Product Assessment

Report as at 25 Sep 2024

RECOMMENDED

MLC Wholesale Horizon 4 Balanced Portfolio

Rating issued on 25 Sep 2024 | APIR: MLC0260AU

Investment objective

To outperform its benchmark (after fees) over rolling five-year periods.

Manager	MLC Asset Management
Distributor	MLC Asset Management
Sector	Multi-Asset \ Growth
Investment Style	Multi-Manager
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Strategic AA Focussed
Investment Timeframe	5-6 Years
Benchmark	Diversified Market Growth Benchmark
Min Investment Amount	$500,000
Redemption Frequency	Daily
Income Distribution	Quarterly
Fund Size (31 Aug 2024)	$2.33B
Management Cost	0.87% p.a. Incl. GST
Performance Fee	Performance fees may be charged by underlying investment managers
Buy / Sell Spread	0.10% / 0.10%
Inception Date	28 Feb 1998

Fund facts

- SAA driven approach comprising 31% exposure to defensive assets and 69% exposure to growth assets
- Highly experienced investment team, augmented by external consultants
- Leverages a range of active investment strategies

Viewpoint

The Fund, managed by MLC Asset Management (MLCAM) invests in a multi-manager portfolio, across a range of asset classes and investment strategies, with a bias to growth assets. Combining a strategic asset allocation (SAA) and dynamic asset allocation (DAA) process with active manager selection, the team seeks to outperform the Fund's benchmark and deliver attractive risk-adjusted returns. Zenith maintains a high opinion of MLCAM's investment capability, highlighting its resourcing across multiple areas, including capital markets research (CMR), alternatives and private equity (PE).

The team is led by Dan Farmer, Chief Investment Officer (CIO) and comprises 42 professionals, split across Melbourne and Sydney. Zenith considers Farmer to be a high quality CIO, with the ability to add value from active asset allocation and bottom-up, manager selection (via each sector team).

The Fund is managed using a SAA process, which the team seeks to derive the majority of performance from (approximately 80% of the expected return), however, recognising that markets can deviate from fair value and the tendency to mean revert over the short to medium-term, a DAA process is employed, which can result in opportunistic asset allocation changes.

Zenith considers the asset allocation process to be well-structured and applied in a consistent manner. The process incorporates a range of inputs over different investment horizons, albeit, the team's qualitative judgement ultimately determines positioning.

The final portfolio comprises underlying investments to specialist sector funds in line with the targeted SAA and DAA position. Each of the underlying sector funds are constructed by the responsible portfolio manager, under the direction of Farmer and subject to the Investment Management Committee (IMC) approval process.

The portfolio managers have a wide remit to capture different style and risk premias through the sector structuring process, including value, size, quality and illiquidity (subject to restrictions). Further, within asset classes, the Fund accesses specialist building blocks such as emerging market equities, extended credit (e.g. global high yield, collateralised loan obligations (CLOs)) and insurance-related investments (IRIs) exposures.

Zenith highlights that MLCAM's sector structuring ability is a key competitive advantage, extending across manager selection and the ability to capture excess returns from targeted factor exposures or portfolio biases. For example, capturing the small cap risk premia in domestic and global equities, allocating to emerging market equities and bonds and innovative smart beta and portable alpha solutions, have been used to generate additional asset class alpha.

The team is able to draw on the resources of the Exposure Management and Trading team, to implement downside protection strategies, across Equities, Currencies and Fixed Income. Zenith highlights that MLCAM's ability to design cost-effective, hedging strategies and create asymmetric return outcomes is a key strength relative to the broader peer group. Most notably, the ability to use these strategies in conjunction with the DAA process and create ex-ante ranges and outcomes for managing risk has contributed to the strategy's attractive risk-adjusted returns.

Fund analysis

Fund characteristics

Constraint	Value
Defensive assets	
Cash	SAA = 6%
Fixed income	SAA = 21%
Defensive alternatives	SAA = 4%
Total defensive assets	SAA = 31%
Growth assets	
Australian equities	SAA = 25%
Global equities	SAA = 29%
Listed property	SAA = 7%
Listed infrastructure	SAA = 4%
Growth alternatives	SAA = 4%
Total growth assets	SAA = 69%

Investment objective and philosophy

The Fund's investment objective is to outperform a weighted composite benchmark of indices based on the Fund's SAA over rolling five-year periods. While the Fund is not managed to a specific risk constraint, the expected frequency of negative returns is limited to once every four years.

