

## MLC Real Return Assertive

Rating issued on 26 Sep 2024 | APIR: MLC0667AU | mFund: MLC03

### Investment objective

To exceed the Consumer Price Index (CPI) by 4.5% p.a. (net of fees) over rolling seven-year periods and at the same time, limiting the risk of negative returns over this time frame.

Manager	MLC Asset Management
Distributor	MLC Asset Management
Sector	Multi-Asset \ Real Return
Investment Style	Active
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - AA Unconstrained
Investment Timeframe	5-6 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	\$20,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Aug 2024)	\$568.58M
Management Cost	0.95% p.a. Incl. GST
Performance Fee	Performance fees may be charged by underlying investment managers
Buy / Sell Spread	0.10% / 0.10%
Inception Date	05 Dec 2005

### Fund facts

- Flexible investment strategy targeting a real return above inflation
- Multi-manager approach operating within a differentiated investment futures framework
- Strong capabilities across capital markets research (CMR) and specialist asset class research

### Viewpoint

The Fund, managed by MLC Asset Management (MLCAM), invests across a range of growth, defensive and alternative-based assets. MLCAM's Sydney-based capital markets research (CMR) team is responsible for managing the strategy, employing a differentiated 'investment futures' framework. 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). In addition, the Fund's Real Return objective offers investors an avenue for inflation-linked outcomes.

The team is led by Dan Farmer, Chief Investment Officer (CIO) and comprises 42 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 bottom-up manager selection (via each sector team). In Zenith's opinion, MLCAM's resourcing across specialist areas such as asset allocation, alternatives and 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 share responsibilities for the day-to-day management of the Fund. McCaw and Mizens are both long-standing members of the CMR team, and are supported by a further four dedicated resources.

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 to forecast a range of asset class expected returns. Zenith considers the asset allocation process to be well-structured and applied in a consistent manner, incorporating a range of inputs over different investment horizons.

Zenith notes that the approach is intuitively appealing, albeit mapping the output to expected asset class returns, potential investment horizons and the underlying portfolio, is complex and requires a deep understanding of the framework. 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.

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. The Australian equities sector also includes an exposure to MLCAM's internally-managed, tailored strategy which screens the universe based on a range of quality filters.

To assist with managing risk, the CMR team engages the insights of a specialist derivatives team which is responsible for identifying and structuring a range of hedging strategies, typically to protect capital in a risk-off environment. Zenith considers this specialist support to be a competitive advantage, particularly with respect to monitoring market pricing, liquidity and implied volatilities.



## Fund analysis

### Fund characteristics

Constraint	Value
Cash	0% to 30%
Fixed income	0% to 50%
Australian equities	0% to 40%
Global equities	10% to 80%
Listed property	0% to 20%
Listed infrastructure	0% to 20%
Alternatives	0% to 65%
Gearing	0% to 25%
Defensive assets	0% to 60%
Growth assets	40% to 100%

### Investment objective and philosophy

The Fund's investment objective is to exceed the Consumer Price Index (CPI) by 4.5% p.a. (net of fees) over rolling seven-year periods and at the same time, limiting the risk of negative returns over this time frame.

To meet the objectives, the investment team has the flexibility to adjust the portfolio composition in response to changing market conditions. The Fund is not managed to a strategic asset allocation (SAA). Instead, the asset allocation is an outworking of the portfolio that has the highest probability of achieving the investment objective and preserving capital. In Zenith's opinion, this represents a natural extension of the CMR team's differentiated scenario-based approach.

#### Top-down process

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 and are further grouped into buckets such as strong growth, weak growth, disinflation and middle ground. 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 MLCAM'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'.

Three types of asset allocation meetings occur each quarter between the CIO, portfolio managers and strategists; macro level, asset class and returns and application to portfolios. In practice, intra-quarter meetings related to the asset allocation group (AAG) occur on average a monthly basis. Based on the output of these meetings, 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, is informed by 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 outputs are 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's investment mandate is largely unconstrained in nature, permitting exposure to alternative assets (including illiquid assets) and strategies that include gearing and short selling. For investors subject to the constraints imposed by a traditional SAA framework, the Fund may be suitable as a satellite portfolio exposure. Such an approach takes into consideration the potential for the manager to adjust the Fund's asset allocation on both a frequent and material basis.

