MLC FirstChoice Managed Accounts

Portfolio Changes

Effective Date: 29 September 2023

ASSET MANAGEMENT

What changes have we made?

REDUCED
Australian Equities

INCREASED
Fixed Interest

REFINED
Total defensive allocations

REGIONAL REBALNCE
Global Equities

REDUCED
Minimum Cash Holdings

MANAGER CHANGES
New Addition

NEW RISK PROFILES ADDED
Moderate 40 and Balanced 60

What's the rationale for these changes?

- **Regional divergences are creating opportunities within equities**
- **Trimming cash and traditional fixed income exposure in favour of more flexible credit and duration levers**
- **While headline changes look defensive, the underlying positions represent a more modest shift**

If the consensus view from 12 months ago had prevailed, the US would already be in recession. Instead, rate rises have had little effect on unemployment, the headline inflation rate has halved and US equity markets have rallied strongly YTD. Closer to home, things look more 'normal' in a textbook sense, with at least a portion of Australian consumers in a bona fide 'cost of living crisis'. Meanwhile in China, authorities seem unwilling to short-circuit the real-estate driven confidence malaise with the sort of 'bazooka' stimulus the market is desperate for. These differences, in turn, are being driven by some unusual suspects. Instead of the near-universal headline interest rate increases seen in 2022, the role of monetary policy *transmission mechanisms* (e.g. structure of mortgage markets), extent of fiscal policy and overall policy goals (e.g. Bidenomics in the US or China's desire for property market sustainability) are causing the 'continental drift' so far in 2023.

From our perspective, Australian Equities are less attractive in this context, with small and mid-caps more vulnerable to any downturn despite somewhat favourable valuation and earnings positions. On the other hand, while Emerging Markets face challenges, these appear largely priced in. Sitting somewhere in between is the US, which is showing a clean pair of heels as far as economic growth is concerned. In keeping with our 'participate and protect' mindset, the portfolio changes we are making partially substitute US equity exposure with US credit exposure (as default risk appears very well-compensated).

Alongside the regional calibration, we have added further flexibility in the portfolios by trimming cash (which outperforms in a relatively limited range of scenarios) or more traditional fixed income exposures, and instead allocating to a strategy that provides both Credit exposure as well as highly active Duration (interest rate risk) management. We believe this style of exposure better-serves our clients in an ever-changing environment.

Eagle-eyed readers will note that although the headline 'Growth/Defensive' mix has tilted to defensive, the effect is much more neutral once the nature of the underlying strategies is considered (for instance Credit carries higher risk than Cash despite both sitting in the 'defensive' bucket). This is no accident, as we see skewing the portfolios towards the attractive risk-reward opportunities in global credit as one way to recognise, but not overreacted to potential recessionary risks.

New manager addition

Following CFS's recent menu additions, we have added the Bentham Global Income fund across the entire portfolio suite. This fund has the broadest investment universe within our current fixed income stable, with the ability to invest in government bonds, securitised credit, syndicated loans, high yield bonds and derivatives. It is also able to invest across the capital structure, albeit while maintaining a minimum 50% exposure to investment-grade securities. While best known as credit investment specialists, the team also has demonstrated value add in active duration management as well as the deployment of defensive derivative positions over time.

Led by Richard Quin, the Bentham team, including co-founders Nik Persic and Mark Fabry was spun out of Credit Suisse in 2010. Backed by an in-house analyst and trader team they also maintain close ties with Credit Suisse's Credit Investment Group, particularly in support of the fund's high yield and syndicated loan positions.

We are attracted to the highly diversified nature of the fund (in terms of both sub-strategies and securities), the high calibre of the team executing it and their track record of doing so (with MLC having been long term investors in range of Bentham's strategies across our various institutional investment programs). While the active risk exposure of this fund means it can often lack the defensive characteristics of more traditional bond and IG credit peers, we believe the returns on offer typically compensate for the associated elevated risk profile, a risk that we believe is further diversified by judiciously deploying this fund as part of a well-considered, purposeful fixed interest portfolio

Is there an impact on portfolio fees?

Changes to underlying asset and manager allocations has resulted in a small increase in total fees for some portfolios.

The tables below outline the total estimated fees for existing portfolios immediately pre and post these changes (based on the CFS FirstChoice PDS dated 23 May 2023)

Super	Conservative 30	Moderate 40	Moderate 50	Balanced 60	Balanced 70	Growth 80	High Growth 98
Pre (May 2023)	0.78%	-	0.89%	-	0.99%	1.06%	1.15%
Post (September 2023)	0.81%	0.87%	0.90%	0.95%	1.00%	1.06%	1.15%
Change	0.03%	-	0.01%	-	0.01%	0.00%	0.00%

Pension	Conservative 30	Moderate 40	Balanced 60	Balanced 60	Balanced 70	Growth 80	High Growth 98
Pre (May 2023)	0.78%	-	0.89%	-	0.99%	1.06%	1.15%
Post (September 2023)	0.81%	0.87%	0.90%	0.94%	1.00%	1.06%	1.15%
Change	0.03%	-	0.01%	-	0.01%	0.00%	0.00%

When were the changes made?

The relevant trades are were processed by CFS on the 29th of September 2023.

Portfolio changes summary table

The table below outlines the estimated portfolio changes vs the target strategic weights for the current portfolios as of May 2023.

Note: This table includes changes only and is not an outline of the full portfolio. Those full allocations can be found on the *Portfolio Holdings and Fees Summary Spreadsheet (October 2023)* on the MLC CFS microsite.

	Conservative 30	Moderate 40	Moderate 50	Balanced 60	Balanced 70	Growth 80	High Growth 98
Australian Shares		-	-2.0%	-	-2.0%	-2.0%	-2.0%
First Sentier Australian Small Companies		-	-2.0%	-	-1.0%	-1.0%	-1.0%
OC Premium Small Companies		-		-	-1.0%	-1.0%	-1.0%
International Shares	-2.0%		-1.0%		0.0%	0.0%	0.0%
Intermede Global Equities	-1.0%	-	-2.0%	-	-1.0%	-1.0%	-1.0%
T. Rowe Price Global Equity – Hedged		-		-			-0.5%
Ironbark Royal London Concentrated Global Share	-1.0%	-	-2.0%	-	-1.0%	-1.0%	-1.0%
Realindex Global Share Value - Hedged		-		-			-0.5%
Pendal Global Emerging Market Opportunities		-	+3.0%	-	+2.0%	+2.0%	+3.0%
Listed Property + Infrastructure		-					-1.0%
Resolution Capital Global Property Securities		-		-			-1.0%
Fixed Interest	+7.0%	-	+3.0%		+6.0%	+2.5%	+3.0%
Western Asset Australian Bond		-	-1.0%	-			
PIMCO Global Bond		-	-1.0%	-			
Macquarie Income Opportunities	-2.0%	-	-2.0%	-		-0.8%	
Janus Henderson Tactical Income	-1.5%	-	-1.0%	--	+1.0%		
Bentham Global Income	+10.5%	-	+8.0%	-	+5.0%	+3.3%	+3.0%
Cash	-5.0%	-		-	-4.0%	-0.5%	
First Sentier Strategic Cash	-5.0%	-		-	-4.0%	-0.5%	
Total Growth	-2%	-	-3%	-	-2%	-2%	-3%
Total Defensive	+2%	-	+3%	-	+2%	+2%	+3%

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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