The investment philosophy underpinning the suite of MultiActive Funds is based on investment markets exhibiting inefficiencies, which can be captured and exploited by active management over the long-term.

The strategic asset allocation (SAA) process is expected to drive the majority of performance, accounting for 80% of the expected return. However, MLCAM also recognises that markets can reach extremities in both over-valuation and under-valuation, and at some point, these markets have a tendency to mean-revert. To capture this effect, a dynamic asset allocation (DAA) or strategic tilting process is employed, which can result in opportunistic asset allocation changes. This is expected to derive approximately 5% to 7% % of outperformance with manager excess returns accounting for the remainder.

MLCAM also allocates to a number of illiquid asset classes including private equity, direct property and private debt, which are held as part of broader sector portfolios or as discrete sleeves.

Zenith highlights that the firm's direct capability is a strong complement to its listed or public market research, providing access to a range of lowly correlated return streams.

SAA

The SAA setting process is performed on an annual basis, using a multi-stage process, with the first step involving a review of the existing SAA relative to the Fund's investment objectives, starting with a re-validation of the long-term asset class assumptions. Mercer Australia (Mercer), MLC's external consultant provides a set of return forecasts as well as output from its Capital Markets Simulator (CMS).

The CMS produces a set of scenarios under a 'Steady State' (e.g. reflecting long-term expectations for markets assuming fair value), and under a 'Market Aware' state where the current pricing of markets are expected to revert to the long-term level over a 10 to 15 year timeframe. Further, Mercer uses an economic capital markets simulator as part of its approach to estimating volatilities for underlying asset classes.

Zenith highlights that while Mercer remains an input to the process, the scale and calibre of MLCAM's internal asset allocation capabilities, has lessened the reliance on Mercer over time, with the latter providing a supplemental perspective to the internal view of the team.

MLCAM augments Mercer's research with its own views and scenarios where active tilts are implemented to capture both valuation dislocations and also other factor exposures, such as a quality tilts or small caps in equities, or high yield credit strategies in fixed income.

The SAA setting process applies to the Fund's core assets (including equities (domestic and international), bonds (domestic and international, nominal and inflation linked), property and cash), and produces an outline of the Fund's asset class exposures.

Furthermore, less liquid strategies are also considered, such as alternatives, infrastructure, private equity, direct property and commodities. This process is more qualitative in nature and seeks to overlay the team's views on the final portfolio composition.

DAA

On a monthly basis (or more frequently if required), an Asset Allocation Group (AAG), comprising the CIO and Portfolio Managers, meet to discuss views on asset allocation, market valuation, fundamentals and market sentiment. Based on the output of this meeting, DAA positions are enacted with the purpose of capturing price adjustments where mispriced markets are expected to mean revert.

The DAA process is implemented via a suite of market aware indicators, which are designed to identify potential mispricings over a one to three year timeframe. Combining a range of valuation, sentiment/technical and macroeconomic / earnings factors, signal output is distilled into a set of asset class scorecards, resulting in an overall conviction score and also creating a level playing field for the AAG to undertake relative value assessments.

Further, a set of 'Scenario Projections' are developed which cover a range of inflation and growth related states, and pre-defined market events/conditions (e.g. oil price shock, China and Emerging Market risk). The scenarios are assigned probability weightings based on the team's qualitative view of the likelihood of each occurring and are further grouped into buckets such as strong growth, weak growth, disinflation and middle ground.

In our opinion, the approach is intuitively appealing, albeit mapping the scenario projections to asset class returns and potential investment horizons, is in our opinion, a possible area for enhancement. Notwithstanding this, the approach complements the broader suite of DAA signals, and are effective in synthesizing the macro environment and ensuring the asset allocation aligns with the team's views.

In sum, Zenith considers the asset allocation process to be well-structured and applied in a consistent manner. The process incorporates a range of inputs over different investment horizons, albeit, the team's qualitative judgement ultimately determines positioning.

Portfolio applications

The Fund provides investors with exposure to a diversified portfolio of growth, defensive, and alternative assets and strategies. Its targeted asset mix comprises a 31%/69% split between defensive and growth assets.

The investment mandate is broad with the investment team permitted to gain exposure to alternative assets and strategies. Zenith considers the Fund suitable as a standalone investment, or as a complement to a broader portfolio that seeks to produce outcomes consistent with an investor's risk/return preferences.

The Fund is considered suitable for investors with a moderate to high risk tolerance, seeking investment returns that comprise both income and capital growth. With risks inherent in a number of the underlying asset classes, Zenith considers an appropriate investment horizon to be five years and longer.

