

MLC FirstChoice Managed Accounts

Guide to active manager
selection & allocation

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Contents

Manager research & selection

Manager selection rationale

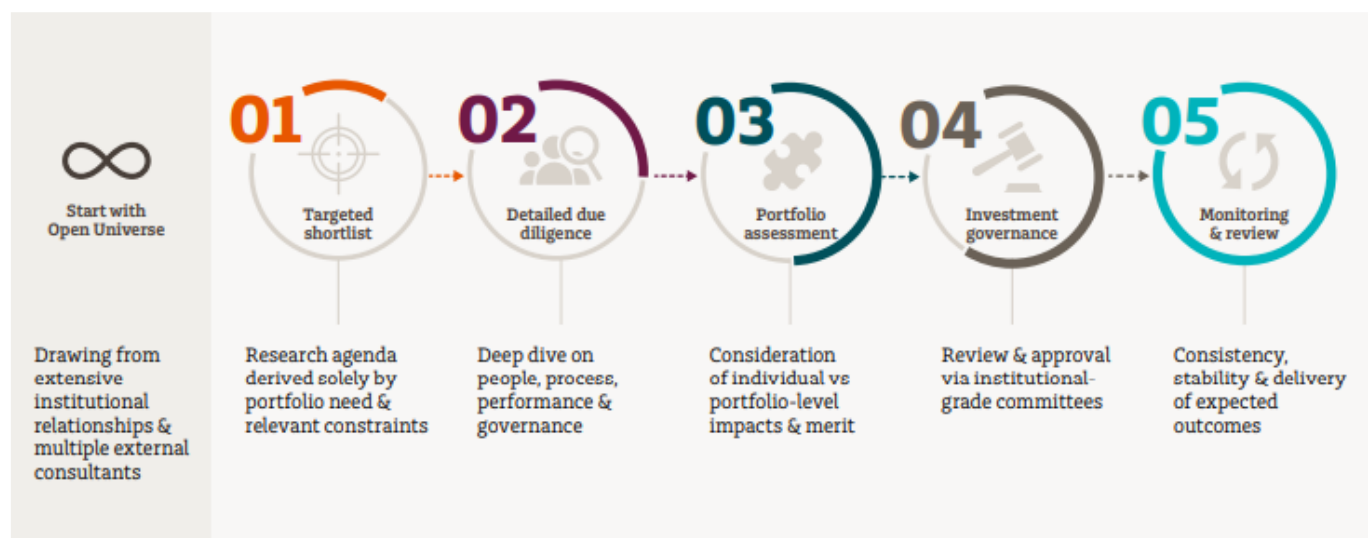
Australian equities

International equities

Fixed interest

Real assets

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.

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	Selection Commentary
Solaris Wholesale Core Australian Equity Fund	<ul style="list-style-type: none"> • Large cap • style neutral • fundamental (bottom-up) • Lower 	<p>The Solaris' process is driven by bottom-up stock selection with diversity of views and decision-making imbedded 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.</p> <p>The Solaris team and strategy is well known is 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.</p>
Ausbil Australian Active Equity Fund	<ul style="list-style-type: none"> • Large cap • Style-neutral with slight growth focus • Fundamental • Top and bottom up with shorter term focus 	<p>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 1-2 year stock performance. The investment process is tried and tested having been operation since 1997 and is led by veteran investor Paul Xiradis.</p> <p>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.</p>
First Sentier Wholesale Australian Small Companies Fund	<ul style="list-style-type: none"> • Small cap • Style neutral • Fundamental, bottom-up • Benchmark unaware 	<p>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. 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, with both it, and OC offering sufficient style, holdings and expected excess return variation to justify their individual positions in the portfolio.</p>
OC Wholesale Australian Small Companies Fund	<ul style="list-style-type: none"> • Small cap • Style neutral • Fundamental, bottom-up • Benchmark unaware 	<p>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, whom has been at the helm since 2009 and has provided a generally solid track record of risk adjusted excess returns.</p> <p>The fund ticks our required manager assessment boxes and represents a sound vehicle for dedicated, active domestic small cap exposure.</p>

Global 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 while recognising the limited available toolset 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	Selection Commentary
Ironbark Royal London Wholesale Concentrated Global Share Fund	<ul style="list-style-type: none"> • Developed markets • Fundamental • Broadly style-neutral with slight Value tilt. • Currency unhedged 	<p>The Royal London Concentrated Global Share Strategy invests in a select portfolio of 20-45 stocks which their process has identified as having a strong combination of shareholder wealth creation and attractive valuation. The investment process has foundations in a 'corporate lifecycle framework' which is both intuitive and well-structured. Despite the departure of the original portfolio management team from the business, the replacement team is also high calibre and well resourced. We are comfortable maintaining the portfolio allocation at this time.</p> <p><i>We anticipate that the new boutique strategy launched by the original Royal London team may become available to CFS investors later in the year. Once strategy and pricing details become available, we will reassess this allocation.</i></p>
Intermede Wholesale Global Equities Fund	<ul style="list-style-type: none"> • Developed markets • Fundamental • Growth (GARP) • Currency unhedged 	<p>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.</p> <p>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.</p>
RQI Global Value – Hedged	<ul style="list-style-type: none"> • Developed markets • Systematic with Value bias • Currency hedged 	<p>The RQI 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.</p> <p>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.</p>
T. Rowe Price Wholesale Global Equity – Hedged Fund	<ul style="list-style-type: none"> • Emerging markets • Fundamental • Currency unhedged 	<p>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.</p>
Pendal Wholesale Global Emerging Market Opportunities Fund	<ul style="list-style-type: none"> • Emerging markets • Top-down macro + fundamental • Growth (GARP) • Currency unhedged 	<p>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.</p> <p>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.</p>

