

MLC FirstChoice Managed Accounts

Portfolio Changes

Effective Date: 22 May 2025

What changes have we made?

Several shifts to the portfolio asset and sub-asset allocations have been implemented across the premium portfolio suites.



What's the rationale for these changes?

Our investment process, guided by the futures framework, has signalled changes in our forward outlook on various asset classes and their risk-reward opportunities.

- **Total growth asset exposure** has been increased by up to 6% depending on the portfolio risk profile, shifting total growth vs defensive positioning back towards our neutral SAA targets.

On a potential scenario's basis, while economic uncertainty remains high and consumer / business sentiment challenged, we believe the tail risks of a sharp economic slowdown, with damaging inflation levels have now largely abated. Valuation metrics across most markets remain little changed from the levels seen prior to the tariff induced market correction, however broader market sentiment measures have clearly retreated from euphoric levels. We are also witnessing the beginning of a potential broadening in both economic and equity return leadership, away from a US centric and highly narrow US tech focus and towards Europe and Asia (ex-China). It would also appear that monetary and fiscal policy for these regions is now out of step with the US, with interest rates falling and governments looking to simulate investment and consumer spending.

All said and done, we believe the current combination of indicators is supportive of medium-term market returns and while we have added risk back to portfolios, will still retain a somewhat defensive stance within our sub asset allocations and for the higher risk portfolios, total growth exposure that is still below that implied by our neutral asset allocations.

Total estimated growth allocations (including a look through on property, infrastructure and alternative assets) now sit as follows:

Conservative 30	Moderate 40	Moderate 50	Balanced 60	Balanced 70	Growth 80	High Growth 98
30% (+4%)	40% (0%)	49% (+5%)	59% (+4.5%)	69% (+5%)	79% (+6%)	95% (+6%)

- **Australian Equities** We see a reduction in valuation appeal in large cap ASX equities coupled with more subdued earnings growth. Small cap equity valuations are however less extreme as we still see medium term value and superior earnings growth potential in quality small cap exposures.
- **Global Equities** The aggregate equity allocation has increased via both hedged and unhedged global equities, where we see relatively more favourable opportunities versus Australian markets. This shift is amplified in the more growth-orientated model portfolios.
- **Property & Infrastructure** We see stable underlying earnings, sensible leverage, and long-term debt maturity schedules, as stimulants for mid-risk global listed property and infrastructure assets returns and believe they will offer diversifying properties in the medium-term.

- **Fixed Income and Cash** We aim to balance the yield enhancement offered by credit over AUD cash against our more cautious outlook on the investment-grade segment, where elevated demand has led to spread compression and reduced valuation appeal, particularly in US credit markets.

In the growth-oriented portfolios, we have scaled back credit allocations to make room for increased risk-on exposures in global equities and real assets. Conversely, we are in the more conservatively positioned portfolios redeploying cash into investment-grade credit to capture additional yield—reflecting a more nuanced reshaping of the fixed income program alongside the introduction of a new manager.

New allocation to Janus Henderson Diversified Credit Fund

- In June 2024, CFS announced the appointment of Janus Henderson as the replacement manager for the First Sentier Global Credit Income Fund. Following a transition period to align the portfolio and its underlying assets with Janus Henderson's Diversified Credit strategy, we are now comfortable initiating a position in the fund. This decision reflects our broader conviction in the manager and strategy, both of which are utilised in various forms across MLC's multi-asset investment programs.
 - **What is this strategy?** The Janus Henderson Diversified Credit strategy provides a diversified exposure to a range of predominantly domestic 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.
 - **How does it differ from the existing Janus strategy in the portfolios?** 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.
 - Discrete allocations to the fund have been initiated within the more conservative oriented portfolios.

How are these changes being funded?