The Fund has a Standard Risk Measure (SRM) of five negative annual returns over any 20-year period. This SRM is published in the Fund's current Product Disclosure Statement (PDS) and was last calculated in 2023 by MLCAM based on the FSC/ASFA recommended methodology.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Tobacco	Full
PRI Status	
PRI Signatory	No

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

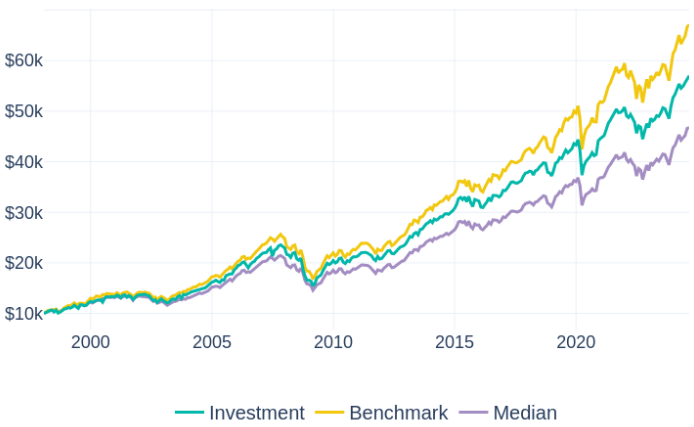
Performance as at 31 Aug 2024

Monthly performance history (%, net of fees)

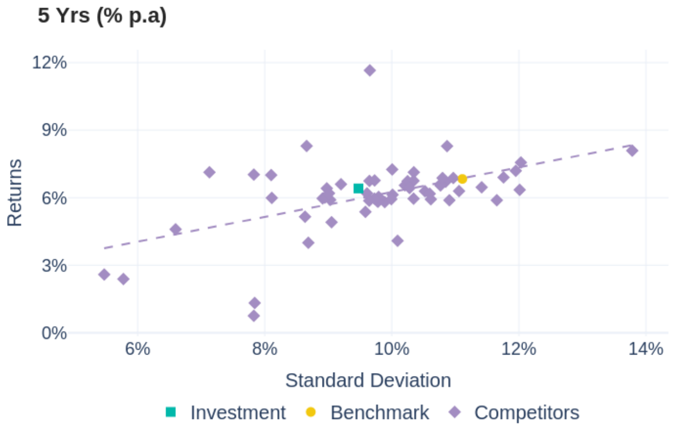
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.29%	1.55%	2.23%	-1.56%	0.75%	1.29%	1.38%	1.06%					8.22%	9.34%
2023	3.85%	-1.04%	0.69%	1.47%	-0.29%	1.40%	2.03%	-0.35%	-2.23%	-1.71%	5.05%	3.36%	12.62%	12.61%
2022	-3.35%	-0.67%	1.27%	-1.72%	-1.44%	-4.60%	3.22%	-0.52%	-5.05%	3.60%	3.11%	-1.55%	-7.89%	-8.34%
2021	0.84%	0.55%	2.61%	2.63%	1.32%	1.50%	1.35%	1.59%	-1.36%	0.11%	0.66%	1.39%	13.94%	14.64%
2020	2.42%	-4.74%	-11.62%	5.08%	2.14%	1.09%	1.24%	1.85%	-1.46%	0.60%	6.49%	1.02%	2.87%	4.54%

**Diversified Market Growth Benchmark*

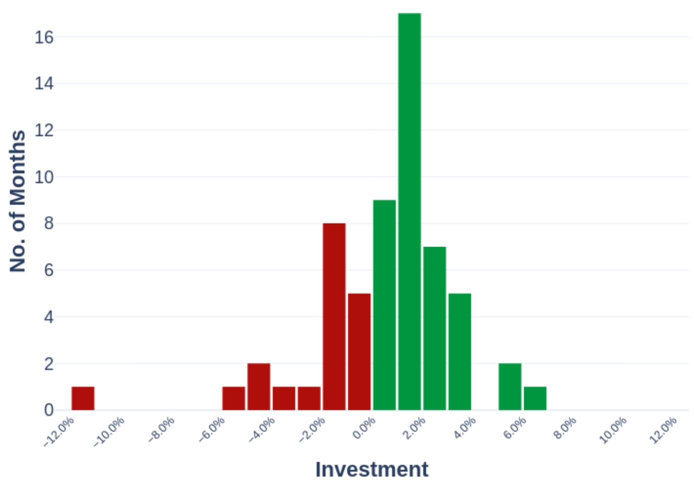
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**12.91%**	**4.20%**	**6.41%**	**6.72%**	**6.77%**
Income	9.43%	5.93%	5.95%	4.99%	5.87%
Growth	3.48%	-1.73%	0.46%	1.73%	0.90%
Benchmark	**13.61%**	**4.52%**	**6.83%**	**7.31%**	**7.42%**
Median	**12.93%**	**4.18%**	**5.93%**	**6.11%**	**5.98%**
Cash	**4.35%**	**2.68%**	**1.74%**	**1.89%**	**3.87%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	29 / 57	25 / 53	24 / 49	5 / 11
Quartile	2nd	2nd	2nd	2nd

