Product Assessment

Report as at 28 Sep 2023

RECOMMENDED

MLC Wholesale Horizon 7 Accelerated Growth Portfolio

Rating issued on 28 Sep 2023 | APIR: MLC0449AU

Investment objective

The Fund's investment objective is to outperform its benchmark (before fees) over rolling five-year periods.

Manager	MLC Asset Management
Distributor	MLC Asset Management
Sector	Multi-Asset \ High Growth
Investment Style	Multi-Manager
RI Classification	Aware
Absolute Risk	High
Relative Risk	Active - Strategic AA Focussed
Investment Timeframe	7+ Years
Benchmark	Diversified Market High Growth Benchmark
Min Investment Amount	$500,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Aug 2023)	$195.93M
Management Cost	1.10% p.a. Incl. GST
Performance Fee	Performance fees may be charged by underlying investment managers
Buy / Sell Spread	0.15 % / 0.15 %
Inception Date	30 Nov 2002

Fund facts

- High-risk strategy with an SAA of 130% to growth assets, incorporating 30% leverage
- Multi-manager approach operating within a differentiated investment futures framework
- Combined MLC and Insignia investment team is amongst the strongest in the peer group

Viewpoint

The Fund, managed by MLC Asset Management (MLC), invests across a range of growth and alternative-based assets. MLC's Sydney-based Capital Markets Research (CMR) team is responsible for managing the investment strategy, employing a differentiated 'investment futures' framework. Zenith retains a positive view of the Fund, as MLC's integration into Insignia Financial (Insignia) has deepened the investment team, allowed greater access to underlying building blocks, whilst the investment futures framework is further refined to assist with the CMR team's research efforts.

MLC is a fully-owned subsidiary of Insignia, following its acquisition in June 2021. The broader integration of the two businesses is largely complete, with clarity in terms of product strategy, team structure and harmonising investment processes. The team is led by Dan Farmer, Chief Investment Officer (CIO) and comprises 48 professionals, split across Sydney and Melbourne. Zenith considers Farmer to be a high quality CIO, with the ability to add value from active asset allocation and generating excess returns at the asset class level. Over the past twelve months, the portfolio management and asset class structure was also confirmed, with senior members of the legacy MLC and Insignia investment teams now reporting to Farmer.

Zenith notes that while there has been a streamlining of roles across the integrated investment platform, resourcing in specialist areas such as Asset Allocation, Alternatives, Private Equity is some of the deepest across the peer group and a point of differentiation.

Leading the CMR team are Co-Heads Choice Diversified Portfolios, Ben McCaw and Grant Mizens, who assumed joint responsibilities for the day-to-day management of the Fund following the resignation of Al Clark, previously Head of Diversified Portfolio Management (Choice) in early 2023. McCaw and Mizens are both long-standing members of the CMR team, and are supported by a further four dedicated resources, the senior members of which are experienced and have skill sets aligned to the differentiated investment process.

The Fund is managed to a long-term strategic asset allocation (SAA). In setting the targeted asset mix, the CMR team implements a proprietary investment futures framework that combines assumptions about macroeconomic drivers and behavioural factors. Embedded in this approach is a set of 40 future scenarios, each of which is based on an assumption on the level of growth and inflation in the economy, which forms the basis for the team to forecast a range of asset class expected returns.

Zenith notes that the model is intuitively appealing, albeit the linkage to the underlying portfolio has been difficult to map over time. In our opinion, the approach is intuitively appealing, albeit mapping the output to expected asset class returns and potential investment horizons, is largely a qualitative process. Notwithstanding this, the approach complements a broader suite of top-down signals, and can be effective in synthesising the macro environment and ensuring the asset allocations aligns with the team's views.

In setting the Fund's asset mix, the CMR team will interfund into established sector building blocks, tailor exposures and implement tail-risk hedging strategies. Zenith believes that this aspect of the process is a strength, noting the team's ability to leverage its scale to gain exposure to nuanced market segments, capture lowly-correlated excess return sources, and gain access to new investment opportunities as part of MLC's integration into Insignia.

