



SQM
RESEARCH

MLC Premium Model Portfolios

This report has been prepared for financial advisers only



Outstanding

November 2023

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:
www.sqmresearch.com.au

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Event-driven Rating	Definition
Hold	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
Withdrawn	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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Report Date: 3 November 2023

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SQM Rating ★★★★★

Outstanding. Highly suitable for inclusion on APLs.

Model Description	
Product Suite Name	MLC Premium Model Portfolios
APIR code	Platform Dependent
Asset Class	Multi-Asset
Management and Service Providers	
Model Manager	MLC Asset Management Services Limited (MLC)
Responsible Entity	Platform Dependent
Model Information	
Model Inception Date	Varies by risk profile Moderate 50, Balanced 70 and Growth 85: 1-Jul-2020 Conservative 30 and High Growth 98: 2-May-2022
Model Size	\$480.0m (across all five risk profiles)
Return Objective (as per PDS)	Varies by risk profile. See table below for details
Internal Return Objective	Varies by risk profile. See table below for details
Risk Level (per PDS)	Varies by risk profile Conservative 30: Medium Moderate 50: Medium to high Balanced 70: High Growth 85: High High Growth 98: High
Internal Risk Objective	Varies by risk profile. See table below for details
Benchmark	See Product Summary below
Number of stocks/positions	25 - 45
Model Leverage	Nil
Turnover	Low, averages less than 10% p.a.
Top 10 Holdings Weight	Very low, highly diversified at the individual stock level
Investor Information	
Management Fee	Varies by risk profile. Fees below apply for access via MLC Wrap Balanced 70: 0.20%
ICR – latest	Varies by risk profile and platform. Fees below apply for access via MLC Wrap Balanced 70: 1.05%
Buy Spread	Varies by underlying investment strategy. Estimated range 0.0% - 0.40%
Sell Spread	Varies by underlying investment strategy. Estimated range 0.0% - 0.40%
Performance Fee Rate	Not Applicable
Minimum Application	Platform Dependent, from \$100,000
Redemption Policy	Withdrawals will be initiated within five business days of receipt of the platform's request to do so.
Distribution Frequency	Platform Dependent
Investment Horizon (per PDS)	Varies by risk profile Balanced 70: 5+ years
Currency Hedging Policy	Unhedged

Note: Performance-related details in this report, including the Quantitative Analysis section, refer to the 'Balanced' (70/30) option unless otherwise indicated. Other risk options of the Models/ SMAs will have different asset allocations and other features that result in different returns.

Model Summary

Description

The **MLC Premium Model Portfolios (the “Model Portfolios”)** are structured as separately managed accounts (SMAs) and are available on several investment administration platforms. There are five Model Portfolios reflecting different risk profiles across the risk spectrum, from conservative to high growth (see table below). All are multi-asset class portfolios managed by the Capital Markets Research team at MLC Management Services Limited. They invest in a range of underlying funds, most of which are managed by external fund managers.

Each Model Portfolio has a different strategic asset allocation but a similar selection of direct shares and actively managed funds within the asset classes.

There is a parallel suite of five MLC ‘Value’ Model Portfolios that differ from the MLC ‘Premium’ Model Portfolios mainly in their use of lower-cost underlying funds, many of which are passive. Their lower fees reflect this lower cost.

A series of portfolio/risk profile options are offered across several platform administration systems. See Product Summary Table below.

This report is applicable to all the investment profiles / portfolio options in the product suite. However, the **Balanced Portfolio** is used in this Report as the prime example of the product suite. It is the key focus of analysis and the subject of all quantitative charts and tables throughout the Report unless otherwise specified.

Product Rating

Each investment option in the suite of Model Portfolios listed in the table below has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.50 stars	Outstanding	Highly suitable for inclusion on APLs	High Investment Grade

Previous Rating: 4.50 stars (Issued September 2022, updated March 2023)

Model Suite Summary

Code	Platform Dependent	Platform Dependent	Platform Dependent	Platform Dependent	Platform Dependent
Investment Option	MLC Premium Conservative 30	MLC Premium Moderate 50	MLC Premium Balanced 70	MLC Premium Growth 85	MLC Premium High Growth 98
Return Objective	CPI + 1.5% p.a. (after investment management fees) over 3 years	CPI + 2% p.a. (after investment management fees) over 3+ years	CPI + 3% p.a. (after investment management fees) over 5+ years	CPI + 4% p.a. (after investment management fees) over 7+ years	CPI + 4.5% p.a. (after investment management fees) over 7+ years
Benchmark	CPI + 1.5%	CPI + 2%	CPI + 3%	CPI + 4%	CPI + 4.5%
Risk Objective	Medium	Medium-High	High	High	High
FUM (\$m)	\$20.5m	\$127.5m	\$206.4m	\$88.0m	\$37.5m
SAA Growth Assets	30%	50%	70%	85%	98%
SAA Defensive Assets	70%	50%	30%	15%	2%

Product Suite Returns				
Performance (% p.a.)				as at 30 September 2023
MLC Premium Conservative 30	6-Month	1-Year	3-Year	Inception (02 May 2022)
Model	0.78%	6.60%	n/a	1.36%
Benchmark	2.51%	6.60%	n/a	7.28%
MLC Premium Moderate 50	6-Month	1-Year	3-Year	Inception (01 June 2020)
Model	1.37%	8.90%	5.37%	5.52%
Benchmark	2.75%	7.10%	7.11%	7.21%
MLC Premium Balanced 70	6-Month	1-Year	3-Year	Inception (01 June 2020)
Model	1.72%	11.63%	7.30%	7.50%
Benchmark	3.23%	8.10%	8.11%	8.21%
MLC Premium Growth 85	6-Month	1-Year	3-Year	Inception (01 June 2020)
Model	1.86%	13.16%	8.44%	8.67%
Benchmark	3.72%	9.10%	9.11%	9.21%
MLC Premium Growth 98	6-Month	1-Year	3-Year	Inception (02 May 2022)
Model	1.62%	13.73%	n/a	1.41%
Benchmark	3.96%	9.60%	n/a	10.28%

SQM Research's Review & Key Observations

About the Manager

MLC Asset Management Services Limited ("MLC", the "Manager") is the asset management division of Insignia Financial Limited ("IFL", formerly IOOF Holdings Limited), a large Australian wealth management company whose main businesses are funds management and financial advice. It has close to \$300bn in funds under management and advice (FUMA) and around 1,400 financial advisers in its network.

MLC has over 35 years of experience in multi-asset portfolio management, including using a multi-manager investment approach. Its scale of operations allows it to access diverse managers across institutional markets when selecting specialist investment managers. Its investment approach is based on managing risks in uncertain market environments, which is reflected in the investment process used to manage these Model Portfolios.

IFL almost tripled FUMA in 2021 when it acquired the MLC Wealth business, of which MLC is a part, from the National Australia Bank (NAB). Integration and simplification initiatives related to this acquisition appear to be mainly in the past, at least as far as MLC is concerned. Apart from some personnel changes in the broader organisation, the Capital Markets Research (CMR) team responsible for managing these Model Portfolios appears to be little affected by the change of ownership. If anything, the change could be said to be positive. The CMR team is now part of a larger investment management team, giving it direct access to a wider range of expertise and support. It arguably also has access to more opportunities now it is part of an organisation with an even greater market presence. This organisation is also one that is interested in growing, which compares to one that was for some time searching for an acquirer, as was the case for MLC Wealth during the last years of NAB's ownership. IFL has around 5,000 employees, offices in all Australian state capitals, and more than 2mn customers.