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	6.96%	7.88%	9.47%	8.16%	8.76%
Benchmark	8.60%	9.93%	11.11%	9.21%	8.55%
Median	8.06%	8.78%	9.65%	8.02%	7.58%
Downside Deviation (% p.a.)					
Investment	3.22%	5.15%	6.92%	5.64%	5.94%
Benchmark	4.59%	6.50%	7.92%	6.25%	5.77%
Median	4.26%	5.72%	6.95%	5.50%	5.18%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	1.23	0.19	0.49	0.59	0.33
Benchmark	1.08	0.19	0.46	0.59	0.42
Median	1.06	0.17	0.43	0.53	0.28
Sortino Ratio (p.a.)					
Investment	2.66	0.30	0.67	0.86	0.49
Benchmark	2.02	0.28	0.64	0.87	0.62
Median	2.02	0.26	0.60	0.77	0.41

Zenith benchmarks Funds in the 'Multi-Asset – Growth' peer group against the Zenith Composite Growth Benchmark. While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

The Fund's investment objective is to outperform its benchmark (after fees) over rolling five-year periods. The benchmark is a weighted composite of indices based on the Fund's SAA.

All commentary below are as at 31 August 2024.

The Fund has underperformed the Zenith assigned benchmark and ranked in the lower quartiles of the peer group over most periods of assessment.

The Fund's volatility, as measured by standard deviation, has been lower than that of the Zenith assigned benchmark and median manager over all periods of assessment.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-0.70%	-0.32%	-0.42%	-0.59%	-0.66%
Monthly Excess (All Mkts)	58.33%	55.56%	51.67%	48.33%	48.28%
Monthly Excess (Up Mkts)	44.44%	28.57%	28.21%	32.89%	38.61%
Monthly Excess (Down Mkts)	100.00%	93.33%	95.24%	75.00%	64.96%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	69.39%	74.57%	77.93%	83.91%	84.21%
Upside Capture	84.94%	79.03%	83.40%	87.32%	87.31%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	2.56%	2.75%	2.44%	2.14%	4.46%
Median	0.97%	1.61%	1.86%	1.57%	1.73%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-0.27	-0.12	-0.17	-0.28	-0.15
Median	-0.71	-0.21	-0.49	-0.77	-0.84

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.78	0.78	0.84	0.87	0.89
R-Squared	0.94	0.96	0.97	0.95	0.75
Correlation	0.97	0.98	0.98	0.98	0.87

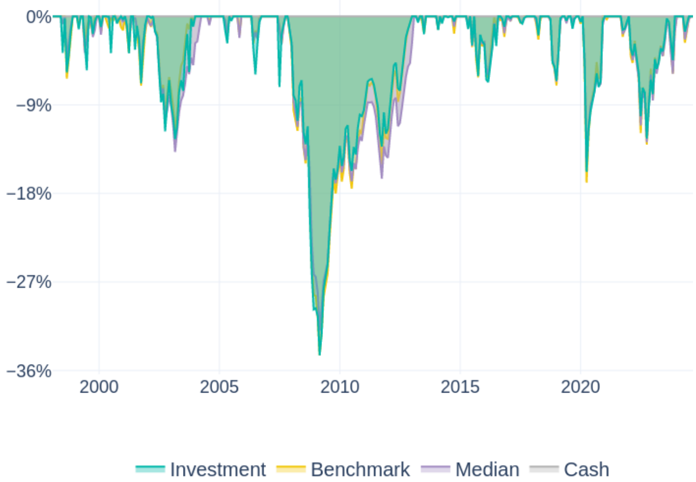
All commentary below are as at 31 August 2024.

Zenith seeks to identify funds which can outperform their index in greater than 50% of months in all market conditions as we believe this represents a persistence of manager skill.

Although the Fund has historically failed to achieve this outcome over the long-term, the outperformance ratio has improved in recent years. In addition, the Fund has traditionally displayed stronger performance in falling markets over rising markets.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below are as at 31 August 2024.

