



Investment Q&A

19 September 2008

How does MLC manage risk?

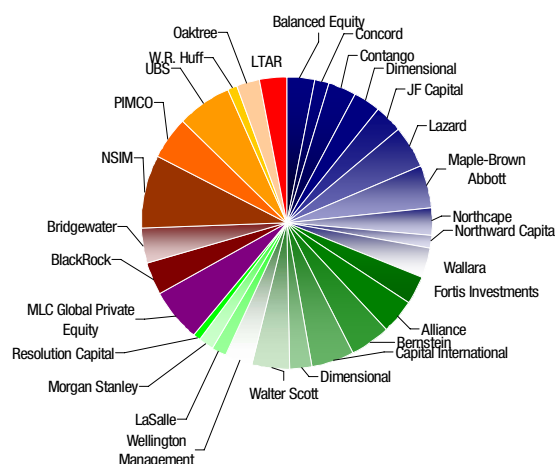
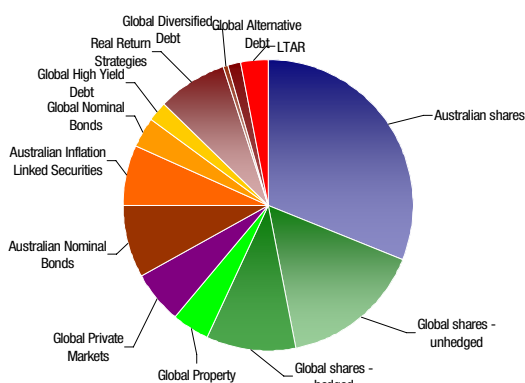
Amidst the media reports of institutional collapses, bail-outs and share market falls, MLC continues to manage your portfolio's exposure to risk, as it has done for more than 20 years. Of course our methods of managing risks are far more sophisticated now than they were 20 years ago; the types of risks haven't really changed. That's why MLC's investment process, which manages risk when markets are rising and falling, continues to stand the test of time. And while many of our competitors have fallen by the wayside in the last 20 years, we have continued to grow to be the largest multi-manager in Australia.

Why do I need to take investment risk?

While most evident when markets are falling, risk is ever-present. However, it's not something you want to avoid completely because without risk, you won't be able to grow your wealth sufficiently over the long term to achieve your financial goals. And if returns are the reward you receive for taking investment risk, logic follows that the higher long-term returns usually come from investments with more risk (eg shares).

What are the main ways MLC manages risk?

The most effective way of managing investment risk is diversification. Almost everyone would be (or should be) diversifying their investments in some way. But at MLC, we take diversification to a whole other level. **We diversify investments as widely as possible – across asset classes, investment strategies and investment managers.** The graphs below show the depth of the MLC Horizon 4 – Balanced Portfolio's diversification across asset classes and investment managers. The result is a portfolio containing thousands of securities from different markets all over the world.



As at 30 June 2008

- Allocation to many asset classes
- 40+ countries
- 1,000+ shares
- 28 public market managers
- 60+ industries
- 1,000+ bonds
- 35 private equity managers



In managing risk, it is also important to acknowledge that, as hard as we try, we may not be able to dodge every bullet that comes our way. However, in the last year, we have managed to dodge quite a few, including securities backed by US sub-prime mortgages, exposure to the recent institutional collapses and bailouts, and our Horizon portfolios avoided the worst of the Australian listed property fallout. For every asset class we invest in, **we engage investment managers that we consider to be best of breed from around the world**, but even they will not be able to get every call right and avoid every pothole. What we can do however, is to manage risk in such a way, that decisions we or our investment managers get wrong are never going to be large enough to cause serious damage to our clients' returns.

Most people invest for decades, not years, and will experience market conditions that will range from the very good to the very bad (when investment discipline is tested). In fact we think ahead to how we can build protection and growth into our portfolios in all different market conditions. We don't know what the future holds so we think long and hard about how each asset class will perform in 40 different possible futures, including a "credit crunch" like the present. **MLC's portfolios are designed to survive (and grow) in all sorts of conditions, not just the present.**

And finally, we **continually rebalance** our portfolios and funds to their long-term target asset and investment manager weights, because we know that reacting to short-term performance is usually wealth destroying. This also means that you can be confident that through time and all market conditions, MLC is maintaining your chosen investment strategy to be 'true-to-label'.

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