SUMMARY

Investment Team

The Model Portfolios are managed by the CMR team of six, which is jointly led by Ben McCaw and Grant Mizens, who have more than 35 years of combined experience. Kerry Gill is the CMR team's long-standing Fund Strategist and largely focuses on asset allocation. The third portfolio manager, Anthony Golowenko, is the team's fourth senior member. The CMR team is part of the Manager's broader MLC Asset Management (MLC AM) investment team of almost 50, led by Chief Investment Officer (CIO) Dan Farmer. The broader team includes members focused on fund manager selection within specific asset classes and others with roles such as investment portfolio analytics. The Manager fosters a collaborative approach, and the CMR team benefits from the shared insights of its colleagues across the entire MLC AM investment team.

1. Investment Philosophy and Process

Investable Universe

The universe of investments for the Model Portfolios includes direct listed securities, exchange-traded funds (ETFs) and managed funds across a broad range of asset classes. Direct listed securities investment is currently limited to large and some mid-cap Australian equities and utilised largely to preserve the benefits of the managed account structure (direct ownership) and harness the natural structural benefits of the Australian equities market, which include high dividend yield, franking credits available to investors, and low index turnover relative to global indices.

Limits to the investable universe are otherwise chiefly platform-specific in that all investments in the Model Portfolios, including managed funds, must be distributed on the platform hosting the Model. Qualification for distribution through a platform is subject to a range of requirements, which typically include the need for daily liquidity and pricing.

Philosophy / Process / Style

MLC is distinguished from its peers in both its unique scenario-based approach to asset allocation and its market-leading position in multi-manager investing. It builds multi-asset portfolios by considering a broad range of potential market outcomes and choosing to invest with fund managers it believes are best placed to manage through the outcomes more likely to occur.

MLC's investment philosophy is to focus on managing risks in uncertain market environments. Rather than seeking to develop precise assumptions about future asset class returns, MLC instead targets an in-depth analysis of return and risk and an understanding of

how each may vary through time. Asset allocation focuses on scenario analysis, which involves systematic consideration of about 40 discrete scenarios and assessing how the future could play out under each. Manager selection takes advantage of MLC's long history of managing multi-asset investment products using external fund managers.

Portfolio construction seeks to mix high-quality fund managers to deliver the portfolio attributes the Manager deems necessary to best navigate the trade-offs between return and risk identified through the scenario analysis process. The Premium Model Portfolios incorporate a full suite of predominantly active component strategies. This compares to their Value counterparts which incorporate a selection of both low-cost, often index tracking, and active component strategies. Allocations to Australian equities are via a direct shares portfolio (DSP), largely to maximise the benefits associated with the SMA structure, including tax benefits.

2. Performance & Risk

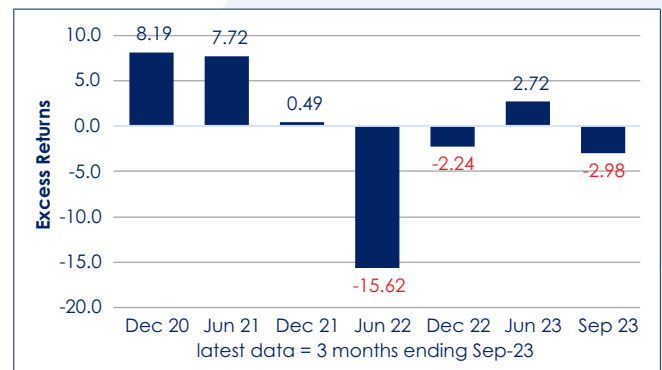
Return Objective

The return objective of the Model, as per the PDS is "to provide returns of CPI +3% pa (after investment manager fees) over 5+ years."

The Model's benchmark, as stated in the PDS, is CPI +3%.

Over the twelve months to Sep-2023, the Model returned 11.61% (after fees) compared to 8.83% for the benchmark. This is an outperformance of 2.78%.

Model Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The MLC Premium and Value Model Portfolio SMAs have a relatively short history of 3.3 years (or 39 months).

Observations and analysis of returns will have modest statistical meaning as a result of the sample size of observations.

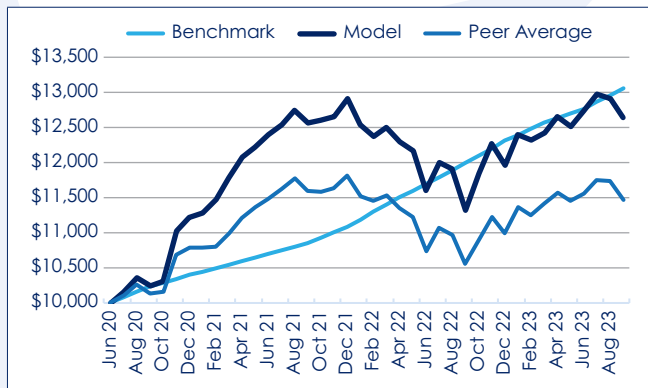
Risk Objective

The model's PDS states that the risk level of the Model is "High".

Model Performance to 30 September 2023 (% p.a.)						
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	Inception
Model	-2.11	-0.75	1.73	11.61	7.27	7.47
Benchmark	0.74	2.23	3.84	8.83	8.46	8.55
Peer Average	-2.32	-0.78	0.40	8.74	4.36	4.41
Alpha	-2.85	-2.98	-2.11	2.78	-1.18	-1.08

With dividends reinvested. Returns beyond one year are annualised. Return history starts Jul-2020
 Benchmark: CPI + 3.0%

Growth of \$10,000



Other Considerations

- As the Model Portfolios are hosted on a number of different platforms, Advisers/investors are encouraged to seek further information relevant to the particular platform they may be considering.

Key Changes Since the Last Review

- No changes to the investment process since the previous review.

