For adviser use only

MLC FirstChoice Managed Accounts

Guide to Asset Allocation
& Portfolio Construction

20 October 2023

Contents

Our core investment principles

All successful investment programs begin with a clear, logical and defendable investment philosophy. That philosophy is defined by a set of key beliefs on the drivers of financial markets and investor behaviour as well as the key principles applied to navigating those markets as an investor. MLC's core investment principles are summarised below and form the foundation of our approach to designing, constructing and implementing managed account portfolios.

1 Acknowledge the unknowable

The behaviour of global economic and financial markets is both complex and subject to unavoidable uncertainty. Our process is grounded in this reality and so we don't forecast the unforecastable; rather, we focus our efforts on building a comprehensive understanding of the many possible future investment environments that could impact investor portfolios.

2 Risk managers, not avoiders

Achieving attractive returns almost always requires exposure to some risk, but not all risks are likely to provide attractive returns. Our role is to assess potential market outcomes and position portfolios so as to maximise the chance of meeting investor return expectations while minimising exposure to unnecessary or unrewarded risks.

3 Diversification matters but must be intelligent

We believe that sensible diversification is an important source of portfolio risk reduction. However, avoiding the pitfalls of excessive or ineffective diversification requires a deep and detailed understanding about the source and nature of potential risks, including how they may vary through time.

4 A pragmatic approach to active management

We believe that uncertain and imperfect markets provide value-add opportunities for various forms of active management. However, while inefficiencies clearly exist, some are easier to access and exploit than others and we must account for this when selecting investments and building portfolios.

5 Seek robust, not 'optimal' portfolios

We believe portfolios should be constructed with the aim of maximising risk and return trade-offs across multiple possible future investment environments, rather than 'optimising' a portfolio for the environment deemed most likely to occur.

6 Conviction and commitment

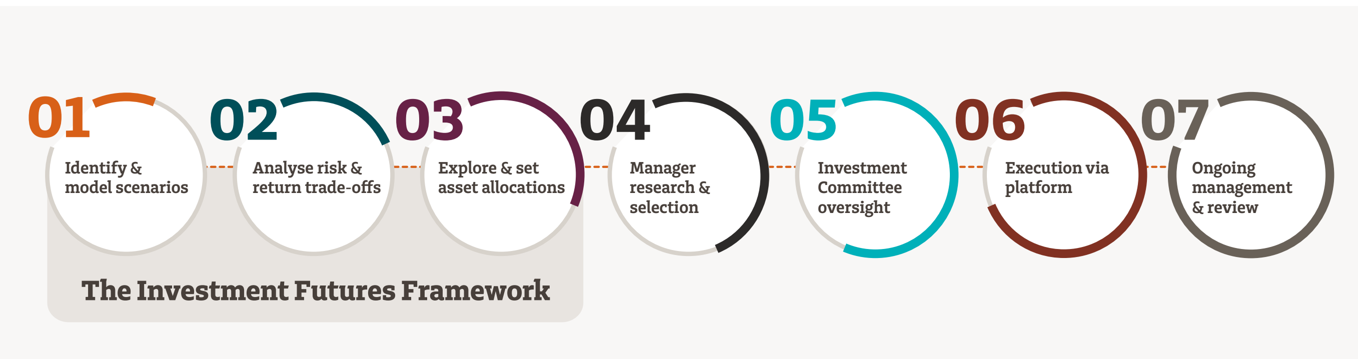
Successfully achieving excess returns from active management isn't easy. It requires a long-term focus and the right investor temperament, supported by structures and incentives that reward patience and often perseverance.

7 Execution last but not least

Even the best ideas from the most talented of investment staff can ultimately count for naught without a well-structured process for timely and efficient execution. This is particularly acute for the operation of managed accounts.

8 Good governance a sail, not an anchor

We believe in the value of good governance and decision-making structures – ones that promote healthy debate, discourage groupthink, favour decisive decision-making and embed accountability.



Our Investment Futures Framework

MLC's scenarios-based approach to asset allocation

In an unpredictable and constantly changing world, the Investment Futures Framework helps us continually identify the very wide range of economic and market conditions, or 'scenarios', that could occur. Our investment team use the insights from this analysis to adjust portfolio asset allocations, offering the potential for more effective risk management and the opportunity for more consistent returns through a wide range of market conditions.