Fixed interest selection rationale

Key construction themes & commentary

- Current preference for predominantly active management, recognising the current volatility in global debt markets offers a larger opportunity set for active managers versus static duration/credit exposures.
- Employ managers which offer a combination of 'levers' beyond pure duration (or interest rate) risk. These include more variable, 'alpha' seeking strategies to complement a more traditional bond-heavy core allocation.
- Building blocks vary in terms of domestic/global split (geography), the composition of underlying securities (subsector / credit quality), income versus capital return orientation, the variability of the underlying exposure (core versus dynamic), and currency hedging.
- The ability to fine-tune specific portfolio tilts must be balanced against the complexity arising from having too many managers (and the unintended risks this can bring).

Manager	Portfolio Role	Selection Commentary
Macquarie Wholesale Income Opportunities Fund	<ul style="list-style-type: none"> • High quality credit with credit spectrum and subsector flexibility • Primarily Domestic exposure. 	<p>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.</p> <p>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.</p> <p>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.</p>
Western Asset Wholesale Australian Bond Fund	<ul style="list-style-type: none"> • Core domestic fixed income • Primarily local duration with some credit exposure 	<p>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.</p> <p>The Fund targets investment-grade Australian bonds with a slight bias toward 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.</p>
PIMCO Wholesale Global Bond Fund	<ul style="list-style-type: none"> • Core global fixed income • Primarily global duration with some credit exposure • Currency hedged 	<p>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.</p> <p>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.</p>
Janus Henderson Wholesale Tactical Income Fund	<ul style="list-style-type: none"> • Flexible duration, yield and absolute return focus • Primarily domestic exposure 	<p>As the name suggests, the Tactical Income Fund can invest tactically between cash, high yield and longer duration securities. This flexibility allows the fund to adapt to different phases of the interest rate and credit cycle, aiming to enhance returns in falling rate environments and protect capital when yields rise.</p> <p>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 fixed income allocations of these portfolios.</p> <p>Additionally, MLC's high conviction in Janus Henderson as a fixed income manager, is demonstrated by the fact we currently hold substantial allocations to multiple Janus strategies across our various multi-asset portfolios and funds.</p>

Fixed interest selection rationale

Manager	Portfolio Role	Selection Commentary
Janus Henderson Diversified Credit Fund	<ul style="list-style-type: none"> • Active • Primarily domestic credit • Short duration bias • Currency hedged 	<p>The Janus Henderson Diversified Credit strategy provides a diversified exposure to a range of predominantly domestic investment grade and sub investment grade credit securities. The profile of the fund will typically result in the bulk of its variation being driven by credit risk, specifically movement in credit spreads, as opposed to movements in interest rates. While the existing Janus Henderson Diversified Credit Fund contains an allocation to this strategy, this additional discrete allocation brings an amplified opportunity for yield enhancement, without meaningful interest rate duration. In short, it is a higher yielding, shorter-maturity component of the existing Janus strategy.</p> <p>This fund is run by the same high calibre Janus team and with a solid track record of longer term excess returns.</p>
Bentham Global Income Fund	<ul style="list-style-type: none"> • Active • Core global credit • All maturity • Flexible mandate 	<p>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. This complements the exposures otherwise available within the Janus Henderson and Macquarie funds above.</p> <p>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</p> <p>MLC appointed Bentham and their strategies across our flagship multi-asset managed account portfolios at their inception in July 2022 and hold conviction in the team's ability to deliver consistent outcomes via high yielding global investment opportunities</p>
FirstSentier Strategic Cash	<ul style="list-style-type: none"> • Cash plus strategy • Low risk, high liquidity 	<p>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 longest standing options in the market and is led by a 35-year fixed interest market veteran, Tony Togher.</p> <p>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.</p>

Real assets selection rationale

Key construction themes & commentary

- Preference for GREIT's over AREIT's giving the significant sector and security diversification opportunities relative to the highly concentrated local REIT market. At the time of writing, the single largest index exposure accounts for more than 40% of the AREIT index, with the top 3 securities accounting for almost 60%.
- Real asset yield performs a key diversifying role against traditional bond and equity markets.
- 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	Selection Commentary
Resolution Capital Wholesale Global Property Securities – Hedged	<ul style="list-style-type: none"> • Developed markets real estate • Fundamental • Benchmark unaware • Currency hedged 	<p>The Resolution Capital fund targets a reasonable 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 4, high calibre real estate portfolio managers, led by Andrew Parsons, a 30-year global real estate veteran.</p> <p>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.</p>
Colonial First State Wholesale Index Global Listed Infrastructure Securities - Hedged	<ul style="list-style-type: none"> • Diversified global infrastructure • Passive index tracker • Currency hedged 	<p>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.</p> <p>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.</p>

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