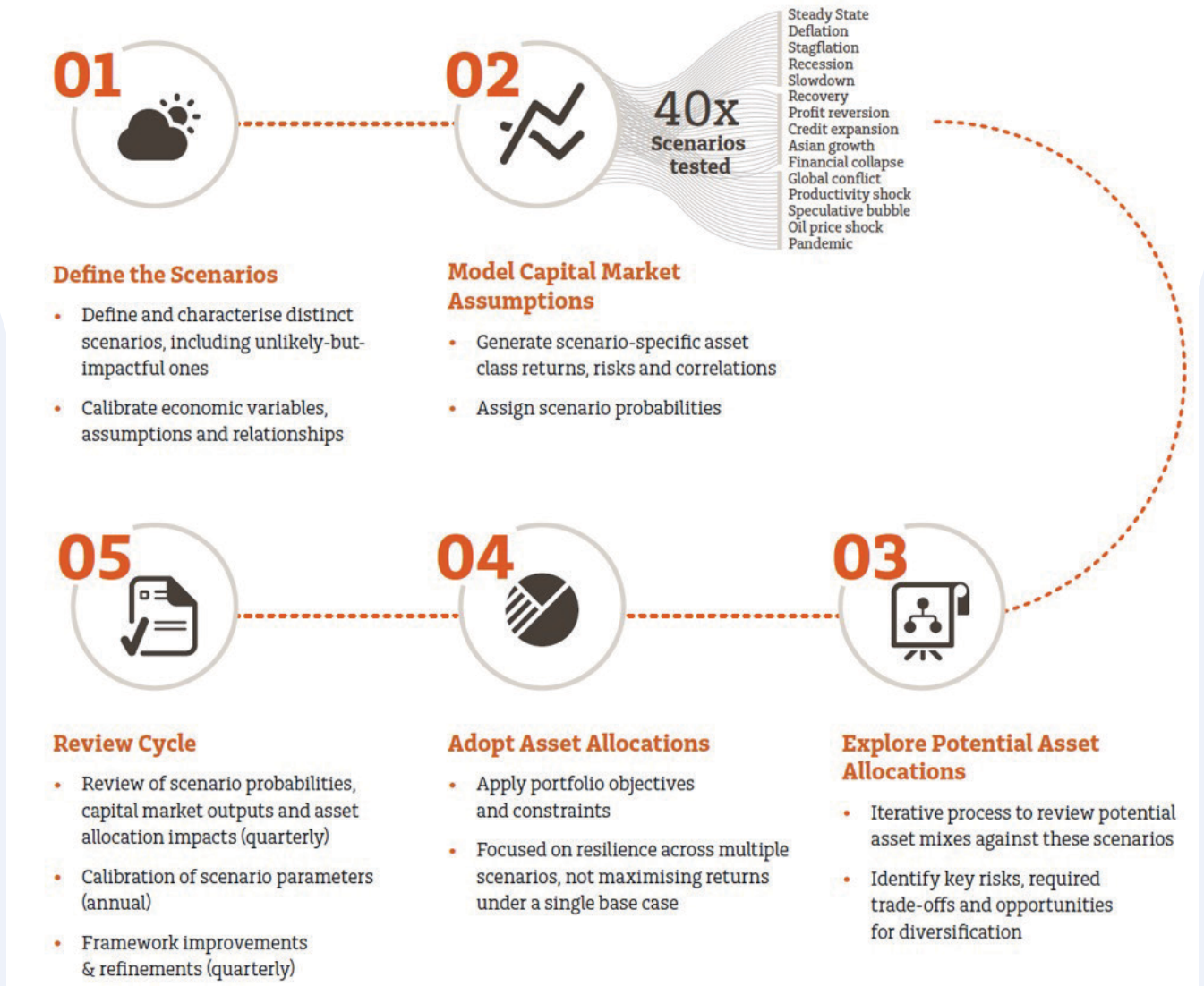
Strengths of the Model

- The investment process, which has been developed over many years, is particularly well suited to managing multi-asset class portfolios in uncertain market conditions.
- The scale of funds managed by and resources available to the Manager.
- The experience and professional background of the investment team, including within both the CMR team and the broader MLC AM investment team, under the leadership of CIO Dan Farmer.
- The Manager's long-term experience managing multi-asset portfolios, which, apart from the points made above, also enables it to both keep aware of and access a broad range of diverse managers across institutional markets.

Weaknesses of the Model

- The risk is that active funds in which the Portfolios are invested may underperform and that the review of such funds may be slower than it should be.

Investment Process Diagram



Process Description

Investment Process	
Research and Portfolio Construction Process	<p>Top-down or bottom-up</p> <p>The core components of the investment process conducted by MLC, asset allocation and active fund manager selection, can be considered mainly top-down. Bottom-up processes mostly occur within the actively managed funds that are selected or by the external investment manager appointed to manage the directly held portfolio of Australian shares.</p>

Investment Process

Research
and Portfolio
Construction
Process*...continued***Research**

MLC is distinguished from its peers in both its unique scenario-based approach to asset allocation and its market-leading position in multi-manager investing. It builds multi-asset portfolios by considering a broad range of potential market outcomes and choosing to invest with fund managers it believes are best placed to manage through the outcomes more likely to occur. It does so in a risk-controlled manner, being mindful of the CPI + investment objectives of its investors and aiming to minimise exposure to extreme downside events.

The Manager's methods make good use of the expertise that exists both within the CMR team and the broader investment team of which it is a part. They also benefit from MLC's large presence in the investment management community and its relationships with a broad spectrum of fund managers. While investment management is active, large shifts in portfolios are constrained partly by the clear risk profiles of the different Model Portfolios (five in total, from Conservative 30 to High Growth 98), each of which occupies its own space along the risk spectrum. This partly drives relatively low turnover, which has the advantage of making more of the tax efficiency of the SMA structure through which investors access these Model Portfolios.

Scenario Analysis

MLC's asset allocation comes together in a coherent and consistently constructed framework that explicitly considers a range of potential futures or scenarios. This scenario analysis involves the Manager's systematic consideration of about 40 discrete scenarios and assessing how the future could play out under each. It considers the economic situation likely under each specific set of circumstances, combining assumptions about macroeconomic drivers and investor behaviour to forecast the nature of risk and investment opportunity that could prevail in each.

The scenario set considers the potential for extreme risks and exogenous shocks. Specific scenarios considered range from the more benign, such as those the Manager labels 'Steady state' or 'Deflation' to the more challenging, such as those labelled 'Financial Collapse' or 'Global conflict.' The Manager believes considering alternate views helps avoid common behavioural pitfalls such as confirmation bias.

Various models are employed to generate return expectations for each asset class in each scenario. Information about the nature and extent of investment risks for each scenario is also produced, with output that includes standard deviations and correlations. Probabilities are also assigned, reflecting the Manager's judgement about the likelihood of each scenario eventuating.

The process is run quarterly. While the scenarios are mostly unchanging, potential returns, risks, and probabilities change depending on starting point conditions. For instance, high initial valuations imply relatively low return potential. Also, probabilities for certain outcomes are likely to vary in the context of evolving global forces, such as the war in Ukraine or the recent escalation of violence in The Middle East. A key benefit of the approach is that it helps highlight which specific risks are of particular concern at a point in time, enabling the Manager to position portfolios to be robust in many future investment environments. The Manager's collaborative approach helps ensure the CMR team benefits from the shared insights of its colleagues across the entire MLC AM investment team.

Investment Process

Research and Portfolio Construction Process

...continued

Manager Research

MLC applies a consistent set of broad principles to manager selection across all asset classes. Simply put, it seeks to identify managers with a sustainable competitive edge. It makes assessments based on multiple criteria, including the quality of a manager's investment staff, the research they do, their source of insight, how they build portfolios and manage risk, and their ownership structure. Consistency in investment processes, readily apparent in observed portfolio outcomes and aligned with investment philosophy, is also key. Assessment involves a series of interviews with key people within the manager's business, as well as consideration of operational competency and governance practices.

The Manager notes that establishing a belief about the existence and sustainability of a manager's competitive edge could require years of research and that it is not unusual to have at least five meetings with a fund manager before investing. Any proposal to allocate funds to a new manager is subject to detailed peer review by MLC AM investment team members. If this stage is passed, the proposal is put before the Investment Committee for approval, which typically involves vigorous debate. The Investment Committee includes some of the most senior members of the MLC AM investment team, including the CIO.

Manager Selection

MLC has a long history of managing multi-asset investment products using external fund managers. It is the primary approach it takes in constructing portfolios across its business. As such, it has honed its processes for identifying preferred fund managers and has developed substantial expertise in this task. Its scale and heritage in the business also enable it to both keep aware of and access a broad range of diverse managers across institutional markets.

