MLC Premium Managed Accounts

ASSET MANAGEMENT

Portfolio Changes

Effective Date: 20th October 2023

What changes have we made?

At the headline level, we have reduced our Growth and increased our Defensive assets exposure across all five risk profiles.

REDUCED Australian Equities (High Growth 98 only)	**REDUCED** Global Equities	**INCREASED** Fixed Income

What is the rationale for these changes?

- **A sharp (and sustained) rise in long bond yields increases the risk of a near-term pullback in Global Equities**
- **We are leaning out of higher-valuation, 'longer duration' Growth equities a little more, along with an incremental increase to currency hedging**
- **Our preference for Australian over Global fixed income reflects our view that the RBA is likely to reverse course on rates sooner than global peers, particularly the US.**

The key development over the past few months is undoubtedly the ~100bps rise in US 10-year Treasury yields to 5% during October. Unlike the shorter-term Fed Funds rate, we view this as a more likely catalyst for a broader pullback in asset class valuations (including equities). It is important to understand why the yield curve has risen, because different answers have different implications for portfolio positioning. If the rise is due largely to inflation expectations, that is unequivocally negative for both equities and bonds.

Our reading is that only about a quarter of the rise can be attributed to inflation expectations, with the majority due to (i) the strong US economic growth outlook being belatedly priced into bond yields and (ii) the emergence of an oversupply in bonds, driven by central banks' retreat from Quantitative Easing (i.e buying) while US fiscal deficits have remained higher than expected (i.e the govt selling). Both factors are linked to the massive Bidenomics fiscal spending playing out in the US.

These changes, therefore, are more of a response to the risk of valuation impact from higher-for-longer bond yields (or perhaps a return to 'normal-for-longer' levels), than any major change in the macroeconomic fundamentals themselves. After all, other than a slight uptick in inflation, there has been little in the way of new macro data to explain a 100 bps increase in 10-year yields.

As we saw in 2022, Growth vastly underperformed Value in response to the Fed's rate increases. Accordingly, our decreases in Global Equity exposure is most concentrated on the higher-multiple, longer-duration equities held in Growth manager Intermede. We see the mid-cap, value-oriented exposure of Polaris as being potentially more resilient and more exposed to the structural growth themes identified above, hence we hold firm in our allocations there (effectively increasing their proportion of the Global Equity sleeve). Finally, in response to the weaker Australian dollar, we have trimmed our holdings in the hedged vehicle Arrowstreet.

On the other side of the ledger, we have increased our allocation to Janus Henderson's Australian Fixed Interest and Diversified Credit Funds. These strategies offer a balance of meaningful income coupled with valuable diversity and resilience in the event of a potential sharper economic slowdown. We see the risk of capital loss being lower in Australian fixed interest than Global, particularly considering the more direct transmission mechanism of monetary policy here in Australia.

Summary of portfolio changes: building block-level

	Premium Conservative 30	Premium Moderate 50	Premium Balanced 70	Premium Growth 85	Premium High Growth 98
Australian shares					**-1%**
Antares Ex-20 Australian Equities Fund					-1%
Global shares	**-2%**	**-3%**	**-4%**	**-5%**	**-5%**
Arrowstreet Global Equity Fund (Hedged)	-1%	-1%	-1%	-2%	-2%
Intermede Global Equities Fund	-1%	-2%	-3%	-2%	-2%
Polaris Global Equity Fund				-1%	-1%
Fixed income	**+2%**	**+3%**	**+4%**	**+5%**	**+6%**
Janus Henderson Australian Fixed Interest Fund	+2%	+2%	+2%	+2%	
Bentham Global Income Fund					+3%
Janus Henderson Diversified Credit Fund		+1%	+2%	+3%	+3%
Total Growth	-2%	-3%	-4%	-5%	-6%
Total Defensive	+2%	+3%	+4%	+5%	+6%

Portfolio fee impact

The changes have resulted in a slight net reduction in overall portfolio fees, as shown below. Figures are rounded to the nearest basis point.

	MLC Premium Conservative 30	MLC Premium Moderate 50	MLC Premium Balanced 70	MLC Premium Growth 85	MLC Premium High Growth 98
Change	-0.01%	-0.02%	-0.02%	-0.03%	-0.03%

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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