01

Define the Scenarios

- Define and characterise distinct scenarios, including unlikely-but-impactful ones
- Calibrate economic variables, assumptions and relationships

02

40x Scenarios tested

Steady State
Deflation
Stagflation
Recession
Slowdown
Recovery
Profit reversion
Credit expansion
Asian growth
Financial collapse
Global conflict
Productivity shock
Speculative bubble
Oil price shock
Pandemic

Model Capital Market Assumptions

- Generate scenario-specific asset class returns, risks and correlations
- Assign scenario probabilities

03

Explore Potential Asset Allocations

- Iterative process to review potential asset mixes against these scenarios
- Identify key risks, required trade-offs and opportunities for diversification

04

Adopt Asset Allocations

- Apply portfolio objectives and constraints
- Focused on resilience across multiple scenarios, not maximising returns under a single base case

05

Review Cycle

- Review of scenario probabilities, capital market outputs and asset allocation impacts (quarterly)
- Calibration of scenario parameters (annual)
- Framework improvements & refinements (quarterly)

Our Investment Futures Framework

What is it and how do we use it?

This framework and our broader investment process is grounded in the reality that there is considerable uncertainty about what the future will hold. We attempt to manage this reality by building a comprehensive understanding of the possible future investment environments (scenarios) that could occur, focusing not just on a single base case or those things most likely to occur, but also the unlikely and potentially significant environments that could impact portfolios.

Our model consists of 40 defined (and regularly calibrated) scenarios, providing a contemporary perspective on the wide range of potential future outcomes for asset markets as well as insights as to the nature and extent of underlying portfolio risks and how these may vary through time.

The scenario modelling outputs form the basis of our medium-term capital markets assumptions, while for our portfolio managers, it provides a consistent lens with which to assess risk-reward opportunities, thereby serving as the key input to exploring and establishing our portfolio asset allocations.

How are our asset allocations set and reviewed?

Long-term strategic asset allocations are calibrated on a 10-year horizon and formally reviewed every three years (or as required by market events or major model enhancements).

Dynamic asset allocation positions are evaluated on three-, five- or seven-year investment horizons. Noting that MLC does not believe sufficient evidence exists to support the long-term value add of dynamic programs with materially shorter time horizons.

Assumptions underpinning these dynamic positions are updated on a calendar quarter basis, including all asset class forecasts.

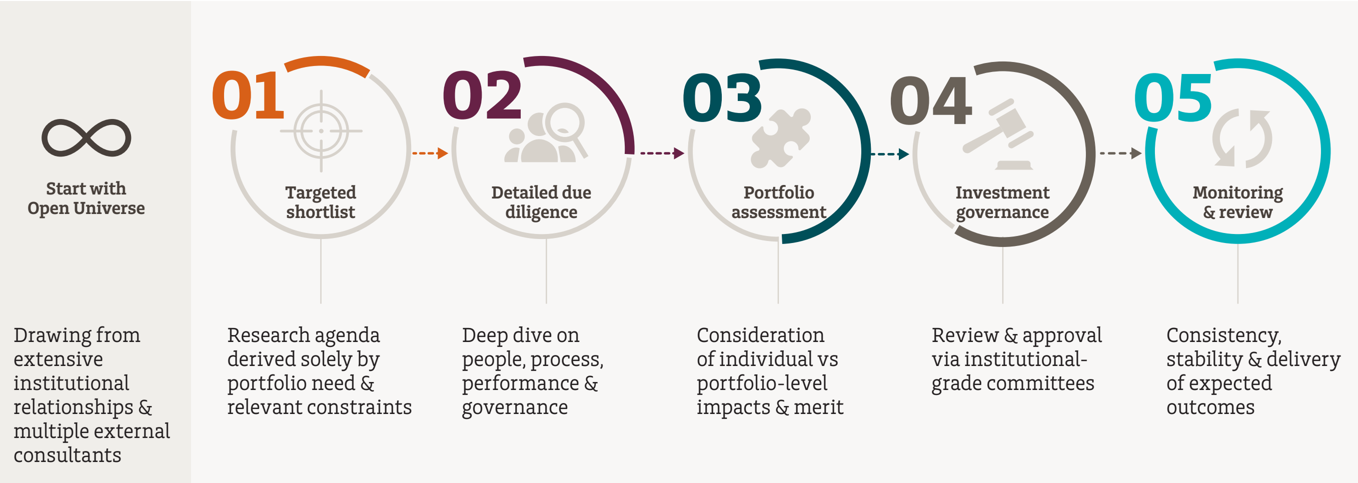
The MLC FirstChoice portfolios are constructed based on our five-year, forward-looking asset allocation views.