While the CMR team has primary responsibility for managing all aspects of the Model Portfolios, where possible, it utilises the expertise of MLC's broader MLC AM investment team, including in fund manager research and selection. MLC has specialist teams researching managers in different asset classes, including equities, fixed income, and alternatives. The CMR team works collaboratively with them to identify the right combination of quality managers to establish its preferred mix of attributes and exposures in each portfolio.

Portfolio Construction

Portfolio construction seeks to mix high-quality fund managers to deliver the portfolio attributes the Manager deems necessary to best navigate the trade-offs between return and risk identified through the scenario analysis process. Trial allocations are constructed, and optimisation analysis is used to assist in exploring diversification opportunities. MLC's proprietary analysis of managers' investment styles helps it ensure a more balanced exposure to major styles, within and across asset classes, in its portfolios. The MLC Premium Model Portfolios incorporate a full suite of predominantly active component strategies. This compares to their Value counterparts which incorporate a selection of low-cost, often index tracking, and active component strategies. This is the key characteristic driving the difference in fees charged between the Premium and Value portfolios.

Allocations to Australian equities are via a direct shares portfolio, largely to maximise the benefits associated with the SMA structure, including tax benefits. In the Premium Model Portfolios, these DSPs are managed by Martin Currie via mandate from MLC. Once a manager is hired, if deemed appropriate, MLC will seek to access tailored portfolio arrangements that benefit investors. The DSP mandate with Martin Currie is subject to such arrangements.

Investment Process**Research
and Portfolio
Construction
Process***...continued***Asset Allocation**

MLC's approach to asset allocation reflects its investment philosophy centred around managing risks in uncertain market environments. The Manager explicitly recognises the existence of uncertainty in expectations for both economic outcomes and market behaviour. It has more confidence in predicting longer-term outcomes, given these are tied more closely to fundamental variables such as the productive capacity of economies and its view that behavioural swings in the market tend to wash out over time. However, it recognises that there is still considerable uncertainty about investment outcomes even over longer time frames.

Rather than developing precise assumptions about future asset class returns, MLC focuses on an in-depth analysis of return and risk. Its goal is to remain abreast of the fundamental drivers of both. It looks to develop a detailed understanding of the return potential of various asset classes and how they may vary through time. It similarly seeks detailed and deep information about the sources and nature of risks and how they, too, may vary through time.

MLC aims to marry its understanding of return and risk with clear beliefs about how investment markets behave, to not avoid, but manage risk. Its portfolios will actively take a risk when the Manager believes the risk is more likely to be rewarded and will minimise risk when the opposite is true, such as when market risk is high, including in speculative environments. MLC simultaneously looks to exploit the benefits of diversification by minimising the risk required when targeting its various return objectives.

Sell Discipline

MLC's view is that termination of underlying fund managers should not be based on underperformance alone. The main reasons for the termination of a manager may include the departure of key personnel, adverse developments in the manager's organisation, unexpected risk characteristics; or ongoing underperformance.

Risk Management

Risk Management practices are both stand-alone and integrated through the Manager's investment processes. A key focus of portfolio construction is on achieving adequate reward for risk while ensuring that risk remains within acceptable boundaries. Generally, the Manager is content to forgo return potential in highly speculative market environments to ensure portfolios are better placed to deliver meaningful outperformance in adverse market conditions.

Portfolios are tested for robustness using a long-term historical back-test. Additionally, risk analysis at the asset class level is conducted using various models depending on the asset class. These occur at regular intervals and provide risk assessment independent of the scenario analysis.

Risk Management also incorporates a regime of monitoring and reporting at the underlying fund manager level. This involves continually reviewing matters such as manager performance, portfolios, and organisational developments. Specific steps include calls with underlying fund managers every six weeks on average and visits to their offices 2-3 times a year. Reports are obtained from managers monthly, most of which are tailored, with transparency additional to that in their standard format reports as specified in agreements with managers.

Investment Process**Research
and Portfolio
Construction
Process***...continued***Portfolio Characteristics****Portfolio Turnover**

Investment opportunities, investment processes, and ultimately prevailing market conditions will drive turnover within the underlying managed funds. Australian equities portfolio construction specifically targets lower turnover, largely for tax purposes.

At the fund manager selection level, turnover to date has been low and is expected to remain so, in part reflecting the Manager's approach to building robust portfolios across a range of potential market outcomes. This is also consistent with the Manager's long-term history of making infrequent and modest shifts in the allocation of portfolios to asset classes or investment managers.

Liquidity

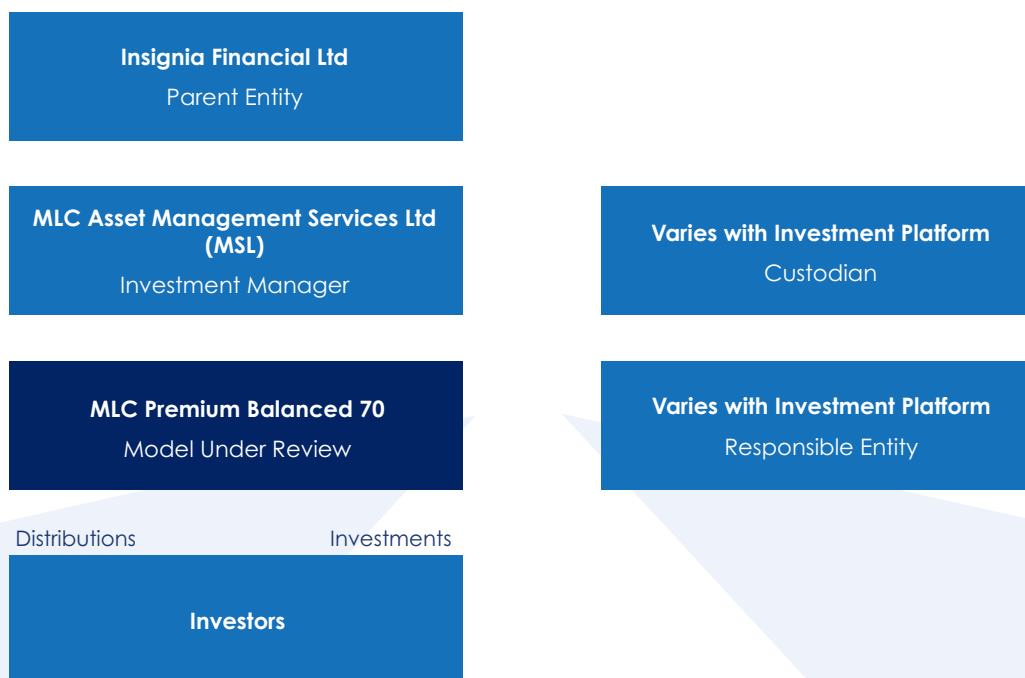
The Manager has conducted liquidity analysis for the Model Portfolios and foresees no liquidity concerns in the near term. Rather it sees significant capacity headroom in the years ahead.

Asset allocations are always tested at the underlying fund manager level to ensure that strict liquidity requirements are met. Modelling is conducted assuming both 'normal' market conditions and extreme market environments like that seen in 2008.

