RETURN (% PA)	-0.12	-1.70	-4.05	-6.39	-1.90	-3.23	-1.39	-1.75
OUTPERFORMANCE RATIO (% PA)	58.33	50.00	50.00	44.44	53.33	48.33	52.50	49.17
WORST DRAWDOWN (%)	-3.32	-3.29	-8.70	-8.21	-8.70	-8.70	-8.70	-8.70
TIME TO RECOVERY (MTHS)	2	2	7	11	7	7	7	7
SHARPE RATIO	0.97	0.56	0.71	0.29	0.83	0.71	0.71	0.69
INFORMATION RATIO	-0.02	-0.40	-0.69	-0.94	-0.31	-0.57	-0.24	-0.36
TRACKING ERROR (% PA)	5.37	5.37	5.91	5.52	6.18	5.71	5.82	5.03

PRODUCT: MLC REAL RETURN ASSERTIVE
LONSEC PEER GROUP: MULTI-ASSET - VARIABLE GROWTH ASSETS - REAL RETURN
PRODUCT BENCHMARK: CPI + 4.50%
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

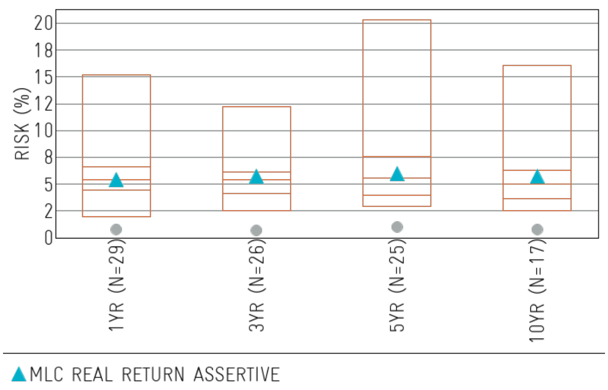
Growth of $10,000 over 10 years



Risk-return chart over three years

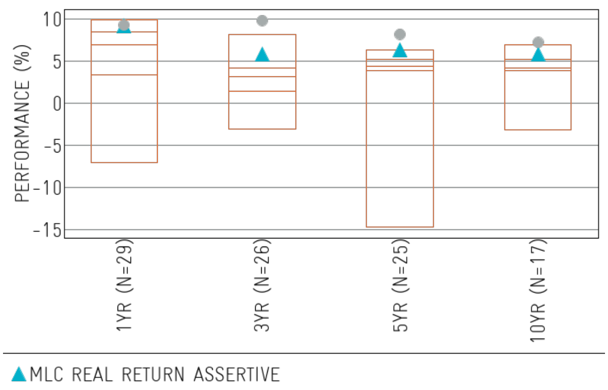


Quartile chart — risk



N: NUMBER OF ACTIVE FUNDS

Quartile chart — performance



N: NUMBER OF ACTIVE FUNDS

ANALYST: MIKE GRDOSIC | APPROVED BY: ROBBIE LEW

MLC Real Return Assertive

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

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

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