What differentiates our process?

We believe there are a number of key advantages to our approach vs traditional SAA frameworks, including:

- Potential risks, returns and correlations are model outputs, not inputs. These variables are scenario dependent and not fixed.
- Our process is essentially a stress test by design, rather than a stress test tacked onto an existing framework.
- We don't anchor to base case or most likely scenarios, believing this embeds an upfront bias, potentially oversimplifies assumptions, and hence limits the understanding of the potential distribution of outcomes; and
- This culminates in the construction of portfolio asset allocations that seek to be robust across a range of potential future outcomes rather than 'optimal' under a narrow set of assumptions.

Manager research & selection



Process summary

Having identified the need for a specific portfolio exposure, the capital markets research team works in conjunction with our sector portfolio managers to select a suitable vehicle for portfolio implementation. This may be an active strategy, a factor-based option or a passively managed market exposure. Importantly, the initial universe of potential options is restricted only by platform and any client-specific constraints.

The sector team's research agenda is driven solely by the requirements of our investment portfolios. The team does not produce mass sector coverage, are not artificially limited to in-house research universes, and they operate with the freedom to explore strategies and draw insights from a wide array of sources, including external ratings organisations. The combination of freedom and focus ensures maximum capacity for detailed manager due diligence and ongoing review.

Our research process is formalised, disciplined and transparent. Investment selection recommendations are subject to critical peer review, discussion and debate, after which final approvals are required from our institutional-grade investment and investment operations committees. The entire process is also subject to oversight from our internal risk and governance functions. Beyond initial due diligence and approval, all underlying managers/vehicles are subject to continual monitoring to ensure they are delivering to agreed expectations and continue to meet overall portfolio needs.

What we look for in our managers

We believe that successfully extracting excess returns from active management requires patience and often perseverance. We take a long-term, through-the-cycle view on manager alpha potential and subsequently target a low level of manager turnover, with some of our best-quality managers remaining in our portfolios for more than a decade.

While the criteria for manager assessment is long and varied, the framework outlined below provides a high-level summary of the key categories and underlying principles we apply.

Minimum Hurdle	Demonstrate an above peer average assessment across their people, process, corporate parent and long-term performance track record
Genuine Skill	Avoid managers where analysis suggests excess returns are driven by factors which can be replicated at a lower fee or accessed passively
Differentiation	Seek diversity not just in security selection, regions, sectors and factors (outputs) but also in philosophy, approach and insights (inputs)
Tangible Value	Is the alpha potential worth paying for and does alignment exist between manager and investor interests?
Portfolio Value	**With standalone value established, is the strategy likely to add value at a portfolio level?**

Portfolio construction considerations

We seek to diversify portfolio exposures along several dimensions, including style (growth, value, etc), investment approach, market capitalisation or sector focus and geography. Optimising for only one or two of these dimensions runs the risk of creating imbalances or undesirable tilts within portfolios, ultimately leading to a more volatile profile of excess returns.

We recognise the inherent bluntness of broad labels such as 'growth' or 'value' and that investors positioned either side of this divide can endure long periods of underperformance. We therefore avoid structurally skewing the portfolio too heavily into specific styles or factors and seek managers with a pragmatic approach to implementing their investment philosophies.

Current capital market forecasts

Our forecasts for potential asset class risks and returns are an outcome of the Investment Futures Framework.

These forecasts aren't merely a historical return with volatility applied, nor the average expected return of a single 'base case' market scenario. Instead, they represent our probability-weighted assessment for all relevant asset classes across 40 distinct market scenarios.

The chart below outlines our current forecast return results, presented across three metrics.

a. Real return expectations over the next five years based on our current probability weighting of potential market scenarios ***(diamonds)***.

b. Real return expectations over the next five years based on the probability weighting of market scenarios in a long-term, equilibrium steady state world ***(horizontal lines)***.

c. As an indicator of how uncertain these returns may be, we've taken the bottom (and top) 10% of the scenario real returns and calculated the probability-weighted average in those 'tail' outcomes to provide a return range. This provides further context on the potential distribution of returns, beyond more traditional point estimates ***(coloured bars)***.