Leverage

This Model does not employ direct leverage (through borrowing by the Model). Hedging of international currency exposures is contemplated when currencies diverge from their underlying fundamental values. Otherwise, hedging and derivatives are not used.

Key Counterparties



Parent Company

Insignia Financial Limited ("IFL," formerly IOOF Holdings Limited) is a large Australian wealth management company whose main businesses are funds management and financial advice. It has close to \$300bn in funds under management and advice (FUMA) and around 1,400 financial advisers in its network. IFL almost tripled FUMA in 2021 when it acquired the MLC Wealth business from National Australia Bank. IFL has around 5,000 employees, offices in all Australian state capitals, and more than 2mn customers.

Investment Manager

MLC Asset Management Services Limited is the asset management division of IFL. It has over 35 years of experience in multi-asset portfolio management, including using a multi-manager investment approach. Its scale of operations allows it to access diverse managers across institutional markets when selecting specialist investment managers. Its investment approach is based on managing risks in uncertain market environments, which is reflected in the investment process used to manage these Model Portfolios.

Governance

Responsible Entity

The Responsible Entity is platform-dependent and therefore varies on a case-by-case basis."

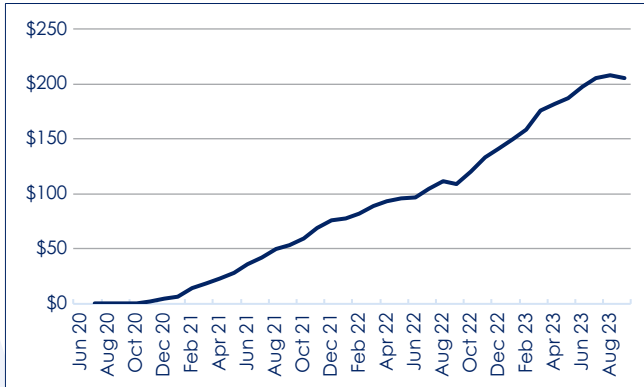
Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the fund or associated entities.

Based on the materials reviewed, SQM Research believes that the Manager and associated key counterparties are well qualified to carry out their assigned responsibilities. Management risk is rated as low.

Funds under Management (FUM)

FUM for Model under Review (\$mill)



Distributions

Distributions occur at the discretion of the relevant platforms, subject to the availability of distributable income. In a scenario where the Model's realised losses and expenses exceed income in a distribution period, the platform may elect not to make a distribution during that time.

Readers are encouraged to seek further information from the relevant platforms.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
Dan Farmer	CIO	Sydney	13.4	26.0	B Eco; M Com
Ben McCaw	Portfolio Management – Co-Head of CMR	Sydney	15.0	19.5	M App Fin; PhD
Grant Mizens	Portfolio Management – Co-Head of CMR	Sydney	17.5	17.5	BA (Econ); Dip Fin
Anthony Golowenko	Portfolio Management	Sydney	2.4	24.0	B (Hon) Math and Fin; CFA
Kerry Gill	Fund Strategy	Sydney	18.2	21.4	Bcom; BSc; MEco
Doreen Goh	Investment Analyst	Sydney	0.2	7.6	Bcom (Acc & Fin)
Alex Leung	Investment Analyst	Sydney	2.0	5.4	B Eco, B Com

Investment Team

The Capital Markets Research team manages the Model Portfolios. It is a team of six led by portfolio managers Ben McCaw and Grant Mizens, who were recently appointed Joint Head of Capital Markets Research. This followed the resignation of their predecessor, Al Clark, who led the team for four years. Kerry Gill is the third long-standing member of the CMR team, having joined in 2005. Her title is Fund Strategist, and she has responsibilities in asset allocation and strategic focus. A third portfolio manager, and the fourth senior member of the team, Anthony Golowenko, joined in early 2021, bringing with him more than 20 years of investment industry experience. The CMR team is rounded out by two junior analysts supporting the senior members.

The CMR team is part of the broader MLC AM investment team of almost 50 reporting to CIO Dan Farmer. All among this broader team are focused on multi-manager investing to varying degrees. Some are focused on fund manager selection within specific asset classes or across multiple asset classes. Others have specialist functional roles, in areas such as implementation or responsible investing. They have titles that include Head of Strategy and Equities, Head of Fixed Interest Assets, Head of Alternatives and Head of Exposure Management and Trading. The Manager fosters a collaborative approach, and all members of the broader team can be called on to share their insights with the CMR team in both regular meetings and on an ad hoc basis.

Responsibility for all aspects of decision-making for these Model Portfolios rests with the members of the CMR team. The three portfolio managers jointly set investment strategy, which involves the key processes of asset allocation and fund manager selection, though there is some specialisation of responsibility. For example, Ben McCaw takes the lead in managing the allocation to direct Australian equities within the CMR team.

This includes for the Value Model Portfolios, whose allocation to direct Australian equities is an internally managed portfolio of stocks from among the largest capitalised Australian companies. Also, Anthony Golowenko focuses on managing the CMR team's SMA portfolios, having previously led a team that launched a suite of SMA model portfolios at Clime Investment Management. The CMR team manages a total of around \$30bn in multi-asset portfolios across a range of investment products, employing essentially the same investment process used to manage these Model Portfolios.

The CMR team has had some turnover since our last review. Al Clark departed, as did an analyst, who has since been replaced. SQM Research believes this turnover will not have ongoing negative effects for the team, for several reasons. This includes the Managers' appointment of two long-standing team members to replace Al Clarke, the stability and longevity of most the remainder of the team, their familiarity with the investment process, and the presence of many experienced multi-manager investors in the wider MLC AM investment team. That said, we believe key person risk has increased marginally, with Al Clark's resignation reducing the number of PMs to three. However, this risk was partially mitigated by Al Clark's work before his resignation, where he introduced greater involvement for all PMs in the key investment processes. Further mitigating the risk, the appointment of Ben McCaw and Grant Mizens as Joint Heads is considered favourable.

SQM Research notes that MLC has a strong succession planning process across almost all positions. As part of this, managers nominate alternative employees for their role, on either a caretaker or a permanent replacement basis. This process sees the development and passing on of knowledge to individuals, which should reduce key person risk.