Fund analysis

Fund characteristics

Constraint	Value
Growth Assets	
Australian Equities	SAA = 50.0%
Global Equities	SAA = 70.0%
Listed Property	SAA = 2.0%
Listed Infrastructure	SAA = 3.0%
Growth Alternatives	SAA = 5.0%
Gearing	SAA = 30.0%
Total Growth Assets	SAA = 130.0%

Investment objective and philosophy

The Fund's investment objective is to outperform its benchmark (before fees) over rolling five-year periods. The benchmark is a weighted composite of indices based on the Fund's Strategic Asset Allocation (SAA). MLC does not specify an outperformance objective or level of Tracking Error relative to the benchmark, which Zenith considers to be inconsistent with best practice. We firmly believe that greater transparency in communicating objectives would facilitate a more detailed understanding of the range of potential return outcomes and the drawdown profile of the Fund.

MLC aims to achieve the Fund's objective by actively managing risk at a portfolio level, including lowering risk when market conditions are assessed to be extreme. As a consequence, the Fund's performance may vary from the benchmark, particularly during strongly rising markets (i.e. underperform) and falling markets (i.e. outperform).

Top-Down Process

The Fund is managed to a long-term SAA. In setting the Fund's targeted asset mix, the CMR team implements a proprietary investment futures framework that combines assumptions about macroeconomic drivers and behavioural factors in an attempt to capture real-world complexities. The starting point for each scenario is an assumption on the level of growth and inflation in the economy, which forms the basis for the team to forecast the action of policymakers. These long-term forecasts are then used to estimate cash rates, bond yields, price-to-earnings (PE) multiples, and ultimately asset class returns.

The CMR team has built a set of 40 generic scenarios that cover a range of inflation and growth related states, and pre-defined market events and conditions (e.g. oil price shock, China and Emerging Market risk). Zenith highlights that the scenarios have a degree of overlap and tend to converge through markets undergoing structural change.

The scenarios are assigned probability weightings based on the team's qualitative view of the likelihood of each occurring. This process is undertaken quarterly, with each member of the CMR team submitting independently derived probabilities. These are aggregated to produce a distribution of outcomes which forms the foundation upon which final probabilities are assigned to scenarios. Zenith is supportive of MLC's approach to independently deriving probability forecasts, which in our opinion, ensures that the final forecasts represent the broader team's views and also minimises the risk of 'groupthink'.

Further, 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 the Fund's asset allocation, market valuation, fundamentals and market sentiment. Based on the output of this meeting, Dynamic Asset Allocation (DAA) positions are enacted with the purpose of capturing price adjustments where mispriced markets are expected to mean revert.

The DAA process, which has evolved from the alignment of investment approaches of the heritage MLC and Insignia teams, 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 make relative value assessments.

Portfolio applications

The Fund provides investors with exposure to a diversified portfolio of growth and alternative assets and strategies. The Fund employs a gearing level of 30% to target an asset mix comprising a 130% allocation to growth and alternative assets.

The Fund is considered suitable for investors with a higher risk tolerance, seeking investment returns that are expected to be dominated by capital growth as opposed to income. With risks inherent in a number of the underlying asset classes, Zenith considers an appropriate investment horizon to be eight years and longer.

The Fund's 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 has a Standard Risk Measure (SRM) of six 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 2022 by MLC based on the FSC/ASFA recommended methodology.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	No

*Zenith RI Classification scale:

