MLC Premium Moderate Model Portfolio

'One of MLC's Managed Account Strategies, offering decades of investment experience in a contemporary investment structure'

Data updated to 31 December 2020

The MLC Premium Moderate Model Portfolio is a complete investment solution focused on providing investors with above-inflation returns through an actively managed portfolio that's diversified across asset classes, specialist investment managers, and stocks.

Portfolio details

Objective	Aims to deliver a return of inflation +2% p.a. (after Model Manager fees) over a 3-5 year period.	Minimum suggested time to invest	4 years
Inception date	1 July 2020	Indicative number of holdings	30 - 40

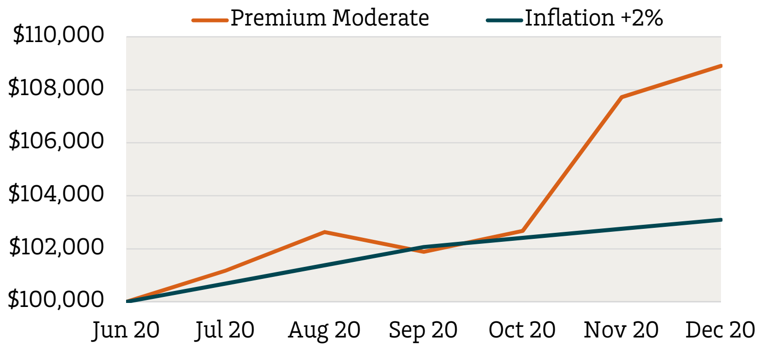
Portfolio snapshot

Performance

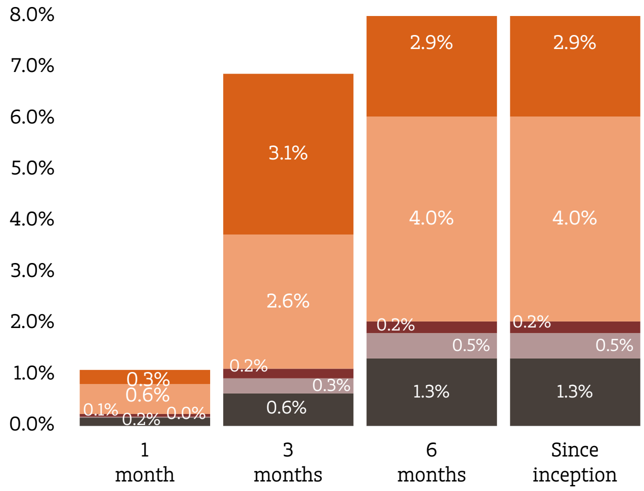
	1 month %	3 months %	6 months %	Since inception %
Income return*	0.2	0.5	1.0	1.0
Growth return	0.9	6.4	7.9	7.9
Total return^	1.1	6.9	8.9	8.9
Inflation +2%	0.3	1.0	3.1	3.1
Excess return	0.8	5.9	5.8	5.8

**Managed fund income is included when we receive the distribution data.*
^Assumes income from the Portfolio's investments are reinvested.
Returns are net of the model manager fee, rebates and indirect costs.

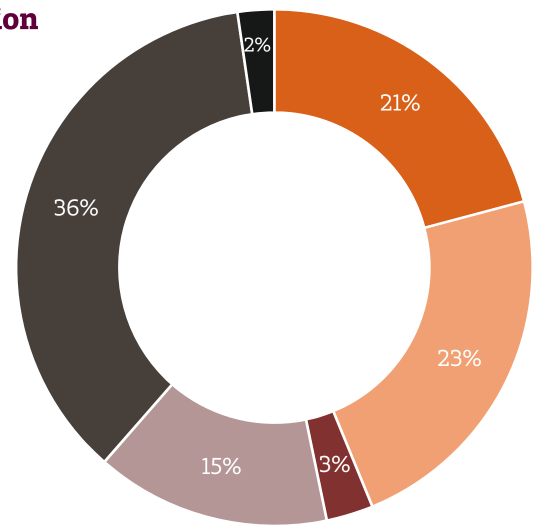
Value of $100,000 invested since inception