- The reduction of Australian equity exposure is reasonably uniform across the existing manager lineup. This capital is being redeployed to global equity exposures.
- The increase to global equity allocations has been spread across the existing manager lineup, with a focus on rebalancing growth, value and quality style exposures. No additional capital has been allocated to emerging markets owing to our slightly more muted medium-term risk and return outlook for non-developed market equities, coupled with our starting point of a meaningful allocation.
- Listed property and infrastructure have also seen modest allocation increases.
- Defensive assets in aggregate (fixed income plus cash) have decreased in exposure.
 - A reduction of cash from previously higher platform minimum levels has been re-deployed within fixed income for the moderate and conservative portfolios. The change has enabled us to reshape the fixed income program by reducing Australian bond exposure and add to investment grade credit exposure through Janus Henderson's Diversified Credit strategy.
 - The more growth-oriented portfolios have selectively decreased fixed income and cash to fund the expansion of global equity and real asset allocations.



Is there an impact on portfolio fees?

These changes to asset allocation will result in relatively small portfolio fee impacts, estimated at between 3 and 6 basis points depending on the portfolio in question.

When were the changes made?

The relevant trades were processed on the 22nd of May 2025, noting that the actual trade execution dates and prices can differ depending on the processing times and policies of each investment platform.

Portfolio changes summary table

The below table outlines the estimated portfolio changes versus strategic target weights as of 22 May 2025.

	Conservative 30	Moderate 40	Moderate 50	Balanced 60	Balanced 70	Growth 80	High Growth 98
Australian shares		-1.0%		-3.0%	-3.0%	-2.0%	-2.0%
Solaris Core Australian Equity		-0.5%		-2.0%	-1.5%	-0.5%	-2.0%
Ausbil Australian Active Equity		-0.5%		-2.0%	-1.5%	-0.5%	-2.0%
First Sentier Small Companies				-1.0%		-1.0%	+2.0%
OC Premium small Companies				+2.0%			
Global shares	+3.0%	+1.0%	+4.0%	+5.5%	+8.0%	+9.0%	+7.0%
Intermede Global Equities	+2.0%	+1.0%	+2.5%	+2.5%	+3.5%	+4.0%	+3.5%
T. Rowe Price Global Equity – Hedged	+0.5%	+0.5%	+0.5%	+1.5%	+2.0%	+2.0%	+1.5%
Royal London Concentrated Global Share		-0.5%	+0.5%	+0.5%	+1.0%	+1.0%	+0.5%
RQI Global Value– Hedged	+0.5%		+0.5%	+1.0%	+1.5%	+2.0%	+1.5%
Pendal Global Emerging Market Opportunities							
Listed Property + Infrastructure	+1.0%		+1.0%	+2.0%		-1.0%	+1.0%
Resolution Capital Global Property		-1.0%				-1.0%	
CFS Index Global Listed Infrastructure Securities	+1.0%	+1.0%	+1.0%	+1.0%			+1.0%
Fixed income	+1.0%	+3.0%	0.00	-2.0%	-4.0%	-6.0%	-6.0%
Western Asset Australian Bond	-2.0%	-1.5%	-2.0%	-2.0%	-2.0%	-1.5%	
PIMCO Global Bond							
Bentham Global Income Fund	-0.5%					-1.5%	-1.0%
Janus Henderson Tactical Income	-0.5%	-0.5%	-2.0%	-2.0%	-2.0%	-2.5%	-5.0%
Janus Henderson Diversified Credit	+4.0%	+4.0%	+4.0%	+2.0%			
Macquarie Income Opportunities		+1.0%				-0.5%	
Cash	-5.0%	-5.0%	-5.0%	-2.5%	-1.0%		
First Sentier Strategic Cash	-5.0%	-5.0%	-5.0%	-2.5%	-1.0%		
Total Growth	+4.0%	-	+5.0%	+4.5%	+5.0%	+6.0%	+6.0%
Total Defensive	-4.0%	-	-5.0%	-4.5%	-5.0%	-6.0%	-6.0%

Important Information

Portfolio changes outlined in this document are expected to be implemented by CFS, in due course.

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