40 scenario potential real returns (June 2023)
5 years, 0% tax with franking credits, pre-fees, pre manager alpha

Source: MLC Asset Management Limited

Current strategic asset allocation views

Global versus domestic equities

Portfolios are currently constructed with an overweight to global equities consistent with our assessment of the medium-term risk and reward potential. On a nearer term view, we believe the Australian economy is more susceptible to economic weakness owing to the relatively strong transmission mechanism between RBA rate rises and the consumer, as well as the possibility that any Chinese stimulus efforts will be more modest and less commodity-intensive than in prior cycles. Structurally, global equity markets also offer significant regional, sector and security diversification vs the relatively concentrated domestic market. The SAA still embeds a meaningful home bias when compared against global indices. We believe this remains appropriate for Australian investors due to the more direct linkage with local CPI, the typically higher yield and appeal of franking credits. This balance is more acute for the Conservative 30 portfolio where the above attributes are arguably more attractive than for the high-risk profiles.

Structural overweight to domestic small cap

As per the above, we see a more fruitful stock selection opportunity set combined with an increase in underlying sector diversification within the ASX small and mid cap segments. We believe this will provide for better risk-adjusted returns through time vs a large cap dominated portfolio. We do believe however that a reduction in this total overweight is currently prudent given relative likelihood and timing of an economic slowdown remains higher in Australia, a scenario in which the small and mid cap markets segments tend to struggle, even with a more favourable earnings and valuation starting point.

Real asset exposure via property and infrastructure

We believe real asset exposure provides portfolio diversification benefits vs equities and bonds, particularly within inflationary environments. This tends to be driven by the relative certainty of cash flows, paid out as distributions from these 'mid-risk' asset classes. From a strategic perspective we have a preference for global listed property owing to the deeper, more diversified and less concentrated opportunity set vs that of the Australian REIT market. Tactically, the rapid pace of central bank rate rises and increase in yields present a balanced outlook of improved valuations, despite an inherent tension between rental income/receipts and debt servicing costs.

A more constructive view on duration risk

While the rise in fixed income yields has largely restored the 'defensive' nature of nominal bonds, a number of factors temper our enthusiasm so far as taking on additional interest rate risk. For one, the path to 'normalised' inflation is unlikely to be a smooth one, both in terms of the ultimate destination (what is normal?) and the journey to get there. With the potential for ongoing inflation spikes, volatility in long term market rates is likely to persist for some time. Secondly, the continued strength in underlying economic and corporate fundamentals, particularly in the US suggests that opportunities in credit markets may be more attractive on a risk-adjusted basis. We remain cautious on nominal debt against the uncertain inflationary outlook and, as such, continue to carry less interest rate risk in our portfolios (than a traditional fixed interest benchmark) while retaining an overweight allocation towards high-quality and/or opportunistic floating rate credit opportunities.

Cash allocation

For the conservative, moderate and balanced portfolios, our current cash allocations reflect platform minimums, including the recent reductions from the CFS trustee. In the case of the Growth & High Growth portfolios, we have maintained a minimal cash allocation for general liquidity purposes only as we see the diversification attributes of the fixed income program being valuable to what is a meaningfully higher growth asset exposure in these two model portfolios.

Alternative assets

While we believe in the value a well-constructed alternatives program can bring to a multi-asset portfolio, the highly specialist and esoteric nature of these strategies often means that access and pricing via platforms can be challenging, as is currently the case via CFS FirstChoice. Should sufficient options become available that meet our stringent fund selection and portfolio construction criteria we will revisit the appropriateness of a strategic allocation to this asset class.

