MLC Value Assertive Model Portfolio

ASSET MANAGEMENT

'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 Value Assertive Model Portfolio is a complete investment solution focused on providing above-inflation returns through an expertly managed, low cost portfolio that's diversified across asset classes, and blends the strengths of active and index management.

Portfolio details

Objective	Aims to deliver a return of inflation +2.5% p.a. (after Model Manager fees) over a 5-7 year period.	Minimum suggested time to invest	5 years
Inception date	1 July 2020	Indicative number of holdings	30 - 40

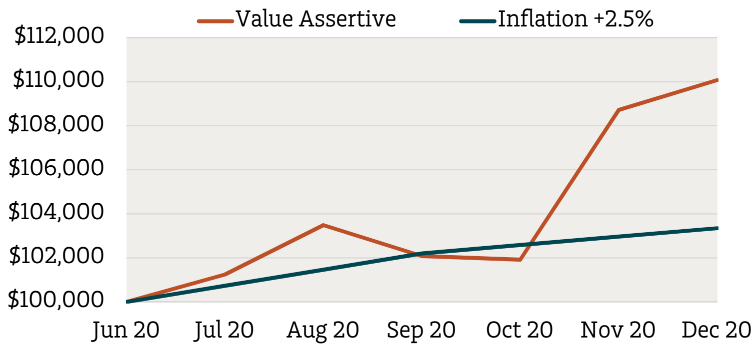
Portfolio snapshot

Performance

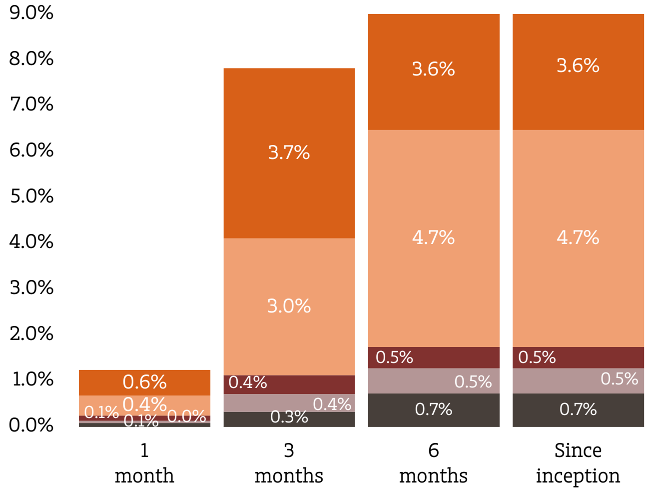
	1 month %	3 months %	6 months %	Since inception %
Income return*	0.2	0.3	0.6	0.6
Growth return	1.0	7.5	9.5	9.5
Total return^	1.2	7.8	10.1	10.1
Inflation +2.5%	0.3	1.1	3.4	3.4
Excess return	0.9	6.7	6.7	6.7

**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.

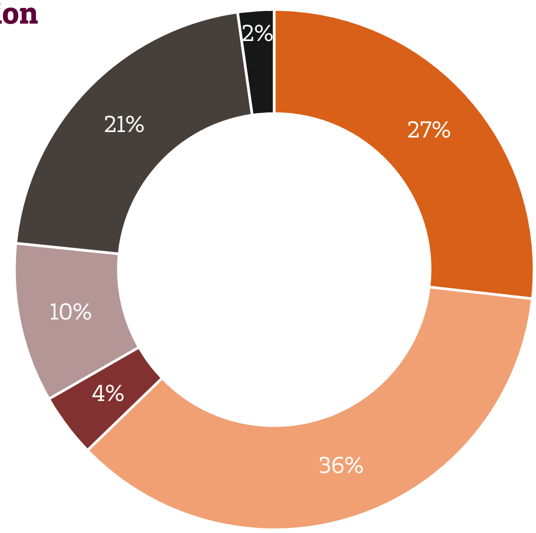
Value of $100,000 invested since inception



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.

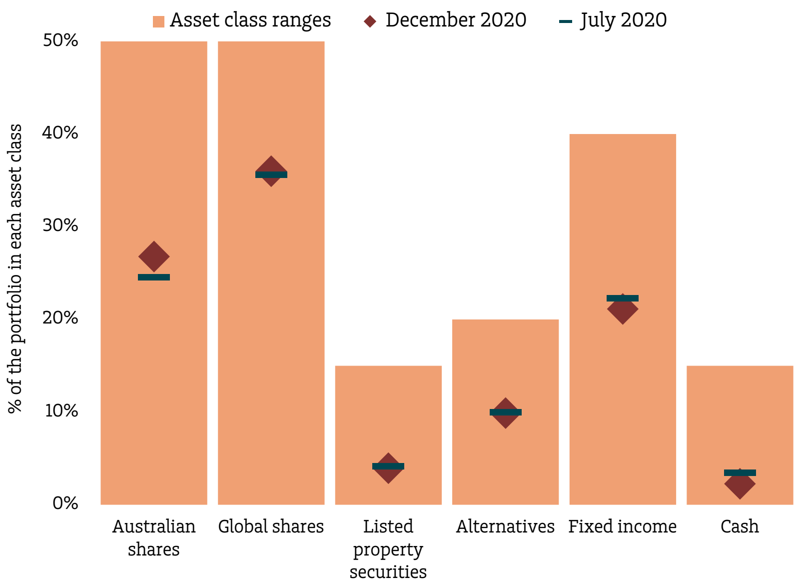
The Australian share market also rose strongly this quarter. Apart from the positive global vaccine news and Melbourne ending its lockdown, further support from the Reserve Bank of Australia (RBA) provided a tailwind to Australian shares – the RBA cut the cash interest rate to a historic 60 year low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

The portfolio's holding in Fortescue Metals and Woodside Petroleum benefited from a strong surge in prices of companies closely exposed to the anticipated economic recovery. 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).

iShares International Equity Index Funds were the largest contributors to the portfolio's performance this quarter, closely followed by the Vanguard Australian Shares Index ETF, on the back of market rises.