The Fund has tended to produce drawdowns that have been consistent with that of Zenith's assigned performance benchmark and the median manager within the peer group.

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: Zenith deems CIO, Dan Farmer to be integral to the operation and refinement of MLCAM's investment process. His departure would be deemed material and warrant a reassessment of our rating.

Mandate risk: The Fund's investment mandate is relatively wide, providing MLCAM with ample scope to implement its targeted portfolio. This may result in Fund performance deviating from that of its SAA and competitors, which may be either to the benefit or cost of investors.

Illiquidity risk: The Fund maintains exposures to a range of relatively illiquid assets in both the Alternatives and Direct Property sectors. In a stressed market environment, there is a risk that the mark-to-market value of the assets may not reflect their intrinsic value or that they could be liquidated in a timely manner. This could be to the detriment of performance.

Security/asset selection

Employing a multi-manager approach, identifying and selecting high-quality managers is a core component of the investment process. MLCAM undertakes an annual review of the underlying sector trusts, to ensure that the manager line-up is appropriate and new candidates are considered. Each sector portfolio manager is responsible for selecting managers and negotiating commercial agreements, with oversight and leadership from the CIO.

The initial manager universe is filtered based on the portfolio's underlying requirements, a positive view from MLCAM's primary manager selection consultant, JANA and the manager having sufficient capacity to meet its growth requirements. If a manager does not have an external rating, it may be considered if it is assessed to have a competitive advantage.

To select managers, a traditional set of criteria are employed, which includes an assessment of the organisation, the quality of the investment team, the coherence of the investment process and the performance of the Fund/strategy relative to its objectives and peer group. The review also includes fee discovery, and a manager's willingness to enter into an Investment Management Agreement (IMA) and Service Level Agreement (SLA) on terms that meet its requirements.

Zenith highlights that MLCAM sector structuring ability is a key competitive advantage, extending across manager selection and the ability to capture excess returns from targeted factor exposures or portfolio biases. For example, capturing the small cap risk premia in domestic and global equities, accessing emerging market equities and bonds and innovative smart beta and portable alpha solutions, have been used to generate additional asset class alpha.

Furthermore, specialist capabilities in private equity and alternatives have allowed the team to internalise some of its private assets program and also expand the breadth of investment opportunities. This enables the team to access more attractive co-investment and secondaries and also bespoke offerings, such as insurance-linked securities and specialty finance.

If a manager passes through the due diligence phase, the portfolio manager will prepare a detailed due diligence report that addresses the above-mentioned criteria. The report is peer reviewed by the CIO and broader team, with a potential for further research and analysis to be undertaken. MLCAM's Investment Operations team also reviews the report to ensure compatibility with the reporting and pricing framework. Once complete, the report is finalised and proposed to the MLCAM Investment Committee for approval.

In Zenith's opinion, the manager selection process is detailed and applied in a disciplined manner, leveraging internally-generated insights and those of its primary consultant, JANA. The team's ability to capture excess returns at the asset class level and harvest a range of diversifying return streams has contributed to attractive risk-adjusted returns over the medium-term.

Responsible investment approach

MLCAM is yet to become a United Nations Principles for Responsible Investment (PRI) signatory. Notwithstanding this, it maintains an established Responsible Investment Policy (RIP) that has been ratified by the MLCAM Responsible Entity and was last updated in May 2023.

Using a multi-manager investment approach, MLCAM's environmental, social and governance (ESG) policies are largely implemented via its appointed investment managers. Prior to appointing a manager, the team performs a detailed review of their ESG approach and philosophy, focusing on the level of integration with the broader process. This is formalised with a specific ESG clause that is included in all Investment Management Agreements (IMAs) requiring managers to apply due care and diligence in considering ESG matters. Furthermore, all investment mandates include a hard tobacco manufacturer exclusion.

In terms of adherence to its policies, MLCAM performs ongoing monitoring in collaboration with JANA who formally rate each manager's ESG processes. Further, MLCAM continues to work with its underlying managers regarding the provision of ESG reporting.

In addition to the team's surveillance, MSCI ESG quality scores are measured on a periodic basis and used to cross-reference the qualitative input from managers, whilst also providing a lead indicator on potential ESG deterioration. Furthermore, a Carbon Foot Print estimate (e.g. Weighted Average Carbon Intensity tons CO_2e / $M sales) is reported on a quarterly basis and used as part of MLCAM's ongoing monitoring.