- Traditional

- Aware
- Integrated
- Thematic
- Impact

Absolute performance

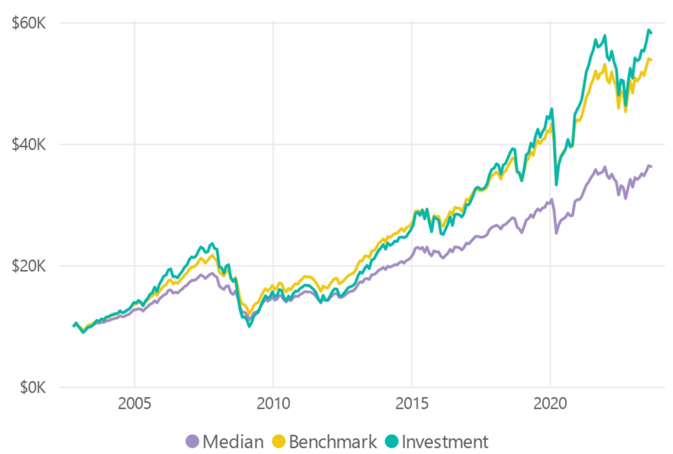
Performance as at 31 Aug 2023

Monthly performance history (%, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2023	6.61%	-0.86%	0.46%	2.75%	-0.25%	2.70%	3.52%	-0.84%					14.72%	11.27%
2022	-6.05%	-1.03%	2.75%	-3.17%	-2.21%	-8.26%	5.33%	-0.39%	-7.95%	7.69%	5.01%	-3.11%	-12.18%	-8.91%
2021	1.64%	1.82%	4.83%	4.69%	2.10%	2.81%	1.88%	3.11%	-2.18%	0.44%	0.90%	2.04%	26.69%	20.85%
2020	3.64%	-9.20%	-20.04%	9.83%	3.64%	1.54%	1.99%	3.92%	-3.01%	0.99%	12.45%	1.81%	3.37%	4.81%
2019	5.70%	6.51%	0.80%	4.19%	-1.64%	4.55%	2.78%	-3.12%	2.26%	1.34%	4.54%	-0.74%	30.17%	23.70%

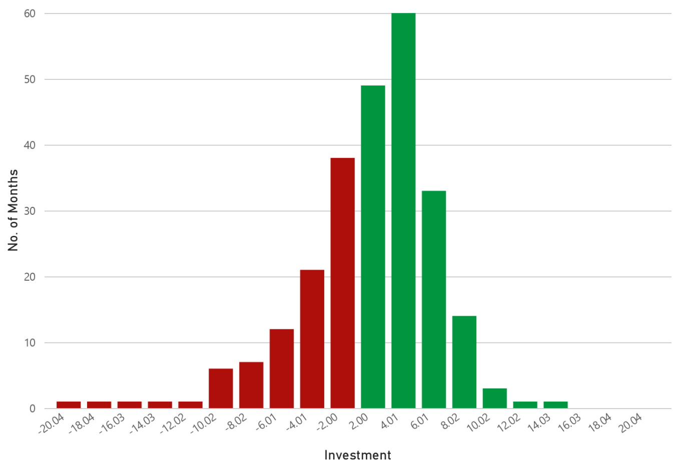
**Diversified Market High Growth Benchmark*

Growth of $10,000

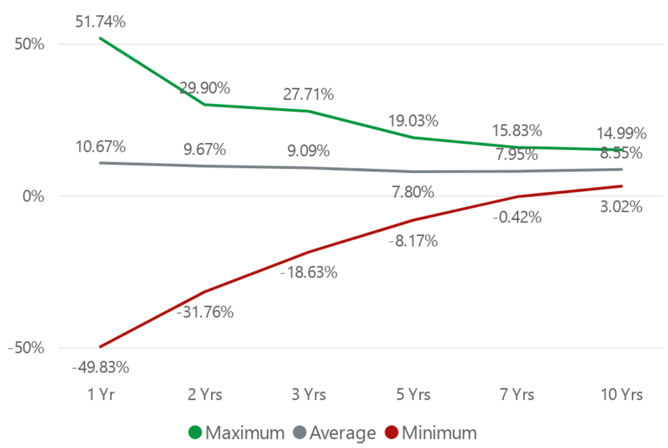


Risk / return

Monthly histogram



Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**15.70%**	**12.70%**	**8.26%**	**10.73%**	**8.83%**
Income	3.40%	7.41%	5.70%	5.26%	6.10%
Growth	12.30%	5.28%	2.55%	5.47%	2.73%
Benchmark	**11.57%**	**9.83%**	**7.41%**	**9.16%**	**8.41%**
Median	**10.52%**	**8.26%**	**5.44%**	**6.98%**	**6.38%**
Cash	**3.37%**	**1.25%**	**1.24%**	**1.72%**	**3.52%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	5 / 47	2 / 45	2 / 42	1 / 12
Quartile	1st	1st	1st	1st