For those less sensitive to the composition of investment portfolios, the Fund may be appropriate for blending with other similarly structured strategies to achieve an outcome consistent with an investor's total return requirements. In isolation, the Fund would be considered a moderate to high risk investment proposition and warrant an investment term of at least five years.

The Fund has a Standard Risk Measure (SRM) of five to 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 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
<b>Negative screens**</b>	<b>Full/Partial</b>
Tobacco	Full
<b>PRI Status</b>	
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

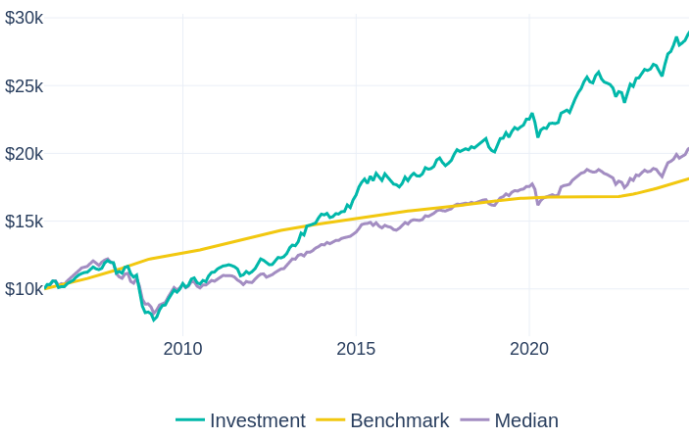
### Monthly performance history (% , net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*	BM2 YTD**
2024	0.66%	1.66%	2.26%	-2.16%	0.57%	0.70%	1.56%	1.10%					6.46%	2.95%	5.67%
2023	2.41%	0.09%	1.35%	1.08%	-0.30%	0.40%	1.33%	-0.36%	-1.51%	-1.48%	3.41%	2.92%	9.61%	3.85%	8.72%
2022	-1.93%	-0.89%	-0.33%	-0.38%	-1.03%	-2.62%	1.56%	-0.28%	-3.08%	3.02%	2.70%	-0.66%	-4.05%	1.25%	12.65%
2021	0.49%	-0.76%	2.64%	1.83%	1.81%	1.18%	2.10%	1.30%	-1.35%	-0.33%	2.14%	0.99%	12.64%	0.03%	8.14%
2020	2.04%	-3.02%	-5.06%	2.63%	0.77%	-0.21%	1.64%	0.15%	-0.14%	0.35%	3.07%	0.52%	2.46%	0.37%	5.40%