In Zenith's opinion, MLCAM's ESG approach is well-developed, effectively leveraging the firm's resources and further augmented by the ESG capabilities of its external consultants.

Portfolio construction

The final portfolio comprises underlying investments in specialist sector funds in line with the targeted SAA and DAA position. These can be complemented with 'directly held' securities, either to adjust the DAA or for downside protection purposes. Farmer is ultimately responsible for the positioning of the Fund, with the IMC ratifying all manager appointments and terminations.

Each of the underlying sector funds are constructed by the responsible portfolio manager, under the direction of Farmer and subject to the IMC approval process. Over time, the number of sector building blocks has increased, with more bespoke, sub-strategy exposures. For example, specialist emerging market equities, extended credit (e.g. global high yield, collateralised loan obligations (CLOs)) and insurance-related investments (IRIS) exposures, have been introduced.

Zenith highlights that MLCAM's approach to sector structuring is intuitive, facilitating access to a mix of well-structured portfolios, diversified across style biases, factor exposures and regions. The breadth of sub-sector portfolios allows the team to express more granular regional and sub-sector views and capture a range of lowly-correlated return streams.

To achieve the targeted asset allocation, MLCAM invests in internal, underlying sector portfolios, some of which are available on a standalone basis (e.g. externally offered). In certain asset classes, direct positions are held alongside the portfolio's externally managed holdings. For example, holding interest rate futures to manage the aggregate duration positioning of the Fund or holding equity futures to adjust equity beta.

In terms of position sizing, each sector portfolio manager has the flexibility to determine the optimal manager configuration for their respective portfolio, subject to oversight from Farmer and the approval of the IMC (for new manager appointments). With respect to existing managers, the sector portfolio managers can adjust manager weightings by +/- 50% with approval from the CIO, which is then required to be noted at the next IMC meeting.

The team is able to draw on the resources of the Exposure Management and Trading team, with Cliff Bayne, Head of Derivatives, responsible for derivatives implementation and developing downside protection strategies. These can be expressed across equities, currencies and fixed income, albeit with a focus on controlling the cost drag resulting from these strategies. These positions are subject to pre-approved risk limits and applied calibrate the broader views of the team with the output of the DAA process.

Zenith highlights that MLCAM's ability to design cost-effective, hedging strategies and create asymmetric return outcomes is a key strength relative to the broader peer group. Most notably, the ability to use these strategies in conjunction with the DAA process and create ex-ante ranges and outcomes for managing risk has contributed to the strategy's attractive risk-adjusted returns.

The Fund's currency exposure is fully hedged in the fixed income sector, while the strategic hedge ratio for global equities is 35%. Active currency positions can be enacted based on the output of the DAA process, which can result in the actual hedging level range from 0% to 100%.

The rebalancing range is set at +/- 2% at an operational level and is managed by MLCAM's Investment Operations Division, in consultation with the investment team. On a daily basis, each portfolio’s asset allocation is compared to its target asset allocation, and if the allocations falls outside of the range, the Portfolio Manager will determine the the most efficient rebalancing mechanism (i.e. via cash flows or physical redemptions).

In sum, Zenith considers MLCAM's portfolio construction process to be strong, highlighting the team's manager selection skills and intuitive approach to harvesting lowly correlated risk premias. Furthermore, the ability to access specialist sleeves of private assets and capture an illiquidity premium, is a strong point of differentiation.

Risk management

Risk management is ingrained in the investment process at multiple levels, with the experience of the portfolio management team providing the first layer of risk mitigation. MLCAM's also leverages the resources of Mercer and JANA, who perform risk management analysis as part of its due diligence process.

The primary risk tools used by MLCAM's include Bloomberg Port and Factset, which are used to monitor risk and produce a range of measures. These include traditional volatility and risk-adjusted metrics (e.g. Sharpe, Treynor and information ratios) and other portfolio-level risk measures.

This risk analytics is formally reported to the MLCAM Investment Committee on a bi-monthly basis, who will also monitor the information on a more frequent basis.

Zenith highlights that the risk management architecture is well-developed, particularly with respect to aggregating and assessing risk on a portfolio-wide basis. Through Bloomberg Port and Factset, MLCAM has the functionality to measure cross-asset class risk, including holdings-based information across the majority of the portfolio, including fixed income.

Stress testing is performed using both historical and forward-looking analysis. In a historical context, the portfolio is stress tested against major market events to assess how the existing portfolio would perform through these regimes. In terms of the portfolio's private asset holdings, these are also subject to detailed liquidity scenario testing.