Current asset allocation & manager selection

Asset Class & Fund Name	MLC Conservative 30	MLC Moderate 40	MLC Moderate 50	MLC Balanced 60	MLC Balanced 70	MLC Growth 80	MLC High Growth 98
Australian Shares	**15.0%**	**18.0%**	**18.0%**	**24.0%**	**27.0%**	**29.0%**	**36.0%**
Solaris Core Australian Equity	7.5%	8.0%	8.0%	10.0%	10.5%	10.0%	12.0%
Ausbil Australian Active Equity	7.5%	8.0%	8.0%	10.0%	10.5%	10.0%	12.0%
First Sentier Australian Small Companies		2.0%	2.0%	4.0%	4.0%	6.0%	7.0%
OC Premium Small Companies					2.0%	3.0%	5.0%
International Shares	**6.0%**	**16.0%**	**19.0%**	**21.5%**	**26.0%**	**31.0%**	**39.0%**
Intermede Global Equities	0.0%	2.5%	2.5%	3.0%	3.5%	4.5%	6.0%
T. Rowe Price Global Equity – Hedged	2.0%	3.5%	4.5%	4.5%	5.5%	6.5%	8.0%
Ironbark Royal London Concentrated Global Share	2.0%	4.0%	4.5%	5.0%	6.0%	7.5%	9.0%
Realindex Global Share Value – Hedged	2.0%	4.0%	4.5%	5.0%	6.0%	6.5%	8.0%
Pendal Global Emerging Market Opportunities		2.0%	3.0%	4.0%	5.0%	6.0%	8.0%
Listed Property + Infrastructure	**5.0%**	**6.0%**	**7.0%**	**9.0%**	**11.0%**	**13.0%**	**14.0%**
Resolution Capital Global Property Securities	3.0%	4.0%	4.0%	5.0%	6.0%	7.0%	8.0%
CFS Index Global Listed Infrastructure Securities	2.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%
Fixed Interest	**59.0%**	**50.0%**	**46.0%**	**38.0%**	**30.0%**	**25.0%**	**9.0%**
Western Asset Australian Bond	15.0%	12.5%	12.0%	10.0%	8.0%	7.0%	
PIMCO Global Bond	13.0%	11.0%	10.0%	8.0%	6.0%	5.5%	
Macquarie Income Opportunities	10.0%	8.0%	7.0%	5.5%	4.0%	2.5%	
Janus Henderson Tactical Income	10.5%	9.5%	9.0%	8.0%	7.0%	5.5%	5.0%
Bentham Global Income	10.5%	9.0%	8.0%	6.5%	5.0%	4.5%	4.0%
Cash	**15.0%**	**10.0%**	**10.0%**	**7.5%**	**6.0%**	**2.0%**	**2.0%**
First Sentier Strategic Cash	15.0%	10.0%	10.0%	7.5%	6.0%	2.0%	2.0%

* These are strategic allocations, accurate as of this publication date. It is these allocations to which the Colonial First State Trustee regularly rebalances client portfolios, subject to the rebalancing conditions listed in the CFS FirstChoice Super & Pension product disclosure statement.

Australian equities selection rationale

Key construction themes & commentary

- Our preferred method of execution is via dedicated large, mid and small cap investment allocations. This approach:
  - Allows for a calibrated market cap skew to address the inherent sector and security concentration of the domestic market relative to international equity markets; and
  - Recognises the increased likelihood of risk-adjusted excess returns from domestic mid cap and small cap focused active strategies.
- Minimise unintended portfolio skews and biases by seeking diversity across investment style and approach and, where possible, seek style-based managers with flexible, non-dogmatic approaches to their portfolio style exposures.
  - While our headline fund allocations appear to result in a large overweight to small caps vs our SAA, on a look-through basis the total allocation is in fact broadly aligned to it. This is due mostly to the mid cap exposures within the First Sentier fund.

Manager	Portfolio Role	Manager Commentary
Solaris Wholesale Core Australian Equity Fund	• Large cap • Style neutral • Fundamental (bottom-up) • Lower	The Solaris process is driven by bottom-up stock selection with diversity of views and decision-making embedded via a structure that sees analysts accountable for both stock selection and portfolio weights, while portfolio construction is overseen by CIO Michael Bell. Risk management is a key focus of the team with the portfolio specifically constructed to be both benchmark-aware and style-neutral. The investment team has a long and established track record with the original members having worked together since 2001, prior to the 2008 formation of Solaris. The Solaris team and strategy are well known to MLC, having formed part of our multi-asset fund portfolios since 2013. We believe this strategy is a solid choice for any portfolio requiring a diversified, style-neutral large cap equities building block.
Ausbil Australian Active Equity Fund	• Large cap • Style-neutral with slight growth focus • Fundamental • Top- and bottom-up with shorter-term focus	This strategy combines top-down macroeconomic analysis with bottom-up stock picking in attempting to identify opportunities throughout the market earnings cycle. The strategy has a particular focus on early identification of earnings reversions which they believe is a strong driver of 1- to 2-year stock performance. The investment process is tried and tested having been in operation since 1997 and is led by veteran investor Paul Xiradis. Overall, the investment process is solid and differentiated to most fundamental stock picking peers. The team has produced a solid track record of excess performance over long periods and we believe the strategy represents a solid core equity exposure for the portfolio.