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	14.46%	14.14%	17.31%	14.63%	15.33%
Benchmark	12.30%	12.10%	13.93%	11.34%	11.33%
Median	11.24%	10.41%	11.69%	9.42%	9.68%
Downside Deviation (% p.a.)					
Investment	8.63%	8.35%	12.72%	10.24%	11.02%
Benchmark	7.45%	7.25%	9.98%	7.75%	7.90%
Median	6.86%	6.31%	8.53%	6.56%	6.87%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.85	0.81	0.41	0.62	0.35
Benchmark	0.67	0.71	0.44	0.66	0.43
Median	0.64	0.67	0.36	0.56	0.29
Sortino Ratio (p.a.)					
Investment	1.43	1.37	0.55	0.88	0.48
Benchmark	1.10	1.18	0.62	0.96	0.62
Median	1.04	1.11	0.49	0.80	0.42

Zenith benchmarks Funds in the 'Multi-Asset – High Growth' peer group against the Zenith Composite High 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 (before fees) over rolling five-year periods. The benchmark is a weighted composite of indices based on the Fund's Strategic Asset Allocation (SAA).

All commentary below are as at 31 August 2023.

The Fund has performed strongly over all periods of assessment, producing top quartile returns over all time frames, strongly aided by its bias to Equities and the enhanced investment exposure (due to the leverage facility).

The Fund's volatility, as measured by Standard Deviation, has been higher than that of the Zenith assigned benchmark and median manager over all periods of assessment (given the Fund's leveraged exposure).

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	4.12%	2.86%	0.85%	1.57%	0.41%
Monthly Excess (All Mkts)	66.67%	61.11%	61.67%	60.83%	58.40%
Monthly Excess (Up Mkts)	71.43%	71.43%	77.78%	74.03%	75.31%
Monthly Excess (Down Mkts)	60.00%	46.67%	37.50%	37.21%	27.27%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	103.42%	100.47%	118.46%	124.78%	135.72%
Upside Capture	117.41%	112.23%	116.60%	121.55%	123.90%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	3.12%	3.44%	4.34%	4.39%	5.07%
Median	1.18%	2.10%	2.56%	2.29%	2.05%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	1.32	0.83	0.20	0.36	0.08
Median	-0.90	-0.75	-0.77	-0.95	-0.99

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	1.16	1.14	1.22	1.26	1.32
R-Squared	0.97	0.96	0.97	0.95	0.94
Correlation	0.99	0.98	0.98	0.97	0.97

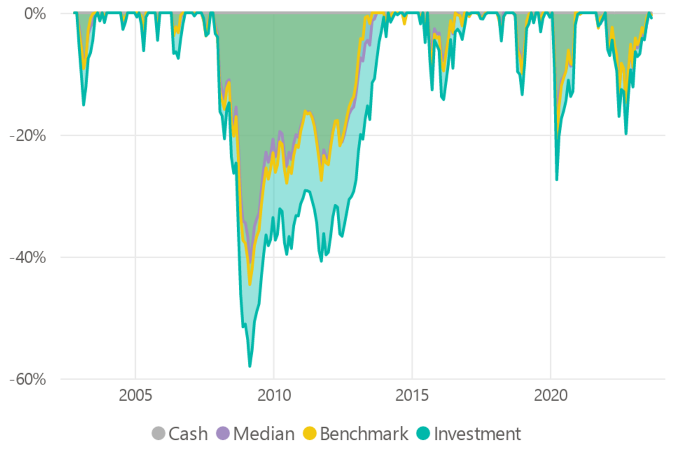
All commentary below are as at 31 August 2023.

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.

Pleasingly, the Fund has shown to perform strongly across a range of market conditions, commonly with a consistency ratio above 50%, over all periods of assessment. Furthermore, the Fund has traditionally demonstrated stronger performance in rising markets over falling 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 2023.

Given the Fund's high allocation to Equities and use of leverage (which magnifies losses), the Fund has tended to produce deeper drawdowns to that of Zenith's assigned performance benchmark and the median manager within the peer group. The Fund's largest recent drawdown was -27.39%, which was larger than that of the benchmark.

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 Chief Investment Officer, Dan Farmer to be integral to the operation and refinement of MLC's investment process. His departure would be deemed material and would warrant a reassessment of our rating.

