

# Premium & Value Managed Accounts

## Portfolio Changes

Planned Effective Date: 14 August 2024

### What changes have we made?

A number of shifts to portfolio asset and sub asset allocations will be implemented across the premium & value portfolio suites. These are summarised below and detailed in the subsequent sections:



### What's the rationale for these changes?

#### Why have a strategic allocation to global listed infrastructure?

Listed infrastructure refers to publicly traded companies that own and operate essential physical assets, such as utilities, transportation networks, and communication infrastructure. The types of assets included in listed infrastructure universe typically fall into three categories:

- Utilities:** These companies manage essential services like water supply, electricity generation, and natural gas distribution.
- Transportation:** This includes companies involved in transportation networks, such as airports, toll roads, railways, and ports. These assets play a critical role in connecting people, goods, and services.
- Communication Infrastructure:** This is newer and rapidly growing infrastructure segment and refers to companies that own and operate assets such as cell towers, data centres, and fibre-optic networks

From a portfolio construction perspective, there are several reasons for inclusion of listed infrastructure exposures; these include.

- Underlying asset, return and risk diversification:** Firstly, securities within the listed infrastructure universe are generally underrepresented within broader equity benchmarks. Secondly, infrastructure companies tend to generate growth from structural rather than cyclical drivers, with underlying return streams also linked to regulatory or contractual frameworks, rather than typical

business cycle drivers of equity and bond market returns. Lastly, quality infrastructure assets have historically offered attractive risk adjusted returns vs broader equity and property market exposures.

- Lower Correlation:** As underlying risk and return characteristics differ from traditional stocks and bonds, the returns of listed infrastructure assets tend to bring diversification benefits via lower correlations with other major asset classes. This lower correlation can help reduce overall portfolio risk, leading to more robust long term portfolio outcomes across multiple potential future scenarios.
- Cash flow stability and inflation:** Infrastructure assets can offer more predictable income distributions, with regulated assets and/or long-term contracts providing more stable cash flows and greater capital stability. Additionally, most infrastructure assets have an explicit link to inflation which can provide long term inflation protection to investors.
- Liquidity:** Unlike unlisted infrastructure, which involves private market transactions, listed infrastructure offers daily liquidity. Investors can buy and sell shares easily, enhancing portfolio flexibility and rebalancing opportunities

In summary, a highly quality global listed infrastructure exposure combines stability, diversification, and potential inflation protection, making for an attractive return for risk trade-off when combined with what we see as favourable entry point valuation fundamentals.

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### Why allocate now?

Our investment process, guided by the futures framework, signals global listed infrastructure as an attractive forward-looking risk-reward opportunity.

- We see the macro environment as potentially providing the basis for several favourable, infrastructure friendly economic scenarios, including the likely easing of interest rate and long-term yield curve expectations as well as potentially stickier services inflation supporting core infrastructure earnings.
- Market fundamentals appear sound. Operationally, quality securities are offering relatively stable earnings profiles, sensible leverage levels and very long debt maturity schedules. Underlying demand for many key infrastructure sectors also remains robust.
- Current market pricing appears to offer a favourable valuation entry point for the listed markets. At an aggregate market level, global infrastructure assets continue to trade at discounts to broader global equity markets and not far from historical discounts (albeit moderating) to unlisted infrastructure asset valuations.

Across a range of potential market scenarios, infrastructure offers investors a total return profile marginally lower than domestic and global equities but with a meaningfully lower expected volatility profile. Additionally, under a range of scenarios with less favourable broader market conditions, we expect infrastructure assets to offer a level of capital and earnings resilience vs other risk assets.

### Where is the allocation being funded from?

- Infrastructure assets, along with real estate holdings, are classified within the 'real assets' category.
- From a risk and return perspective, we refer to these assets as 'mid risk', offering a medium to long term risk and return profile well above cash and most fixed interest investments, but below that of pure equity exposures.
- As such, for each managed account portfolio the proposed allocation to infrastructure assets will be funded from a reduction in alternatives, domestic equity, and global equities.
- Overall growth defensive splits for each portfolio will essentially remain unchanged post these changes ( $\leq 1\%$  shifts due to rounding), albeit with a slight reduction in total portfolio risk levels owing to the equity exposure reductions.