Australian equities selection rationale

Manager	Portfolio Role	Manager Commentary
First Sentier Wholesale Australian Small Companies Fund	• Mid to small cap (ex-ASX 100) • Fundamental bottom-up • Style-agnostic, neutral through time	A high-quality small cap strategy with a long track record, solid bottom-up fundamentals focused investment process and highly regarded team led by Dawn Kanelleas. The fund does not have a persistent investment style (Value, Growth Yield) or sector tilts over time, with any short-term exposures being a function of market opportunities. While excess returns can be choppy, over most longer-term periods the fund has produced solid, risk-adjusted returns in excess of both the market index and peers. The strategy is also accessible at an attractive ICR level with no performance fee. *Despite being a small cap strategy, the fund tends to operate with a larger mid cap exposure than most peers. In the absence of a dedicated ex-20 strategy on the CFS menu for which we have sufficient conviction, the First Sentier strategy has been included as a viable substitute.* *Portfolio construction-wise, the two selected small cap funds offer sufficient style, holdings and expected excess return variation to justify their individual positions in the portfolio. We will continue to monitor total portfolio level exposure to small cap securities vs that of our target SAA and will adjust fund weights as necessary to avoid unintentional small cap exposure.*
OC Wholesale Australian Small Companies Fund	• Small cap • Style-neutral • Fundamental, bottom-up • Benchmark unaware	OC prioritises selection of simple, transparent businesses at attractive valuations, providing a benchmark-unaware portfolio with significant flexibility around market cap and sector positioning. The investment process tends to favour industrial names while excluding single resource commodity businesses which can drive large performance differentials vs the index. The team is well resourced and led by a high-quality portfolio manager in Robert Frost, who has been at the helm since 2009 and has provided a generally solid track record of risk-adjusted excess returns. The fund ticks our required manager assessment boxes and represents a sound vehicle for dedicated, active domestic small cap exposure.

International equities selection rationale

Key construction themes & commentary

- Minimise unintended portfolio skews and biases by seeking diversity across multiple dimensions including style, investment approach, market capitalisation focus, geography and currency.
- We seek skilled managers with flexible, non-dogmatic approaches to their portfolio style exposures.
- Actively manage the contribution of currency exposure to total portfolio risk. We must do so while recognising the somewhat limited available toolset (being hedged vs unhedged menu options).
- Global portfolio to encompass a dedicated, active emerging market manager, recognising the specialist nature of these markets, the differential returns drivers and the increased probability of positive risk-adjusted excess returns from active management.

Manager	Portfolio Role	Manager Commentary
Ironbark Royal London Wholesale Concentrated Global Share Fund	• Developed markets • Fundamental • Broadly style-neutral with slight value tilt • Currency unhedged	The Global Equity Select Strategy invests in a concentrated portfolio of 25-45 stocks which their process has identified as having the best combination of shareholder wealth creation and attractive valuation. The investment process, centred around their 'corporate lifecycle framework', is both intuitive and well structured while the three portfolio managers have more than 20 years of working experience together. We hold both the process and team in high regard having been long-term investors in this strategy across multiple MLC portfolios.
Intermede Wholesale Global Equities Fund	• Developed markets • Fundamental • Growth (GARP) • Currency unhedged	A 'growth'-style manager with a concentrated portfolio of 40-50 companies which they believe have solid market positions in attractive industries operating with sustainable competitive advantages and led by strong management teams. The strategy is well considered and consistently executed, managed by a high-calibre, experienced and close-knit team. This strategy forms part of multiple MLC portfolios with our conviction reflected in the fact that MLC backed the team and their fund with initial seed capital and a minority shareholding in the firm back in 2014.
Realindex Wholesale Global Share – Hedged Fund	• Developed markets • Systematic with value bias • Currency hedged	The Realindex Global Share Fund is a benchmark agnostic, systematic strategy designed to deliver a diversified, large cap portfolio of global equities with a strong value factor exposure. We believe the underlying investment process and implementation is sound and the ICR appropriate for this style of fund. While we don't ordinarily favour pure factor-based strategies, this fund serves two important roles within the portfolio: firstly, its strong value basis balances the growth tilts of the Intermede and T. Rowe allocations as well as the slight growth bias of the domestic equity portfolio; secondly, it is one of the few currency hedged options available on the CFS menu. Taken together, balancing portfolio style skew and the management of total portfolio currency risk is of more importance than seeking incremental stock selection alpha from an alternative manager option.