Derivatives risk: The Fund may be exposed to derivatives both directly and on a look-through basis, which can be employed for multiple purposes. There are numerous risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations (relevant when purchasing an OTC option) or a particular derivative may prove difficult or costly to trade.

Currency hedging risk: Investors should be aware that the underlying Global Equities exposure includes an unhedged allocation and therefore the Fund is exposed to currency fluctuations. However, the Fund has the capacity to invest in hedged exposures and MLC will position the Fund to reduce currency risk when valuations are less compelling.

Factor concentration risk: Zenith believes there is the potential for scenarios to be correlated, which may give rise to factor concentration within the portfolio.

Performance risk: The investment process employed by the CMR team is differentiated in construct and as such, this may lead to the Fund's performance outcomes varying meaningfully from that of peers.

Security/asset selection

Employing a multi-manager approach, security selection involves identifying high-quality managers that have the requisite skills to enhance the Fund's ability to meet its targeted objectives. This is a multi-stage process that involves both qualitative and quantitative analysis of prospective managers.

This process is driven by the CMR team who maintains ongoing dialogue with asset class specialists across the Portfolio Construction and Special Capabilities teams. An initial screening process takes into consideration the following factors:

- Attractiveness of the manager's strategy
- Stability of the team
- Performance track record
- Previous favourable experience or knowledge of a manager

Once a shortlist has been established, the team undertakes an extensive due diligence program on those managers. This is a multi-stage process that commences with manager meetings to ascertain whether their processes and philosophy are consistent with the Fund's investment objective. A determination will then be made on the relative merits of each manager and a judgement is formulated. Further in-depth research is conducted on the most attractive managers, with commercial requirements such as fees and capacity also considered.

Managers deemed suitable for the Fund will then be subject to further scrutiny by the Operational Due Diligence team, which is independent to the portfolio management team. At this point in the process, back-up managers will also be selected and monitored with a view of possibly replacing existing managers or an appointment at a later date.

Zenith notes that MLC internally manages a tailored Australian Equities portfolio that seeks to produce a return broadly consistent with that of the S&P/ASX 200 Accumulation Index. Adopting a factor-based approach, the portfolio focuses on quality stocks and incorporates scenario insights derived by the CMR team together with a Barra-based optimisation process.

Overall, Zenith is supportive of the level of specialist resourcing supporting the CMR team, particularly with respect to addressing non-investment risks such as operational and legal due diligence.

Responsible investment approach

MLC has an established Responsible Investment Policy (RIP) that is reviewed quarterly and ratified by the MLC Investment Committee (IC) semi-annually. The RIP was last updated in June 2021; it is publicly available for viewing and comprises three core elements, including:

- Incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes
- Incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which MLC invests

MLC has yet to become a United Nations Principles for Responsible Investment (PRI) signatory. MLC is however a member of the Responsible Investment Association Australasia (RIAA) and the Investor Group on Climate Change (IGCC).

MLC created the new position Head of Responsible Investment, with James Tayler appointed to the role in June 2022. Tayler is responsible for guiding the stewardship and engagement strategy, and the broader integration of ESG factors into the investment process.

At a Fund level, MLC does not have any specific ESG exclusions. Rather, given the multi-manager structure, MLC's approach is limited to its manager selection and monitoring process, by ensuring that its underlying managers are considering ESG risks alongside all relevant investment risks. This extends to undertaking an annual review of managers' ESG policies, and evidencing the incorporation of ESG Guiding Principles into their decision making and proxy voting processes. Furthermore, ESG considerations are included within the team's scenario-based framework. Overall, Zenith is comfortable with MLC's ESG approach.

Portfolio construction

The portfolio construction process is supported by the MLC IC and overseen by the CMR team on a daily basis. The MLC IC performs a broad fiduciary role and is responsible for ratifying changes to asset allocation and manager selection. The MLC IC is represented by a range of key stakeholders from across the business including investments, risk, sector research and governance. Zenith is supportive of the role of the MLC IC, noting the additional 'sounding board' that is available to the CMR team.

On a day-to-day basis, the CMR team is responsible for managing the portfolio, with Farmer retaining the final veto on all portfolio decisions. Zenith notes that Farmer promotes a collaborative and consensus-based approach, which in our opinion, further strengthens the investment process.