Performance drivers



Asset allocation



■ Australian shares ■ Global shares ■ Listed property securities ■ Alternatives ■ Fixed income ■ Cash

The performance and holdings in this document are for the Model Portfolio and are not a guarantee or an indication of the actual performance or holdings of a client's portfolio due to differences in the timing and transaction prices for portfolio changes, client investments and withdrawals during the period, timing of receipt of dividends and income distributions, platform administration fees, transactional costs associated with the client's portfolio, and any portfolio exclusions required by the client. Past performance is not a reliable indicator or guarantee of any future performance. The value of an investment may rise or fall with the changes in the market. Inflation is measured by the Consumer Price Index (CPI). We use the most recent CPI as an estimate until the actual CPI is available from the Australian Bureau of Statistics.

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Comment on performance

The portfolio is on track to achieving its objective, delivering strong returns since inception. Share markets were, once again, the main contributor to the portfolio's exceptional returns for the December quarter.

Global shares (unhedged) continued their recovery with hopeful vaccine signals outweighing concerns on the acceleration in new virus infection cases across Europe and the US. Wall Street surged to record highs. US political risk has moderated as challenger Joe Biden claimed a clear US presidential election victory in November despite the protestations by the incumbent Donald Trump. Investors were also buoyed by the expectation that the new Democratic President Joe Biden would promote more government spending measures. European shares also made solid gains. Despite surging virus cases and activity restrictions being implemented across the European continent, markets placed their hopes on the vaccines. Global economic data also provided encouragement in the closing months of 2020. Business surveys and employment gains were consistent with a global recovery continuing, despite the virus threat.

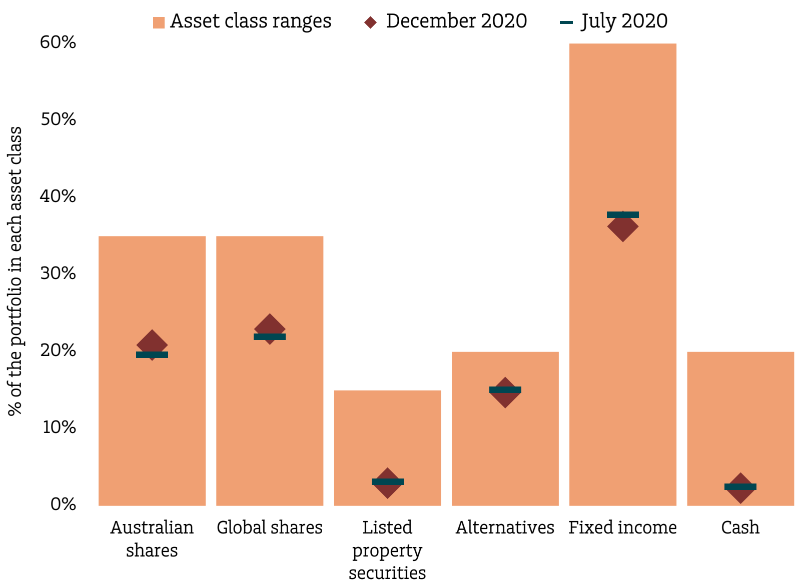
The Australian share market also rose strongly this quarter. Apart from the positive global vaccine news and Melbourne ending its lockdown, further support from the Reserve Bank of Australia (RBA) provided a tailwind to Australian shares – the RBA cut the cash interest rate to a historic 60 year low of 0.1% in November.

The portfolio's holding in Woodside Petroleum benefited from a strong surge in Energy companies, as oil prices rebounded. Even the Financial sector joined in as confidence that Australia's economic recovery would reduce loan repayment deferrals, led to rises in the portfolio's holdings in the big four banks (NAB, ANZ, CBA, and WBC).

In recent months we've seen 'value' managers, those that invest in companies they believe are undervalued in relation to their earning potential, being rewarded after many years of underperforming 'growth' managers, those that focus on companies with strong earnings growth potential. As a result, our global shares value exposure, Polaris Global Equity Fund, has outperformed strongly over the quarter. Arrowstreet Global Equity Fund (Hedged), the AUD hedged global shares exposure, was also a key contributor as the Australian dollar rose strongly.