International equities selection rationale

Manager	Portfolio Role	Manager Commentary
T. Rowe Price Wholesale Global Equity – Hedged Fund	• Developed markets • Fundamental with slight growth bias • Currency hedged	A highly diversified, benchmark-aware portfolio of high-quality, growing companies at attractive valuations. Bottom-up stock selection as well as country and market cap allocation are likely to drive the lion's shares of returns here (while sector allocations roughly align to the MSCI benchmark). Scott Berg has managed this strategy since 2012 (and a similar one since 2008) and draws on T. Rowe's significant global analyst resources. Notwithstanding performance volatility through 2022, the fund has otherwise consistently produced after-fee alpha vs a growth-style global equity benchmark and remains an attractive portfolio allocation.
Pendal Wholesale Global Emerging Market Opportunities Fund	• Emerging markets • Top-down macro + fundamental • Growth (GARP) • Currency unhedged	Unlike most emerging market fund peers, the investment approach here combines a strong focus on top-down country analysis, using this as a highly effective screen for bottom-up stock level analysis. The portfolio is relatively concentrated at just 40-60 names and can show sizeable deviations from benchmark sector and country allocations. The fund's senior portfolio managers have been managing the strategy since its inception in June 2011 under JO Hambro and apply the same investment philosophy, style and process as was successfully deployed at their previous employer, Baring Asset Management. The longer-term performance track record remains strong, with evidence of top-down and bottom-up value add. Overall, we believe this fund represents an attractive though differentiated approach to emerging markets.

Fixed Interest & Cash rationale

Key construction themes & commentary

- Preference is for active management, recognising that the benchmark tends to be dominated by the most indebted (and hence risky) issuers.
- Preference for granular building blocks (region, manager style) to fine tune structural exposures.
- Employ managers that offer a combination of 'levers' beyond pure duration (or interest rate) risk. These include more variable, 'alpha'-seeking strategies that can complement a more traditional bond-heavy core.

Manager	Portfolio Role	Manager Commentary
Macquarie Wholesale Income Opportunities Fund	• High-quality credit with credit spectrum and subsector flexibility • Primarily domestic exposure	The strategy is one of the two more flexible pillars of the fixed income sleeve, with the ability to combine a broad subsector remit with a tight risk framework for positions and exposures. We view the portfolio management trio of Brett Lewthwaite, David Hanna and Andrew Vonthethoff as a strong, tight-knit team who have built a strong track record together, with Lewthwaite approaching three decades of industry experience. Macquarie's broader fixed income capability has been bolstered by its recent acquisition of the AMP Fixed Income team in 2022, with 15 professionals joining the Macquarie stable.
Western Asset Wholesale Australian Bond Fund	• Core domestic fixed income • Primarily local duration with some credit exposure	The Western Asset Wholesale Australian Bond Fund provides a domestic expression of the firm's fundamental value philosophy, which targets mispriced securities in the market. Led by Andrew Kirkham, the team has enjoyed a period of stability and support from their global parent. The fund targets investment-grade Australian bonds with a slight bias towards non-government issuers. While active return may be sourced from both duration/yield curve positioning and sector/security selection, we observe that the latter has historically been the main contributor of alpha. This complements the more macro-driven sources of alpha from other strategies within our fixed income sleeve.
PIMCO Wholesale Global Bond Fund	• Core global fixed income • Primarily global duration with some credit exposure • Currency hedged	PIMCO is one of the largest fixed income managers in the world. The global bond strategies are managed by a high-calibre team with access to world class resources. Their Wholesale Global Bond Fund, led by Portfolio Manager Sachin Gupta, provides exposure to global, long-duration securities in a benchmark-aware fashion. The fund applies a top-down/country lens to add value. One of the key factors we look for when appointing a fixed income manager with a defined role in our sleeve is evidence that they are consistently applying their process, without deviating from their remit. In this regard, PIMCO's highly developed risk management supports our conviction in the strategy as a 'core' fixed income allocation.