Meeting Schedule

Meeting	Agenda	Frequency	Participants
Portfolio Rebalance Meeting (CMR)	Review of portfolio exposures vs target asset allocation	Weekly (Tues)	Sub-set of Capital Markets Research (CMR) multi-asset class investment team
Weekly Investment Team Meeting (CMR)	Discussion of Market / Macro environment, shaping portfolio positioning, projects and research efforts	Weekly (Wed)	Capital Markets Research (CMR) multi-asset class investment team, Sector PMs welcome
Tuesday Morning Meeting - broader Investment Team	Investment, Performance, Risk, Project and/or Research Update	Weekly (Tues)	Broader MLCAM Investment Team
Monthly Investment Team Joint Meeting (CMR, IPM, IOOF)	Discussion of Market / Macro environment, portfolio positioning, projects / research efforts	Monthly (Wed)	Capital Markets Research (CMR), Institutional Portfolio Management (IPM) and IOOF multi-asset class investment team, Sector PMs welcome
Monthly Investment Committee Meeting (MIC)	Submission of papers for investment decision making, strategy / asset-allocation changes and approval	Monthly (last Tues of the month)	Senior members of the MLCAM Investment Team
Quarterly Probabilities Update (Scenarios Model)	Review of CMR and broader Insignia investment team insights shaping Investment Futures Framework (IFF) scenarios	Quarterly (calendar)	Capital Markets Research (CMR), Institutional Portfolio Management (IPM) and IOOF multi-asset class investment team
Quarterly Probabilities Model Output (Scenarios Model)	Review of IFF scenarios model output, influence on asset allocation and multi-asset portfolio positioning	Quarterly (calendar)	Capital Markets Research (CMR), Institutional Portfolio Management (IPM) and IOOF multi-asset class investment team, Sector PMs welcome
Quarterly Institutional Portfolio Management (IPM) portfolio review meeting	Review of Value, Fundamentals and Sentiment (VFS) model output, cyclical outlook and influence on asset allocation and multi-asset portfolio positioning	Quarterly (post-calendar)	Capital Markets Research (CMR), Institutional Portfolio Management (IPM) and IOOF multi-asset class investment team, Sector PMs welcome
Quarterly Sector PM portfolio review meeting	Review Sector PM (Australian Equities, Global Equities, Fixed Interest, Alternatives) portfolio positioning and outcomes	Quarterly (post-calendar)	Capital Markets Research (CMR), Institutional Portfolio Management (IPM) and IOOF multi-asset class investment team, Sector PMs welcome

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

There has been some turnover in recent years (as shown below) which SQM Research believes will not have ongoing negative effects for the team.

Departures			
Date	Name	Responsibility	Reason for Departure
26-Feb-21	John Woods	Portfolio Manager	Resignation
26-Feb-21	Michael Wang	Senior Investment Analyst	Resignation
04-Jul-22	Jonathan Armitage	CIO	Restructure
07-Apr-23	Al Clark	Head of Investments	Resignation
09-Nov-22	Ekagra Gupta	Senior Investment Analyst	Resignation

Additions			
Date	Name	Position / Responsibility	Previous Position / Employer
25-Nov-19	Al Clark	Head of Investments	Head of multi-asset / Nikko
01-Feb-21	Anthony Golowenko	Portfolio Manager	CIO / Clime Inves. Mgt
26-Jul-21	Alex Leung	Investment Analyst	CBA
04-Apr-23	Doreen Goh	Investment Analyst	Future Super, The Citro Group, HLB Mann Judd

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Total employee compensation combines salary and participation in the MLC incentive program. Salaries are based on market rates and adjusted to reflect individual experience levels. Bonuses are variable and contingent on business and individual contributions to business outcomes to ensure clear accountability for staff.

The variable remuneration of the investment team members is a meaningful component of their total remuneration and is based to a significant degree on the achievement of specified investment performance outcomes, in addition to specific personal goals. The investment performance metrics used are objective, explicit, and measurable and cover a range of investment portfolios and their performance outcomes versus objectives and timeframes.

Remuneration of the investment teams is directly linked to the performance of the MLC multi-manager range of funds and SMAs. The percentage-weighted contribution of model performance will be linked to the individual's capacity to influence portfolio outcomes. For example, PMs typically have greater than 50% of their variable remuneration linked to performance.

To ensure appropriate alignment of incentives, variable remuneration is heavily weighted to longer-term performance, with the majority based on three and five-year returns.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Model	Peer Avg
Management Fee % p.a.	0.20%	0.69%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	0.00%	20.50%
Total Cost Ratio TCR % p.a.	1.05%	0.68%
Buy Spread %*	Est. range 0.0% - 0.40%	0.11%
Sell Spread %*	Est. range 0.0% - 0.40%	0.11%

* This spread is the difference between the Model's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

The management fee Includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

The management fee is platform dependent. Slight differences arise mainly due to differences in the responsible entity fee the product issuer sets. The fee above applies for the Balanced Model Portfolio accessed via MLC Wrap.

Performance Fee

The Model does not charge a performance fee.

Performance fees may exist for underlying managed funds. These may be included in the ICR/TCR or separately quoted in the PDS under the heading "Performance Fees."

SQM Research observes that:

- *The Model management fee is 0.20% p.a., which is 49 basis points lower than the peer group average of 0.69% p.a.*
- *The Total Cost Ratio (TCR) is 1.05% p.a., which is 37 basis points higher than the peer group average of 0.68% p.a.*

Risk/Return Data to 30 September 2023						
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	Inception
Model	-2.11	-0.75	1.73	11.61	7.27	7.47
Benchmark	0.74	2.23	3.84	8.83	8.46	8.55
Peer Average	-2.32	-0.78	0.40	8.74	4.36	4.41
Alpha	-2.85	-2.98	-2.11	2.78	-1.18	-1.08
Metrics				1-Year	3-Year	Inception
Tracking Error (% p.a.) - Model				8.08	8.76	8.52
Tracking Error (% p.a.) - Peer Average				7.15	7.78	7.60
Information Ratio - Model				0.34	-0.14	-0.13
Information Ratio - Peer Average				-0.03	-0.54	-0.17
Sharpe Ratio - Model				0.99	0.69	0.75
Sharpe Ratio - Peer Average				0.71	0.39	0.42
Volatility - Model (% p.a.)				8.12	8.53	8.30
Volatility - Peer Average (% p.a.)				7.20	7.59	7.42
Volatility - Benchmark (% p.a.)				0.44	0.59	0.57
Beta based on stated Benchmark				2.24	-5.30	-5.14

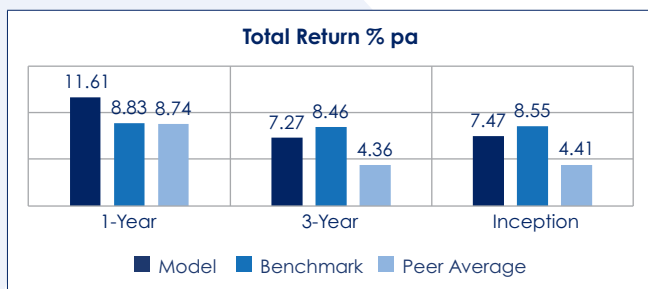
Distributions reinvested. Returns beyond one year are annualised. Return history starts Jul-2020
 Benchmark: CPI + 3.0%

Note: Performance-related details in this report, including the Quantitative Analysis section, refer to the 'Balanced' (70/30) option unless otherwise indicated. Other risk options of the Models/ SMAs will have different asset allocations and other features that result in different returns.

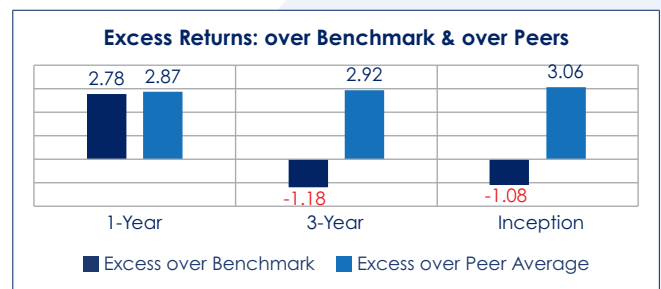
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Sep-2023**.