Zenith considers MLCAM risk management framework to be sound, noting the continued advancements in its ability to manage portfolio-wide risk.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.97% p.a.	0.86% p.a.
Management Fees and Costs	0.87% p.a.	0.76% p.a.
Transaction Costs	0.07% p.a.	0.08% p.a.
Performance fees as at 30 Jun 2023	0.03%	0.03%
Performance fees description	Performance fees may be charged by underlying investment managers	
Management Cost	0.87% p.a.	0.74% p.a.
Buy / Sell spread	0.10% / 0.10%	0.14% / 0.14%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average (in the table above) is based on the average management fee of all flagship 'Multi Asset - Growth' funds surveyed by Zenith. The list of funds includes actively managed, benchmark aware and index funds.

Zenith views the Fund's management cost structure to be comparable relative to the broader peer group. The Fund may also incur performance fees charged by the underlying managers (on a look-through basis), albeit the amount will change on a year-to-year basis.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

Insignia Financial Limited (Insignia) is a diversified financial services business, listed on the Australian Securities Exchange (ASX: IFL) and comprises the following divisions: Financial Advice and Distribution; Platform Management and Administration; and Investment Management. Each division includes a range of separately-branded businesses that operate as autonomous entities.

Insignia's multi-manager capability, MLC Asset Management (MLCAM) encompasses a range of investment capabilities including multi-asset and single-sector managers, across a range of asset classes and strategies. Across the firm's product suite, it manages $A 89 billion as at 30 June 2024.

In Zenith's opinion, Insiginia has successfully evolved its multi-asset capability into an industry leading platform with significant expertise across asset allocation and manager selection. Further, the platform benefits from the resources of the broader organisation including governance functions and non-investment services such as compliance, human resources, operations and distribution.

As at 30 June 2024, MLC managed approximately $A 8.8 billion at the strategy level and $A 2.3 billion at the Fund level.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Dan Farmer	Chief Investment Officer	26	13	Melbourne, Australia
Ben McCaw	Co-Head Choice Diversified Portfolios	21	16	Sydney, Australia
Grant Mizens	Co-Head Choice Diversified Portfolios	18	18	Sydney, Australia
Kerry Gill	Fund Strategist	22	19	Sydney, Australia
Stanley Yeo	Head of Strategy & Equities	23	14	Melbourne, Australia

The team is led by Dan Farmer, Chief Investment Officer (CIO) and comprises 42 professionals, split across Melbourne and Sydney. Farmer has been the CIO of MLCAM (previously IOOF) since 2017 having originally joined the firm in 2010 to manage an Australian equities portfolio.

Prior to IOOF, he was a Portfolio Manager at Telstra Super, responsible for overseeing a portfolio of domestic equities. Zenith considers Farmer to be a high quality CIO, with the ability to add value from active asset allocation and bottom-up, manager selection (via each Sector team).

Responsibility for the Fund rests with the capital markets research (CMR) team which is led by Co-Heads Choice Diversified Portfolios, Ben McCaw and Grant Mizens. McCaw is a long-standing member of the CMR team and contributor to MLCAM's investment futures framework and broader top-down positioning. Zenith highlights McCaw’s strong macroeconomic input and ability to link the output of the investment futures framework into portfolio themes and positions. Similar to McCaw, Mizens is a long-tenured member of the CMR team, leading the research agenda and producing quantitative insights that further strengthen the investment process.

Remaining members of the CMR team are Fund Strategist Kerry Gill, Lead Portfolio Manager Anthony Golowenko, Senior Investment Analyst Alex Leung, and Investment Analyst Doreen Goh. Zenith highlights the diversity of experience across the CMR team, which extends across sell side research, academia and traditional investment consulting.

The key investment decision-making body for MLCAM's product suite is the MLCAM Investment Committee (IC). Chaired by Farmer, the MLCAM IC consists of five voting members, including Simon Elimelakh (External Consultant), Bayne, Steven Gamerov (Head of Diversified Portfolio Management, Default), Gareth Abley (Head of Alternatives), McCaw and Mizens (who share one vote). The MLCAM IC is responsible for ratifying changes to asset allocation and manager selection, ensuring all relevant stakeholders have input into the process.

MLCAM's remuneration policy is structured to align staff interests with that of investors. With an emphasis on longer-term performance, staff are assessed based on a combination of individual and team performance measures. The variable element is entirely performance based, taking into consideration the contribution over rolling one, three and five-year periods.

Furthermore, performance is measured against peers and an appropriate hurdle rate. The variable component is a major contributor to overall remuneration (but varies as a percentage from employee to employee), with a component subject to a medium-term vesting period. Zenith believes the remuneration policy is competitively structured.