The more defensive funds in the portfolio (in cash, fixed income and alternatives) also delivered positive returns for the quarter.

Portfolio positioning



Positioning the portfolio for the future means we mustn't anchor decisions on the present investment environment. Using our Investment Futures Framework we consider many future possible scenarios and the different impacts they could have on the portfolio's returns. This helps us determine whether we should adjust the portfolio's asset mix.

Our near-term scenarios continue to pivot around COVID-19 because we've assessed it provides the highest potential risks and opportunities.

Inflation is a key concern because it's fundamentally important to investment market returns and achieving the portfolio's objective. Investment markets are anticipating an uplift in inflation (reflation) in response to widespread large government stimulus. We too have revised the likelihood of reflation in the next year, but our expectations are more tempered than the market.

We're concerned the emergence of a vaccine resistant strain will hang over the pandemic for some time – we could find ourselves quickly back near square one. We also maintain a degree of scepticism that consumer behaviour will quickly return to pre-COVID-19 times. Precautionary behaviours might linger, leading to changes in consumption and lower overall growth.

Taking into account these scenarios, we haven't made changes to target asset allocations of the portfolio. However, we've allowed the allocation to growth assets to drift higher at the expense of defensive assets. This deliberate decision not to rebalance the portfolio reflects our view that slightly more risk is warranted in the portfolios at this point in time due to the increased likelihood of reflation and a recovery in growth. This decision pre-empts the outcome of a review of the target allocations due in the March 2021 quarter.

Further, we've reinvested across the portfolio any dividends and distributions received for those accounts where they are retained in the model.

There have been changes to the directly held stocks through the quarter, outlined below.

If you're comparing the asset allocation to our previous reports, you may notice we moved Ardea Real Outcome Fund from 'Fixed income', to 'Alternatives'. We made this small adjustment because this fund's investment strategy is more akin to alternatives.

Portfolio activity during the month

Additions / Increase	Portfolio change	Rationale
Star Entertainment Group Ltd	+0.3%	We initiated a position in leisure and entertainment services provider Star Entertainment Group, which operates The Star in Sydney, The Star Gold Coast and Treasury Casino & Hotel in Brisbane, and manages the Gold Coast Convention and Exhibition Centre. We see it as attractively priced compared to troubled competitor Crown Resorts with a more positive outlook due to development potential in the Gold Coast and Brisbane. Whilst COVID-19 has reduced international visitors, domestic visitors are spending more with the Star Entertainment Group on entertainment.
Woolworths Group Ltd	+0.3%	We initiated a position in Woolworths Group as the sector's relative fundamentals have improved recently and the supermarket retailer is a high quality company with good direction.
Worley Ltd	+0.3%	We initiated a position in the global engineering, advisory and project management services company Worley Ltd. We see it as attractively priced as it is leveraged to the improving capex cycle and is highly correlated to the oil price and commodity prices in general.

Removals / Reduction	Portfolio change	Rationale
Macquarie Group Ltd	-0.4%	We exited the position in investment bank and financial services company Macquarie Group in order to fund more attractive opportunities.
Insurance Australia Group Ltd	-0.4%	We exited the position in Insurance Australia Group given the impacts of COVID-19 on the general insurance group's near-term profits.
Stockland Corporation Ltd	-0.3%	We exited the position the diversified property group Stockland, in order to fund more attractive opportunities.