Returns



Excess Returns (Alpha)

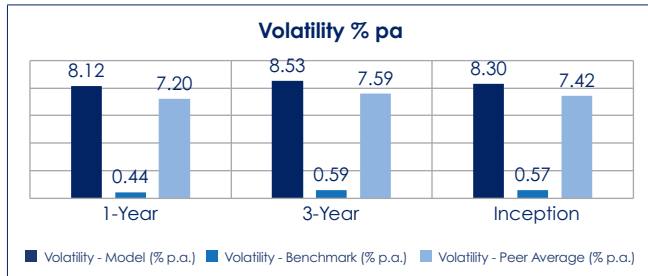


The Model has displayed mixed performance across time periods when compared with the benchmark and strong performance across all time periods compared to peers. **SQM Research notes that the Model's outperformance against peers has been material.**

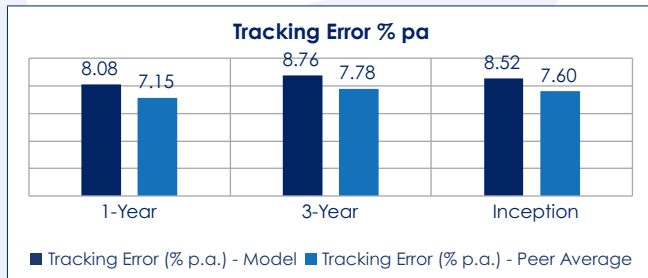
The **return outcomes** described above are consistent with the PDS objective and with SQM's expectations for the Model relative to its fee level and volatility.

¹ Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Model and its peers/benchmark record a negative result

Risk



The Model's **volatility** (annualised standard deviation of monthly returns) has tended to be significantly higher than the benchmark, which is expected given the Model's inflation-based benchmark, and slightly higher than that of peers.



SQM has measured and reported tracking error in the tables above. Since the Model's benchmark has almost no volatility, the tracking error readings add no new information to observations gained from studying volatility. The tracking error of the Model is virtually identical to its volatility (standard deviation).

The **risk outcomes** as described above regarding volatility and tracking error are consistent with the PDS statements about risk and are consistent with SQM's expectations for this Model.

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Model	Bench	Peers
Average	-4.37%	no data	-4.10%
Number	4	0	4
Smallest	-1.13%	+0.00%	-0.69%
Largest	-12.33%	+0.00%	-11.40%
Length of Drawdown (in months)			
	Model	Bench	Peers
Average	8.7	no data	8.0

Length of Drawdown = time from peak to trough and back to the previous peak level

Average drawdowns have been slightly worse than the peer average.

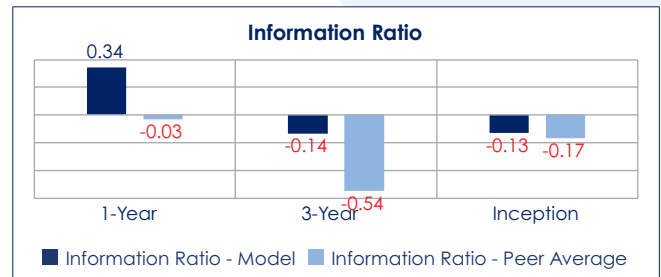
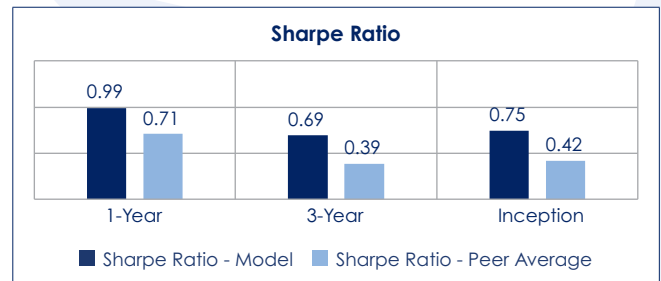
The benchmark has had zero drawdowns, as expected from inflation or cash-based indexes.

Upside/Downside Capture

Upside Capture		
	3 years	Inception
Model	90.7%	91.8%
Peer Avg	54.0%	55.6%

For a cash benchmark, downside capture is not valid

Risk-Adjusted Returns



The Model's risk-adjusted returns (as measured by Sharpe and Information ratios) have been substantially better than the peer average across all periods.

Correlation of Model to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+46.3%	+43.9%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+92.1%	+91.9%	S&P/ASX 300 TR
Global Bonds	+67.1%	+64.6%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+82.9%	+82.8%	MSCI World Ex Australia NR AUD

Correlation Key

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Model to the ASX300**, a practice that SQM has set as common across asset classes in Model reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Model itself, as it is helpful to understand how a Model has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Model**. This is compared to the Model's performance over the same months.

Extreme Market Returns vs Model Return Same Month

Index: S&P/ASX 300 TR		From Jun-06 to Sep-20		
Rank	Date	Market	Model	Difference
1	Jun-22	-8.97%	-4.60%	+4.36%
2	Jan-22	-6.45%	-2.95%	+3.50%
3	Sep-22	-6.29%	-4.90%	+1.39%
4	Sep-20	-3.59%	-1.13%	+2.46%
5	Dec-22	-3.29%	-2.52%	+0.78%
6	Sep-23	-2.89%	-2.11%	+0.78%
7	May-22	-2.76%	-1.01%	+1.75%
8	Feb-23	-2.55%	-0.68%	+1.87%
9	May-23	-2.53%	-1.11%	+1.42%
10	Sep-21	-1.89%	-1.45%	+0.44%
Totals		-41.22%	-22.48%	+18.74%

	No. of Months		
Correlation	+86.8%	Positive Return	0
Capture	+54.5%	Outperform	10

Tail Risk Observations:

The data in the table above indicate that the Model displays modest **defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

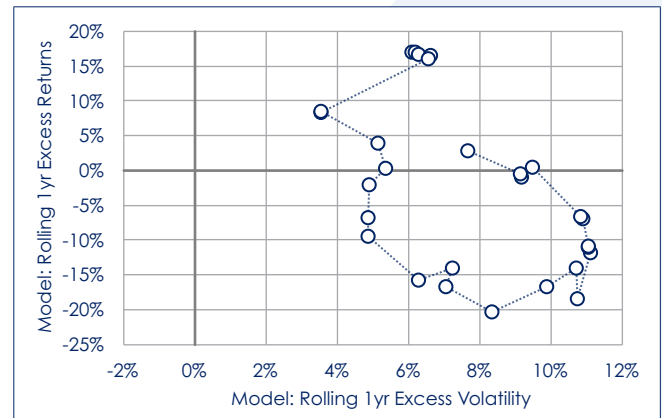
The snail trail chart and tables below show the combination of the Model's rolling 1-year excess returns and volatility.