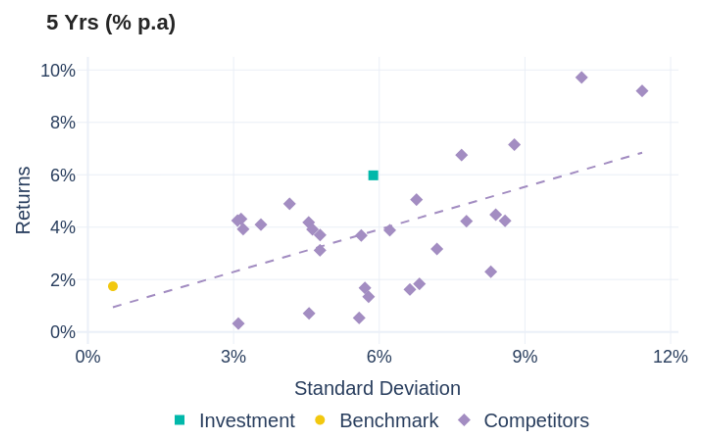
\*Bloomberg AusBond Bank Bill Index

\*\*CPI plus 4.5%

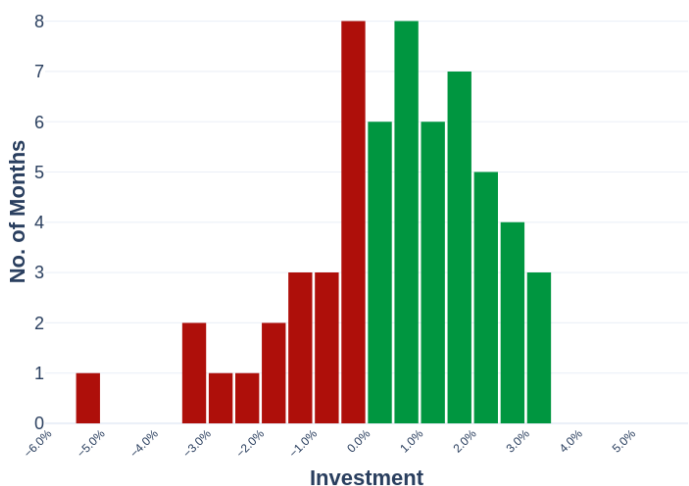
### Growth of \$10,000



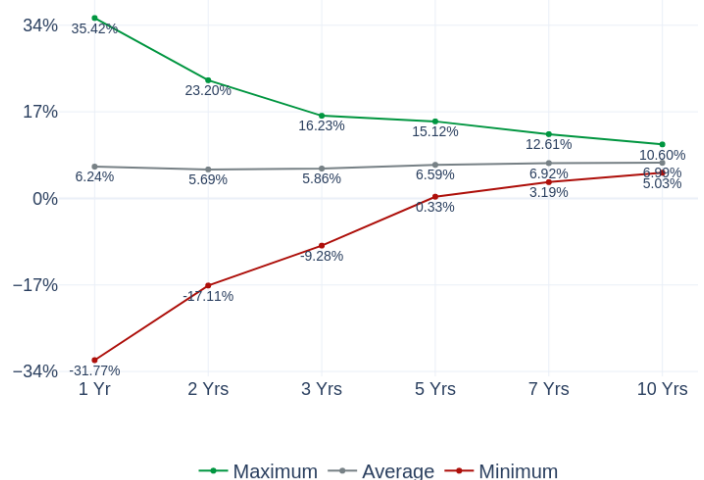
### Risk / return



### Monthly histogram



### Minimum and maximum returns (% p.a.)





### Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Investment</b>	<b>9.94%</b>	<b>4.33%</b>	<b>5.98%</b>	<b>6.36%</b>	<b>5.89%</b>
Income	6.76%	4.96%	5.29%	5.75%	6.00%
Growth	3.17%	-0.63%	0.69%	0.60%	-0.11%
<b>Benchmark</b>	<b>4.35%</b>	<b>2.68%</b>	<b>1.74%</b>	<b>1.89%</b>	<b>3.25%</b>
<b>Median</b>	<b>8.67%</b>	<b>2.83%</b>	<b>3.50%</b>	<b>4.03%</b>	<b>3.91%</b>
<b>Cash</b>	<b>4.35%</b>	<b>2.68%</b>	<b>1.74%</b>	<b>1.89%</b>	<b>3.25%</b>

### Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	11 / 29	9 / 29	5 / 25	2 / 7
Quartile	2nd	2nd	1st	1st

### Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Standard Deviation (% p.a.)</b>					
Investment	5.85%	5.69%	5.88%	5.74%	7.86%
Benchmark	0.05%	0.50%	0.51%	0.37%	0.59%
Median	4.97%	4.62%	5.31%	4.35%	6.22%
<b>Downside Deviation (% p.a.)</b>					
Investment	3.02%	3.36%	3.72%	3.32%	5.50%
Benchmark	0.00%	0.01%	0.01%	0.01%	0.00%
Median	2.43%	2.70%	3.82%	2.93%	4.56%

### Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Sharpe Ratio (p.a.)</b>					
Investment	0.96	0.29	0.72	0.78	0.34
Benchmark	0.00	0.00	0.00	0.00	0.00
Median	0.87	0.03	0.33	0.49	0.11
<b>Sortino Ratio (p.a.)</b>					
Investment	1.85	0.49	1.14	1.35	0.48
Benchmark	NaN	0.00	0.00	0.00	0.00
Median	1.78	0.05	0.46	0.73	0.14

Zenith benchmarks Funds in the 'Multi-Asset – Real Return' peer group against the Bloomberg AusBond Bank Bill Index. 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 was originally inception (December 2005) as the MLCAM Long-Term Absolute Return (LTAR) Portfolio, which was subject to a different set of constraints, return objective and time horizon (20 years) with the current mandate having been in place since July 2013. Given this, Zenith believes the Fund's performance before July 2013 is less representative of the current investment strategy.