As detailed earlier, the CMR team utilises a proprietary investment futures framework based on a scenario-based model that combines assumptions regarding macroeconomic drivers and the behavioural environment, in an attempt to capture real-world complexities. The starting point of each scenario is an assumption on the level of growth and inflation in the economy, which forms the basis for the team to forecast the action of policymakers. These forecasts form the foundation for estimating cash rates, bond yields, PEs, and ultimately asset class returns.

The Fund's SAA is derived through trial allocations and optimisation analysis. In addition, Barra-based scenario testing is conducted to provide an independent assessment of MLC's scenario-based analysis. Outcomes that exhibit conflicting results will be investigated and clearly understood, with a test for market liquidity and transaction costs also taken into consideration (across both normal and extreme markets). The CMR team also reference competitor offerings to gauge market relativity for broader allocation ranges.

The SAA is set by the MLC IC. Ongoing monitoring of the probabilities for the scenario-based model are updated at least quarterly by McCaw and the team. Generally, a formal review of the Fund's SAA is conducted every three years with little change expected from one review to the next.

To assist with managing risk, the CMR team engages the insights of a dedicated Derivatives team which is led by Head of Derivatives, Clifford Bayne and has a remit to structure tailored solutions. The team seeks to identify derivative strategies that preserve capital in a highly negative scenario. A key feature of the process is the ability to incorporate holdings-based analysis, including asymmetric derivative pay-offs, through the risk management framework.

Should the CMR team choose to hire or terminate a manager, an implementation team is engaged to trade the portfolio to the new target. Manager allocations are also monitored closely by the Exposure Management and Trading (EM&T) team, led by David Djukanovic, who provide notifications should exposures deviate from targeted levels by +/- 2%. Where these levels are reached, rebalancing is triggered, with asset allocations restored halfway back to target weights (through the use of cash flows, derivatives and/or transacting physicals). This rebalancing methodology has been determined to be the most efficient, based on proprietary research. The CMR team has the authority to override rebalancing triggers should it believe this to be warranted. As such, the EM&T and CMR teams work closely together to ensure the most effective and efficient outcomes.

Zenith considers MLC's portfolio construction approach to be sound, effectively combining its scenario-based model with market-based insights. In our opinion, the qualitative views of the team are more instructive to the positioning of the Fund, as opposed to the output of the scenario-based model.

Risk management

Risk management is engrained in MLC's investment process and further augmented by a specialist risk function. It is implicit via the application of the scenario-based investment process, which generates forward-looking risk estimates, and are used to build the Fund's asset allocation and derivative overlay.

The CMR team employs option overlay strategies as a mechanism for providing downside protection against specific tail-risk events. Generally, these option positions will be self-funding and have a long volatility profile (i.e. profit during 'risk-off' events). Zenith is supportive of MLC's segregated approach to derivatives implementation, noting the level of specialisation required to efficiently execute these strategies.

Supporting MLC's risk management framework are BarraOne and FactSet, third party systems that we believe collectively enable the Investment and Portfolio Analysis teams to produce timely and detailed analytics.

BarraOne provides analysis of Equity-based strategies and has been employed to provide analysis and stress testing on Multi-Asset strategies. These systems are also complemented by MLC's long-standing data warehouse, DPAT. This allows for the utilisation of an extended data set relative to what would normally be available with a direct feed from a custodian.

MLC's Portfolio Enablement team comprises well-credentialed risk management professionals with the ability to synthesise the portfolio into a range of risk metrics and factor exposures. In Zenith's opinion, MLC's risk management approach is consistent with best practice.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.22 % p.a.	0.91 % p.a.
Management Fees and Costs	1.14 % p.a.	0.83 % p.a.
Transaction Costs	0.00 % p.a.	0.04 % p.a.
Performance fees as at 30 Jun 2022	0.08 %	0.04 %
Performance fees description	Performance fees may be charged by underlying investment managers	
Management Cost	1.10 % p.a.	0.81 % p.a.
Buy / Sell spread	0.15 % / 0.15 %	0.17 % / 0.16 %

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 cost of all flagship 'Multi-Asset - High 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 expensive relative to the broader peer group; however, this is to be expected given the additional oversight required to manage the leverage component of the portfolio. In addition to the costs in the table above, the Fund will incur borrowing costs associated with the leverage facility, which is expected to be approximately 1% p.a. of the portfolio's NAV.