Fixed Interest & Cash rationale

Manager	Portfolio Role	Manager Commentary
Janus Henderson Wholesale Tactical Income Fund	• Primarily domestic exposure • Flexible duration, yield and absolute return focus	As the name suggests, the Tactical Income Fund can invest tactically between cash, high-yield and longer duration securities. Highly regarded Portfolio Manager Jay Sivapalan has consistently delivered alpha while maintaining a strong emphasis on credit quality and liquidity. The combination of a strong global parent, an experienced hand on the tiller and the flexibility to exploit opportunities or limit exposure to risky sectors within the fund make this one of our highest-conviction fixed income funds, playing an important active role in the sleeve. We have high conviction in Janus Henderson as a fixed income manager, having invested in multiple strategies across our suite of multi-asset funds.
First Sentier Strategic Cash	• Cash plus strategy • Low risk, high liquidity	The fund's strategy is to provide a regular income stream with minimal capital volatility by investing in high-quality and predominantly short-term money market securities. The First Sentier Strategic Cash Fund is one of the longest standing options in the market and is led by a 35-year fixed interest market veteran, Tony Togher. The fund targets 30-50 basis points above the bank bill index (gross of fees) on an after-fee basis. As such, we consider the strategy is currently capable of offering higher net returns to investors than alternative cash options on the menu.
Bentham Global Income Fund	• A dynamic and high conviction global credit strategy • Relative value approach utilising top down and bottom up insights • Flexible exposure to (predominantly global) interest rate duration. • Currency hedged	The fund has the broadest investment universe in our fixed income stable, with the ability to invest in government bonds, securitised credit, syndicated loans, high yield bonds and derivatives. It is also able to invest across the capital structure, albeit while maintaining a minimum 50% exposure to investment-grade securities. While best known as credit investment specialists, the team also has demonstrated value add in active duration management as well as the deployment of defensive derivative positions over time. Led by Richard Quin, the Bentham team, including co-founders Nik Persic and Mark Fabry was spun out of Credit Suisse in 2010. Backed by an in house analyst and trader team they also maintain close ties with Credit Suisse's Credit Investment Group, particularly in support of the fund's high yield and syndicated loan positions. We are attracted to the highly diversified nature of the fund (in terms of both sub-strategies and securities), the high calibre of the team executing it and their track record of doing so. While the punchier nature of this fund means it can often lack the defensive characteristics of more traditional bond and credit peers, we believe the returns on offer more often than not compensate for the risk, a risk that is further managed by judiciously deploying this fund within an otherwise well-diversified fixed interest portfolio.

Real assets (Property & Infrastructure) rationale

Key construction themes & commentary

- Our real assets allocation consists of two building blocks – global listed property and global listed infrastructure.
- Our combination of an active and an index manager highlights our agnostic approach to portfolio construction and building block selection.
- We retain the ability to actively manage the weights of these asset classes as opportunities present themselves, noting that the availability of high-quality alternative asset options on the CFS investment menu would likely trigger a review of our total real asset allocations.

Manager	Portfolio Role	Manager Commentary
Resolution Capital Wholesale Global Property Securities – Hedged	• Global developed markets real estate • Fundamental • Benchmark unaware • Currency hedged	The Resolution Capital fund targets a reasonably concentrated portfolio of 40-60 stocks, consisting of high-quality global real estate assets with an emphasis on sound balance sheets and strong, well-aligned management teams. The investment process is detailed but straightforward and repeatable, executed by four high-calibre real estate portfolio managers. MLC seeded their global listed property strategy in 2006, and they've been an MLC Australian property securities manager since 1995. Having generated consistent excess returns since inception, this is a strategy and team we continue to hold in high regard.
Colonial First State Wholesale Index Global Listed Infrastructure Securities – Hedged	• Diversified global infrastructure • Passive index tracker • Currency hedged	While we generally favour an active approach to global infrastructure securities, our investment team does not hold a strong conviction in any of the (limited) active investment menu options currently available, particularly at the current fee levels. As such, we have opted to gain the desired infrastructure exposure via a passive vehicle. The CFS index option tracks a suitable infrastructure index (FTSE Developed Core), and the underlying management of this option is outsourced to a highly reliable provider (State Street Global Advisors). We believe this, combined with a very attractive all-in investment fee, renders this as the most attractive on-menu option available for global listed infrastructure exposure.

For more information, call MLC Asset Management from anywhere in Australia on 1300 738 355, visit mlcam.com.au or contact your MLC representative.

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