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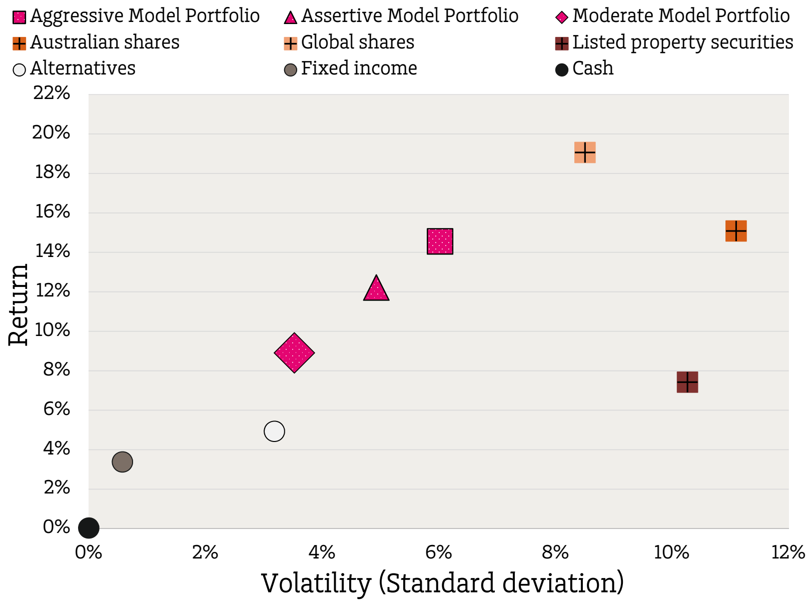
Returns and volatility since inception

Investing and portfolio management isn't a perfect science. Uncertainty is always present. That's why asset values, particularly shares, fluctuate so much. Some risks can be managed or reduced using investment techniques like diversification, monitoring, and adjusting exposures. Other risks simply can't be controlled. Our experience has taught us that successful investing requires an understanding of risk as being ever-present yet necessary to achieving growth higher than the rate of inflation. Returns above inflation may be achieved in a short time, or it can take many years – it depends on the investment environment.



We've graphed returns and risk for the asset classes comprising the portfolio. The measure of risk we've used is volatility i.e. how much returns of each asset class fluctuate around their average return. Clearly the asset classes' returns and volatility are diverse. In the long run we'd expect higher returning asset classes to have higher volatility. This has played out in the six months since the portfolio's inception. Returns from more risky asset classes like shares are stronger returning and more volatile than the less risky asset classes like fixed income.

By carefully managing each asset class and combining them at the weights we believe will achieve the portfolio's objective, the outcome is the return and volatility shown as a diamond in the graph. We've also included the other two MLC Premium Model Portfolios for comparison.

Global company

Amazon.com (NASDAQ code: AMZN)

amazon

One of our global share managers, Intermede, provided the following stock story for one of the holdings, which you may find interesting:

We initiated a position in Amazon during the month and now hold it for the first time since inception. While the shares have performed phenomenally well over the last several years, they have traded sideways over the past few months, despite a continued strengthening of the company's competitive advantage led by Amazon Prime. The COVID-19 pandemic has been a boon for Amazon, with ecommerce sales accelerating from circa 20% growth in 2019 to circa 40% growth in 2020. While the sales gain in 2020 is positive, the bigger long-term benefit is the growth of Prime subscribers and importantly increased engagement by those subscribers. Prime members have been buying more on the platform and using services such as Prime Video much more than in the past.

With regards to our longstanding avoidance of the stock, our biggest concerns about the company, namely a lack of profitability and cash flow and questions about the sustainability of Amazon's financial model, have lessened considerably over the last three years. On the ecommerce side, profits have come through nicely, driven in part by a greater emphasis on monetising search traffic and advertising, and the capital intensity has fallen benefiting cash flow. For Amazon our concern about the long-term margin profile of the business remains, but we see enough upside in the company to offset a fair amount of potential margin contraction.

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Australian company

Ansell Ltd (ASX code: ANN)

One of our Australian shares managers, Antares Equities, provided the following stock story for one of the holdings, which you may find interesting:

ANN is known as a manufacturer of gloves. ANN gloves are used in industries from food production to chemical processing, car manufacturing and beyond. What is not often appreciated about ANN is that it is also a major manufacturer of medical gloves, especially single use and surgical gloves. ANN has higher sales of medical gloves than it does industrial. This has been important during the recent twelve months. At the commencement of the COVID-19 pandemic, the stock was sold off heavily by the market, as global lockdowns saw industrial production around the world curtailed. The associated falls in demand for its industrial gloves would lead the company to downgrade its earnings guidance, so it was believed. This did not happen, as demand for medical gloves, especially single use gloves, sky-rocketed. These became crucial components of personal protective equipment (PPE) for front line workers, yet the company's share price has floundered.

