



Vanguard INVESTMENTS®

Vanguard aims to be the highest value provider of investment services.

Our core focus is our clients and we are committed to providing investors with high quality, low cost index funds with a superior long-term performance* history which spreads investment risk through portfolio diversification.

Vanguard Investments Australia Ltd

- Manages index based **Australian shares** for MLC IncomeBuilder, since 2001
- Manages \$68 billion, across the company, as at 30 September 2008
- The Vanguard Group is the world's second largest provider of mutual managed funds
- Origins dating back to 1929

Why has MLC chosen Vanguard?

MLC utilises The Vanguard Group ("Vanguard") because they are a world leader in index based shares management. Vanguard aims to replicate the S&P/ASX200 Industrials Accumulation Index (before the deduction of fees and costs) giving MLC IncomeBuilder low cost access to a broadly diversified portfolio of quality companies that are generally expected to increase their dividends over time. This index approach also has a very low level of turnover with purchases and sales of shares only occurring in response to changes to the Index and as a consequence of money being invested in and withdrawn from the Fund. This low turnover approach reduces the impact of transaction costs and taxation, and is closely aligned to MLC IncomeBuilder's primary objective of delivering an increasing tax-effective income stream.

Philosophy on investing



ERIC SMITH
Chief Investment
Officer

Vanguard believes that investment markets are a "zero sum game" before costs - investors can only out-perform the market at the expense of other investors under-performing - and hence low cost index portfolios will outperform most active managers, after costs, over the long term. Indexing is an investment strategy that attempts to closely match the investment returns of a specified group of shares, bonds or other securities, usually represented by a recognised index. An index manager constructs a portfolio that closely tracks the investment returns of the assets making up a target index by holding all, or a representative sample, of the securities in the index.

Unlike an active fund manager, Vanguard does not attempt to analyse which shares are likely to go up or down in value. Vanguard builds portfolios that comprise all - or in the case of very broad indexes, a representative sample - of the securities in an index. Vanguard understands that indexing is not a short-term investment strategy, and index funds typically buy assets and then hold them for the long-term.

Investment process

The Vanguard Australian investment team, headed by Eric Smith, is deeply experienced in the management of index portfolios and has the quantitative investment skills and trading practices required to build optimal, low cost portfolios.

Vanguard passively manages a portfolio of approximately 160 stocks on behalf of MLC using its optimised replication technique. The S&P/ASX200 Industrials Index also contains approximately 160 stocks. Vanguard's approach, using optimised replication, reduces the tracking error risk of the portfolio (volatility of performance relative to benchmark) by holding most or all of the index stocks very close to their index weights. It optimises the purchases and sales of stocks—in response to index changes and cash flows—to reduce the number of trades (compared with full-replication) and hence the costs of trading. The approach also reduces the realisation of capital gains and hence the distribution of taxable capital gains to investors.

Investment people

Vanguard's team of 23 investment professionals manage index assets across the traded securities spectrum. In 2004 the investments team were awarded Money Management /ASSIRT 2004 "Fund Manager of the Year - Multi-Sector Funds", Personal Investor "Balanced Fund of the Year" in 2005, and the Smart Investor Blue Ribbon Award in 2006 for Multi-Sector Personal Superannuation LifeStrategy category. Vanguard's Index Properties Securities Fund won best Australian Property Securities Fund in Money Magazines Best of the Best Awards in 2008.

Eric Smith – Chief Investment Officer, BSc (Hons), MBA (AGSM)

Eric Smith is Chief Investment Officer of Vanguard Investments Australia. He joined Vanguard in 1996. Eric is primarily focused on Vanguard's investment management strategy and implementation, the continued development of Vanguard's highly rated index investment process and an innovative range of new products and tailored investment solutions to an expanding list of Australian and international clients.

Alla Kolganova - Principal and Head of Equities MSc, PhD, CFA

Alla Kolganova is Principal and Head of Equities. Together with her team of five other investment professionals Alla is responsible for the management and successful delivery of the investment objectives for equity and property portfolios. Alla joined Vanguard Investments in February 2000 as a Portfolio Manager. She was previously Head of Australian Equities & Property Securities. Alla moved to Head of Equities in May 2007.

Les Bright- Head of Investment Risk PhD

Les Bright is Head of Investment Risk. In this role Les is responsible for managing Vanguard's risk management program within the investments team with the aim of improving the quality of Vanguard's investment processes. Les joined VIA in September 2001 as a Portfolio Manager in the fixed interest team. Les was promoted to Senior Portfolio Manager in December 2002 and to Deputy Head of Fixed Interest in December 2005.

Roger McIntosh – Principal and Head of Fixed Income

Roger McIntosh is Principal and Head of Fixed Income. He is responsible for the management of all domestic and international fixed interest portfolios. Roger joined Vanguard Investments Australia in 1999. He was the fourth member of the investment team and has been intimately involved in the growth of the business and a flexible investment professional moving from Head of International Equities to Head of Fixed Interest in 2007



*Past performance is not an indicator of future performance.

The information contained in this material has been prepared by MLC Limited (ABN 90 000 000 402) and MLC Investments Limited (ABN 30 002 641 661) and is intended as general information only and is current as at 31 May 2008, except for the amount managed which is updated as stated. It has not been prepared to take into account individual investment objectives, financial situation or investment needs. Prior to making an investment decision, you should assess whether the information in this material is appropriate to your particular investment objectives, financial situation or investment needs. It is recommended that you obtain financial advice specific to your situation before making any financial investment or insurance decision. Past performance is not indicative of future performance. The future value of your investment may rise and fall with changes in the market.

An investment with MLC Limited or MLC Investments Limited does not represent a deposit with, or a liability of National Australia Bank Limited (ABN 12 004 044 937) or other member company of the National group of companies and is subject to investment risk including possible delays in repayment and loss of income and capital invested.

None of MLC Limited or MLC Investments Limited or other member companies in the National Group of companies, or appointed managers guarantee the capital value or performance of any specific investments selected by investors except where specified in the current disclosure document.