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 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 includes the combined IOOF and MLC businesses, with the latter acquired from National Australia Bank in June 2021. Insignia encompasses a range of investment capabilities including Multi-Asset and single-sector managers, across multiple asset classes and strategies. Across the firm's multiple product sets, it manages $A 85.9 billion as at June 2023.

The broader integration of the IOOF and MLC businesses is largely complete, with clarity in terms of product strategy, team structure, harmonising investment processes and governance approaches.

In our opinion, the process has been seamless with Insignia effectively augmenting the strengths of its own platform (i.e. asset allocation and manager selection), with the strongest elements of the MLC offering, most notably in managing Private Equity (PE), Alternatives and downside protection strategies.

As at 31 July 2023, MLC managed approximately $A 1.4 billion at the strategy level and $A 195 million at the Fund level.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Dan Farmer	Chief Investment Officer	25	12	Melbourne, Australia
Ben McCaw	Co-Head Choice Diversified Portfolios	20	15	Sydney, Australia
Grant Mizens	Co-Head Choice Diversified Portfolios	17	17	Sydney, Australia
Kerry Gill	Fund Strategist	21	18	Sydney, Australia
Stanley Yeo	Head of Strategy & Equities	22	13	Melbourne, Australia

The team is led by Dan Farmer, Chief Investment Officer (CIO) and comprises 48 professionals, split across Melbourne and Sydney. Farmer has been the CIO of the heritage Insignia/IOOF business since 2017 and was formally appointed CIO of the combined MLC and Insignia team in July 2022.

Farmer joined in 2010, originally to manage an Australian Equities portfolio. Prior to Insignia, 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, who assumed the role in early 2023, following the departure of Al Clark, previously Head of Diversified Portfolio Management (Choice).

McCaw is a long-standing member of the CMR team and contributor to MLC's investment futures framework, including the derivation of strategy and the tailoring of sector exposures. 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 MLC's Multi-Asset product suite is the MLC Investment Committee (IC). Chaired by Farmer, the MLC 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), and one non-voting member, Michele Streight, Head of Investment Governance. The MLC IC is responsible for ratifying changes to asset allocation and manager selection, ensuring all relevant stakeholders have input into the process.

MLC'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.

Zenith highlights that over the past few years, the combined MLC and IOOF investment platform has evolved into one of the strongest in the peer group, particularly across asset allocation and managing niche asset classes such as Alternatives and Private Equity. In our opinion, the CMR team is of high quality, displaying a balance between academic thinking and broader market awareness.

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 – High Growth' peer group (greater than 80% exposure to growth assets and up to 100%) 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 High Growth Benchmark, which has a defensive/growth split of 5%/95%. 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 (0%)

International Fixed Interest: Bloomberg Global Aggregate Index Hedged $A (0%)

Alternatives (Defensive): HFRX Global Hedge Fund Index $A (3%)

Australian Equities: S&P/ASX 300 Index (47.5%)

International Equities (Unhedged): MSCI World ex-Australia Unhedged Index (19.75%)

International Equities (Hedged): MSCI World ex-Australia Hedged Index (19.75%)

Australian Listed Property: S&P/ASX 300 A-REIT Index (2.5%)

Global Listed Property: FTSE EPRA Nareit Developed Rental Index TR Hedged $A (2.5%)

Alternatives (Growth): HFRX Global Hedge Fund Index $A (3%)

To provide greater insight into a Fund's risk/return profile, Zenith decomposes targeted exposures between two broad categories – defensive and growth. While we are cognisant that our designation of asset class exposures between these categories may vary from that as 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 exposures 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: 28 Sep 2023

Role	Analyst	Title
Analyst	Darryl Ding	Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austn. Fixed Income
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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As at the date this report was issued, a related party of MLC Asset Management which provides financial planning services is, or has been, a subscriber to Zenith's research services within the last 12 months.

Rating history

As At	Rating
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
15 Oct 2018	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.