In Zenith's opinion, MLCAM is well-resourced with strong capabilities across CMR and specialist asset class research including alternatives and private equity (PE) capabilities. In our opinion, the team has evolved to one of the strongest in the peer group, particularly given its expertise across a range of non-traditional sectors.

About the sector

Sector characteristics

The Multi-Asset sector comprises funds that are permitted to invest across multiple asset classes and investment strategies. Traditionally, asset class exposures have included equities, fixed interest, property and cash. However, in more recent times, Zenith has observed a greater preparedness by sector participants to incorporate alternative assets and strategies within their targeted asset mix. Included amongst these are real assets (i.e. direct property and infrastructure), commodities and private market exposures (i.e. private equity and private credit). Innovation has also been observed in terms of sector structuring and tail risk hedging strategies, with the goal of building more resilient, all-weather portfolios.

Zenith categorises funds in the 'Multi-Asset – Growth' peer group (greater than 60% exposure to growth assets and up to 80%) based on our collective assessment of their targeted asset mix and actual portfolio holdings. Funds within this peer group are benchmarked against the Zenith Composite Growth Benchmark, which has a defensive/growth split of 20%/80%. The exact composition of this benchmark is provided below:

Cash: Bloomberg AusBond Bank Bill Index (2%)

Australian fixed interest: Bloomberg AusBond Composite 0+ Yr Index (7.25%)

International fixed interest: Bloomberg Global Aggregate Index Hedged $A (7.25%)

Alternatives (defensive): HFRX Global Hedge Fund Index $A (3.5%)

Australian equities: S&P/ASX 300 Index (40%)

International equities (unhedged): MSCI World ex-Australia Unhedged Index (16%)

International equities (hedged): MSCI World ex-Australia Hedged Index (16%)

Australian listed property: S&P/ASX 300 A-REIT Index (2.25%)

Global listed property: FTSE EPRA Nareit Developed Rental Index TR Hedged $A (2.25%)

Alternatives (growth): HFRX Global Hedge Fund Index $A (3.5%)

To provide greater insight into a Fund's risk/return profile, Zenith decomposes targeted exposures between two broad categories – growth and defensive. While we are cognisant that our designation of asset class exposures between these categories may vary from that defined by the manager, we have sought to adopt a common methodology to ensure consistency in the assessment of like strategies across Zenith's universe of rated funds. Further detail on the Fund's targeted asset mix is provided in the 'Fund characteristics' section.

Sector risks

There exist a number of risks that are generally common amongst all Multi-Asset funds. These include:

Market risk: In periods of heightened risk aversion, it is feasible that asset class correlations merge. Should this occur, the diversification benefits brought through the construction of a portfolio comprising multiple lowly correlated asset classes may be lost, potentially exposing investors to a broader deterioration in market conditions.

Currency risk: Sector participants may be permitted to gain international exposures on an unhedged basis. The decision whether or not to hedge is often deemed active in nature and can expose investors to fluctuations in cross currency rates. This may be either to the benefit or cost of Fund volatility and performance.

Emerging market risk: Many sector participants gain exposure to emerging and frontier markets which bring with them additional risks. These may include reduced liquidity, a more opaque pricing mechanism, increased sovereign risk and political tensions.

Alternatives risk: A growing number of funds have investment mandates that permit a meaningful exposure to alternative assets and strategies. Investors should be aware that the use of alternatives can bring with them additional risks.

Illiquidity risk: While most sector participants will seek to retain high levels of liquidity, it is feasible that a fund may retain exposure in assets that are deemed illiquid or subject to irregular pricing policies. It may be difficult for an investment manager to subsequently liquidate such portfolio positions without incurring meaningful transaction or other performance related costs.

Administration and operations

Responsible Entity	MLC Investments Limited

Zenith rating

Report certification

Date of issue: 25 Sep 2024

Role	Analyst	Title
Analyst	Alan Chuong	Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austn. Fixed Income

Association & relationship

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. We may receive remuneration from an issuer or investment manager for subscription to our other research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group’s Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

Rating history

As At	Rating
25 Sep 2024	Recommended
28 Sep 2023	Recommended
11 Apr 2023	Recommended
29 Sep 2022	Recommended
17 Jun 2022	Recommended
30 Sep 2021	Recommended
30 Sep 2020	Recommended
02 Dec 2019	Recommended
01 Oct 2019	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith has charged MLC Asset Management a fee to produce this report.