### Choosing between active or passive implementation

- Until recently, even passive implementation of global infrastructure securities came at a meaningful cost premium to passive global equities. The same was true for most active strategies when comparing total fee loads against global equity peers. While some market progress has been made on reducing passive access costs, active exposure has always remained our preferred option in this space, with the cost hurdle holding us back on implementation (until now).
- Over the past 6 months, we've been busy leveraging our scale and institutional relationships to deliver a customised infrastructure investment exposure for our portfolios. We believe the outcome of this work has been fruitful, with our investors now able to access a diversified infrastructure exposure, managed by a high calibre team, backed by a veteran of the real asset sector and for a total fee load well below equivalent active peers.
- The manager is Resolution Capital, a name well known to our managed accounts program and MLC more broadly, being the active global listed property manager across all MLC managed account suites as well as property securities manager within other MLC investment offerings since 1995. The firm is a dedicated real asset manager with extensive experience, a detailed investment process, and specialist investment professionals with sole focus on global real assets, including listed property and infrastructure securities.
- This global listed infrastructure strategy targets a reasonably concentrated and largely benchmark unaware portfolio of between 25 and 40 stocks, diversified across regions and sectors globally.
- The investment philosophy is centred around the belief that infrastructure returns are largely driven by the quality of underlying physical assets or concessions. As such, the investment process will tend to favour securities with:
  - High quality, high barrier to entry assets that provide essential services;
  - The availability of long-dated, inflation protected, predictable cash flows; and
  - Evidence of robust capital management and appropriate gearing (relative to market peers).
- This version of the strategy is also fully hedged, minimising direct currency risks.



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### **When will the changes be made?**

The relevant trades are expected to be processed on the 14<sup>th</sup> of August, noting that the actual trade execution date and prices can differ depending on the processing times and policies of each wrap platform.

### **Is there an impact on portfolio fees?**

Owing to the attractive fee point negotiated, this active manager allocation will result in negligible portfolio fee impacts, estimated at between zero and -1 basis point depending on the portfolio and platform in question.



### Portfolio changes summary tables

The table below outlines the estimated portfolio weighting changes to apply as of 14 August 2024.

Premium Series	Conservative 30	Moderate 50	Balanced 70	Growth 85	High Growth 98
<b>Australian Equities</b>			-1%	-1%	-1%
Martin Currie (Direct Equity holdings)			-1%	-1%	-1%
<b>Global Equities</b>				-1%	-1%
Intermede Global Equities Fund				-1%	-1%
<b>Alternatives</b>	-2%	-2%	-2%	-2%	-2%
MLC Real Return Moderate	-2%	-2%			
MLC Real Return Assertive			-2%	-2%	-2%
<b>Real Assets</b>	+2%	+2%	+3%	+4%	+4%
Resolution Capital Global Listed Infrastructure Fund (Hedged)	+2%	+2%	+3%	+4%	+4%

Value Series	Conservative 30	Moderate 50	Balanced 70	Growth 85	High Growth 98
<b>Australian Equities</b>			-1%	-1%	-1%
Vanguard Australian Shares ETF			-1%	-1%	-1%
<b>Global Equities</b>				-1%	-1%
iShares International Equity Index Fund				-1%	-1%
<b>Alternatives</b>	-2%	-2%	-2%	-2%	-2%
MLC Real Return Moderate	-2%	-2%			
MLC Real Return Assertive			-2%	-2%	-2%
<b>Real Assets</b>	+2%	+2%	+3%	+4%	+4%
Resolution Capital Global Listed Infrastructure Fund (Hedged)	+2%	+2%	+3%	+4%	+4%



## Important Information

Portfolio changes outlined in this document are expected to be implemented by the client's platform, in due course.

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