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.

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There have been changes to the directly held stocks through the quarter. Stocks were rebalanced to the ASX20 Index, resulting in the addition of Afterpay and removal of Insurance Australia Group.

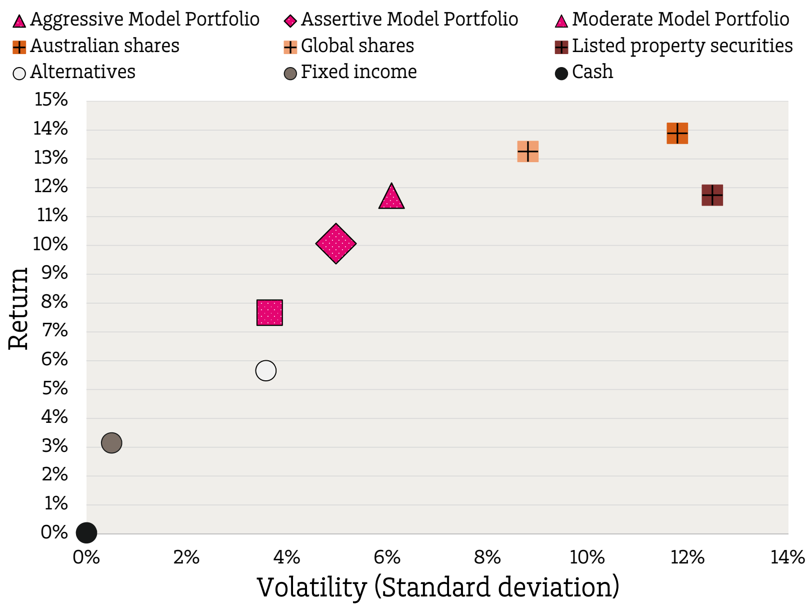
Portfolio activity during the month

Additions / Increase	Portfolio change	Rationale
Afterpay Ltd	+0.4%	Companies comprising the S&P/ASX 20 Index have changed, resulting in the addition of Afterpay and reweighting of existing companies in the Portfolio.
Removals / Reduction	**Portfolio change**	**Rationale**
Insurance Australia Group Ltd	-0.3%	Companies comprising the S&P/ASX 20 Index have changed, resulting in the removal of Insurance Australia Group and reweighting of remaining companies in the Portfolio.

The approximate portfolio change amount is not a guarantee of a change to a client's portfolio. There may be differences between the Model Portfolio and a client's portfolio due to 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. The tables above provides the investment rationale for adding a new holding, removing an entire holding, or making a significant change to a Model Portfolio. Portfolio re-weightings or re-balances occur normally in the course of managing the Portfolio and are included in 'Portfolio holdings' table below.

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 Value Model Portfolios for comparison.

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Portfolio holdings

Asset class	Holdings	Ranges (%)	Actual weighting (%)
Australian shares		**20 - 50**	**26.8**
Passive, direct, large cap			19.3
	Commonwealth Bank of Australia		2.6
	CSL Ltd		2.3
	BHP Group Ltd		2.2
	National Australia Bank Ltd		1.4
	Westpac Banking Corporation		1.4
	Wesfarmers Ltd		1.1
	Australia & New Zealand Banking Group Ltd		1.0
	Woolworths Group Ltd		0.9
	Macquarie Group Ltd		0.9
	Rio Tinto Ltd		0.7
	Telstra Corporation Ltd		0.7
	Transurban Group		0.7
	Fortescue Metals Group Ltd		0.7
	Goodman Group		0.5
	Woodside Petroleum Ltd		0.5
	Afterpay Ltd		0.4
	Coles Group Ltd		0.4
	Newcrest Mining Ltd		0.4
	Aristocrat Leisure Ltd		0.3
	Brambles Ltd		0.3
Passive, all cap	Vanguard Australian Shares Index ETF		5.4
Active, small cap	Fairview Equity Partners Emerging Companies Fund		2.1
Global shares		**10 - 50**	**36.0**
Passive, developed markets, unhedged	iShares International Equity Index Fund		19.6
Passive, developed markets, hedged	iShares Hedged International Equity Index Fund		14.4
Active, emerging markets, unhedged	Walter Scott Emerging Markets Fund		2.1
Global property securities		**0 - 15**	**3.9**
Passive, hedged	Vanguard International Property Securities Index Fund (Hedged)		3.9
Alternatives and other		**0 - 20**	**9.9**
Inflation Plus	MLC Wholesale Inflation Plus Assertive		9.9
Fixed income		**5 - 40**	**21.1**
Australian, active, short maturity	Antares Income Fund		10.3
Global, active, all maturity, hedged	PIMCO Global Bond Fund Wholesale		4.7
Australian, active, all maturity	UBS Australian Bond Fund		3.3
Global, active, high yield, hedged	Bentham Syndicated Loan Fund		2.9
Cash		**2 - 15**	**2.3**
Cash			2.3
Total			**100**

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