The Fund's investment objective is to exceed the Consumer Price Index (CPI) by 4.5% p.a. (net of fees) over rolling seven-year periods and at the same time, limiting the risk of negative returns over this time frame.

All commentary below are as at 31 August 2024.

The Fund has seldom delivered upon its stated objective over the longer term. Notwithstanding this, the Fund has outperformed the median manager within the peer group over all periods of assessment, ranking in the upper quartiles of performance.

The Fund's volatility, as measured by standard deviation, has been above the median manager over all periods of assessment. Zenith views the Fund's risk-adjusted returns to be strong over all time periods.



## Relative performance

### Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	5.58%	1.65%	4.23%	4.47%	2.64%
Monthly Excess (All Mkts)	75.00%	52.78%	61.67%	60.00%	59.82%
Monthly Excess (Up Mkts)	75.00%	55.88%	64.91%	61.54%	60.63%
Monthly Excess (Down Mkts)	0.00%	0.00%	0.00%	0.00%	0.00%

### Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	0.00%	4148.15%	8376.91%	8376.91%	8376.91%
Upside Capture	222.91%	168.83%	352.91%	337.77%	181.48%

### Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	5.84%	5.53%	5.84%	5.71%	7.96%
Median	4.96%	4.44%	5.27%	4.32%	6.32%

### Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	0.96	0.30	0.72	0.78	0.33
Median	0.87	0.03	0.33	0.50	0.10

### Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	19.98	4.10	1.25	1.75	-1.79
R-Squared	0.04	0.13	0.01	0.01	0.02
Correlation	0.19	0.36	0.11	0.11	-0.13

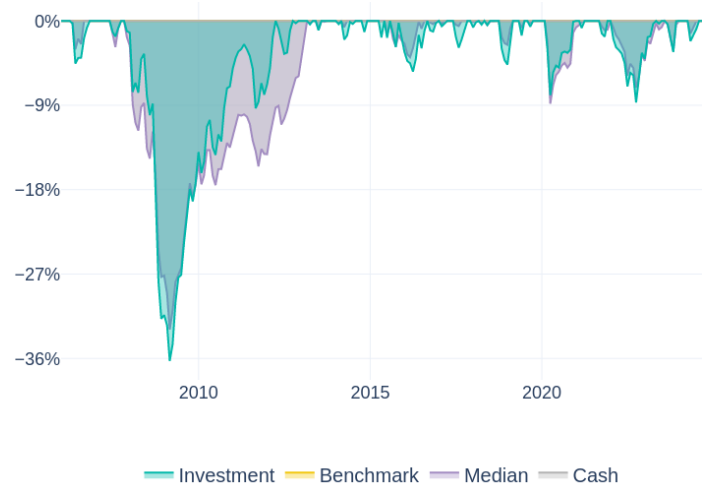
All commentary below are as at 31 August 2024.

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.

The Fund has achieved this outperformance ratio over all periods of assessment. Given the Real Return objective and assigned Cash benchmark, an assessment of excess performance in down markets is not applicable.

### 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's recent drawdown profile has been similar when compared to that of the median manager within the peer group, which is supportive of MLCAM's focus on downside protection.



## 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.

**Inflation risk:** In an environment where inflation is high and remains elevated for a sustained period, there is a risk that MLCAM underperforms the Fund's CPI objective, due to the lack of portfolio exposures with underlying inflation linkages.

**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 holds an exposure to illiquid assets in the alternatives sector. 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 alternatives have allowed the team to internalise some of its private assets program and also expand MLCAM's 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 has an established Responsible Investment Policy (RIP) that is reviewed and ratified by the MLCAM Investment Committee (IC) annually. The RIP was last updated in May 2023; 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 MLCAM invests

MLCAM 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).