There are 28 observations in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	0	11	11
Lo-Return	0	17	17
Total	0	28	28

28 rolling 1-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	0.0%	39.3%	39.3%
Lo-Return	0.0%	60.7%	60.7%
Total	0.0%	100.0%	100.0%



QUANTITATIVE ANALYSIS

In assessing a snail trail it is important to note the following:

Q1 upper left-hand quadrant - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

Q2 upper right-hand quadrant - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

Q3 lower left-hand quadrant - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

Q4 lower right-hand quadrant - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

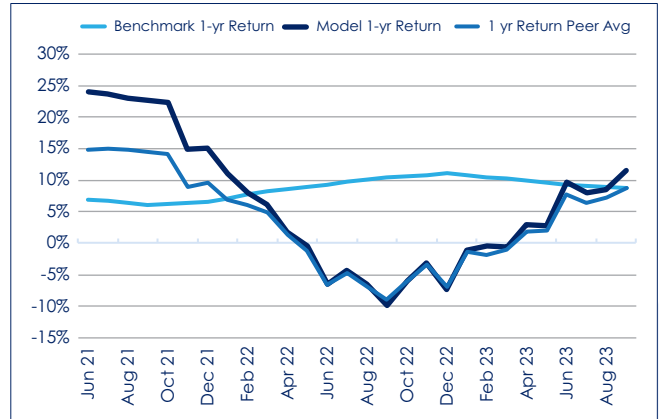
Annual Returns

Year	Model	Benchmark	Peer Avg	vs. Bench	vs. Peers
2021	+15.14	+6.60	+9.55	+8.54	+5.59
2022	-7.39	+11.07	-6.94	-18.46	-0.45
Sep-23	+5.67	+6.05	+4.28	-0.38	+1.39

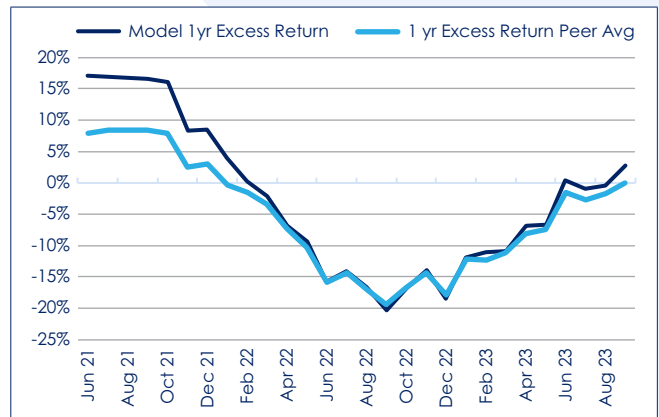
2023 data = 9 months ending Sep-23

Return and Risk

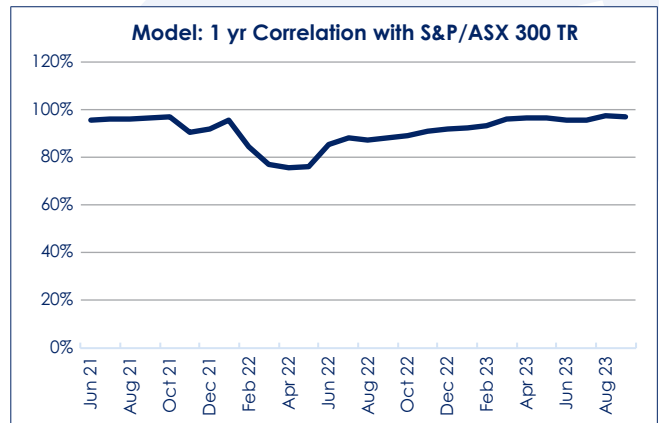
Rolling Returns



Rolling Excess Returns

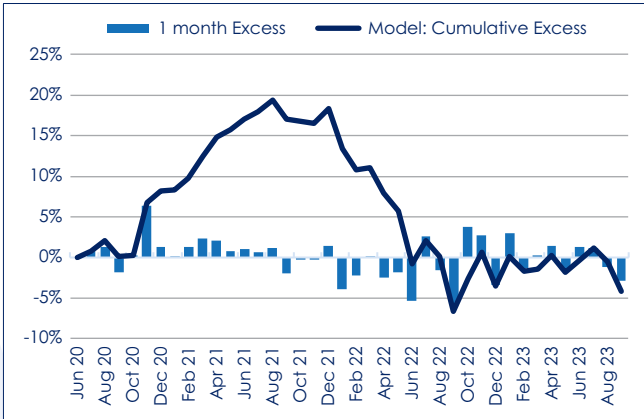


Rolling Correlation

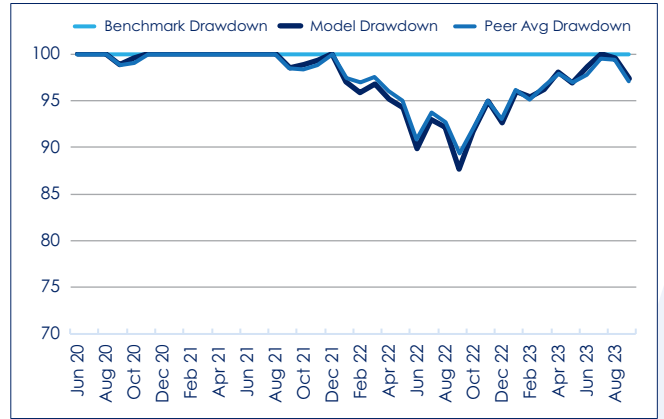


Return and Risk

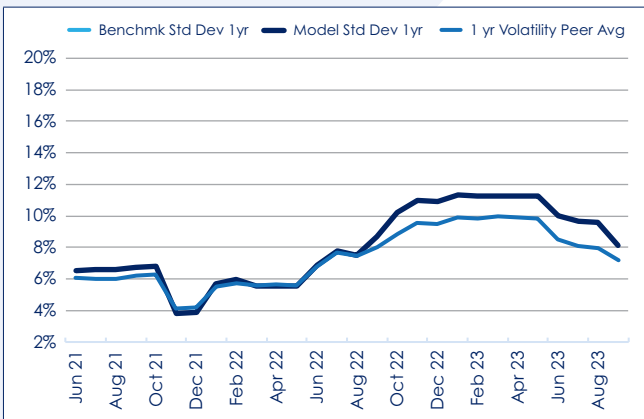
Cumulative Excess Returns



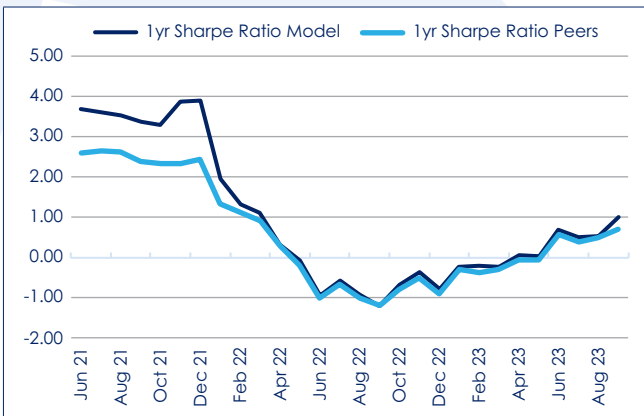
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



The table below outlines limits on asset allocation for the Balanced 70 portfolio.

Model Constraints and Risk Limits	Permitted Range
Cash	2% to 15%
Fixed income	5% to 40%
Alternatives and other	0% to 20%
Listed property	0% to 15%
Global shares	10% to 50%
Australian shares	20% to 50%

Drawdown

A drawdown tracks the path of the Model's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Models typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Model Return} - \text{Benchmark Return}$$

A General Note on Distributions for Managed Models

The Responsible Entity of a Managed Model will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Model having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Model's financial year. By distributing the net taxable income of the Model to investors each year, a Model itself should not be liable for tax on its net earnings.

If a Model makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Model's taxable income for that year.

If the total distributions a Model pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Model may make additional distributions.

A Model's ability to distribute income is determined by the performance of the Model and general market conditions. Accordingly, there is no guarantee that a Model will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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