Why? It is true that other medical glove manufacturers, especially those in certain ASEAN countries, took the opportunity to profiteer from the panic buying of single use medical gloves. ANN did not do this, so it is not now facing the same unwind of artificial earnings strength. It is also true that significant additional capacity is being planned for the manufacture of single use medical gloves. ANN estimates that the world is able to meet only around two-thirds of the actual demand for such gloves. So additional supply is required, and ANN is participating. Further, key components in the manufacturing process, such as Butadiene, are increasingly difficult to source, which leaves ANN well-placed due to its long-term agreements with suppliers.

The answer, we think, is that ANN is in the basket of so-called 'COVID-19 winners', that is, stocks that benefitted from unprecedented levels of demand which the market does not believe to be sustainable. We believe the role of PPE in managing in managing contagions is recognised, so demand for ANN's single use gloves will be sustained. We also see a strong rebound, in time, for its surgical gloves, given postponement of elective surgery during COVID-19 globally. Finally, sales in the industrial division should also benefit from the anticipated global recovery associated with the vaccine roll-out. On the flipside, should the vaccine be less effective or delayed, demand for PPE will likely strengthen further. So, we see ANN as well placed in the current environment and most importantly, with an undemanding valuation and a strong balance sheet.

Portfolio holdings

Asset class	Holdings	Ranges (%)	Actual weighting (%)
Australian shares		**10 - 35**	**20.9**
Active, direct, all cap			16.6
	BHP Group Ltd		1.9
	Commonwealth Bank of Australia		1.6
	Australia & New Zealand Banking Group Ltd		1.4
	National Australia Bank Ltd		1.2
	Coles Group Ltd		1.1
	CSL Ltd		1.0
	Telstra Corporation Ltd		0.8
	Wesfarmers Ltd		0.7
	Seven Group Holdings Ltd		0.6
	AGL Energy Ltd		0.6
	Westpac Banking Corporation		0.6
	SEEK Ltd		0.5
	Ansell Ltd		0.5
	South32 Ltd		0.5
	Woodside Petroleum Ltd		0.5

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Asset class	Holdings	Ranges (%)	Actual weighting (%)
	Medibank Private Ltd		0.4
	Nine Entertainment Co. Holdings Ltd		0.4
	Amcor PLC		0.4
	Harvey Norman Holdings Ltd		0.4
	BlueScope Steel Ltd		0.4
	Worley Ltd		0.3
	Star Entertainment Group Ltd		0.3
	Tabcorp Holdings Ltd		0.3
	Woolworths Group Ltd		0.3
	NEXTDC Ltd		0.3
Active, ex-20	Antares Ex-20 Australian Equities Fund		4.3
Global shares		**5 - 35**	**23.0**
Active, growth, unhedged	Intermede Global Equities Fund		9.8
Active, quant, hedged	Arrowstreet Global Equity Fund (Hedged)		7.6
Active, value, unhedged	Polaris Global Equity Fund		5.5
Global property securities		**0 - 15**	**2.9**
Active, hedged	Resolution Capital Global Property Securities Fund		2.9
Alternatives and other		**0 - 20**	**14.7**
Inflation Plus	MLC Wholesale Inflation Plus Moderate		10.0
Absolute return, hedged	Ardea Real Outcome Fund		4.7
Fixed income		**20 - 60**	**36.2**
Australian, active, short maturity	Antares Income Fund		15.2
Australian, active, all maturity	UBS Australian Bond Fund		5.2
Global, active, all maturity, hedged	PIMCO Global Bond Fund Wholesale		9.0
Global, active, high yield, hedged	Bentham Global Income Fund		6.8
Cash		**2 - 20**	**2.3**
Cash			2.3
Total			**100**

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