Head of Responsible Investment, James 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, MLCAM has only one specific exclusion, whereby tobacco manufacturing companies are excluded from listed equity and fixed income exposure. Given the multi-manager structure, MLCAM'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 MLCAM's ESG approach.



## Portfolio construction

The portfolio construction process is supported by the MLCAM IC and overseen by the CMR team on a daily basis. The MLCAM IC performs a broad fiduciary role and is responsible for ratifying changes to asset allocation and manager selection. The MLCAM 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 MLCAM 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 asset allocation is derived through trial allocations and optimisation analysis. In addition, FactSet-based scenario testing is conducted to provide an independent assessment of MLCAM'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 applied (across both normal and extreme markets). The CMR team also reference competitor offerings to gauge market relativity for broader allocation ranges.

The final asset mix is set following a detailed and formal review by the MLCAM IC, with ongoing monitoring of inputs such as valuations and economic data for the scenario-based model updated at least quarterly by McCaw and the team, with cross-checking done via the risk team's FactSet analysis.

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, who 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. 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 most efficient rebalancing mechanism (i.e. via cashflows or physical redemptions).

Zenith considers MLCAM'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 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)	1.09% p.a.	0.90% p.a.
Management Fees and Costs	1.01% p.a.	0.80% p.a.
Transaction Costs	0.05% p.a.	0.07% p.a.
Performance fees as at 30 Jun 2023	0.03%	0.04%
Performance fees description	Performance fees may be charged by underlying investment managers	
Management Cost	0.95% p.a.	0.76% p.a.
Buy / Sell spread	0.10% / 0.10%	0.14% / 0.13%

*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 - Real Return' funds surveyed by Zenith.

Zenith notes that the Fund's management cost structure is higher than the broader peer group. Moreover, there exists an underlying investment cost for alternative investments which can vary and includes the possibility of a performance fee levied at the underlying manager level.

*(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, Insignia 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, MLCAM managed approximately \$A 789 million at the strategy level and \$A 547 million 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, 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 Gameraov (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 includes those funds that are permitted to invest across asset classes and investment strategies. Traditionally, asset class exposures have included equities, fixed interest, property, infrastructure and cash. However, in more



recent times there has been an increased willingness by sector participants to incorporate alternative strategies in an effort to enhance portfolio outcomes. With further innovation also sighted in the area of active asset allocation, this has led to a more continuous flow of products that seek to cater to the needs of a growing and more diverse range of investors.

Zenith believes that Multi-Asset funds can no longer simply be deemed the domain of those seeking a low cost and diversified investment solution. Rather, these strategies are also likely to appeal amongst more sophisticated investors who are once again being drawn to the concept of active asset allocation as a core driver of portfolio outcomes. Furthermore, it is feasible that the sector will continue to gain in popularity amidst an environment of increased regulation and statutory oversight.

Zenith categorises the Fund within the 'Multi-Asset – Real Return' peer group. Members of this category target an absolute return outcome, and unlike their traditional Diversified counterparts, are not subject to a conventional strategic asset allocation (SAA) framework. Instead, portfolio positions are determined through a continuous assessment of investment markets, with portfolio managers provided ample flexibility in setting asset class exposures.

Given the wide range of funds offered in this peer group and the variable nature in which they are managed, Zenith does not measure their performance against benchmarks that have an implicit SAA setting. Instead, we measure their success against a range of absolute return benchmarks including cash (as measured by the Bloomberg AusBond Bank Bill Index) and one of Zenith's tailored Consumer Price Index (CPI) benchmarks. Further detail on this Fund's assigned CPI+ benchmark is provided in the 'Absolute performance' 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
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## Zenith rating

### Report certification

Date of issue: 26 Sep 2024

Role	Analyst	Title
Analyst	Alan Chuong	Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austr. 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
26 Sep 2024	Recommended
26 Sep 2023	Recommended
11 Apr 2023	Recommended
20 Sep 2022	Recommended
17 Jun 2022	Recommended
29 Sep 2021	Recommended
28 Sep 2020	Recommended
02 Dec 2019	Recommended
19 Sep 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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