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ASSET MANAGEMENT

Derivative strategies

Investment update to 31 December 2025

Our derivative strategies are a combination of distinct risk management and efficient asset allocation strategies. They are tailored to each of MLC's diversified funds by the MLC Asset Management (MLCAM) Portfolio Management team, the team responsible for managing the diversified funds' asset allocations. The team works closely with our specialist in-house Derivatives team, seeking opportunities to achieve higher returns or manage risks using strategies that aren't available when investing directly in assets.

MLC Real Return and Wholesale Inflation Plus

Within MLC's suite of diversified funds, derivatives strategies are used most extensively in our real return funds. Target allocations to derivative strategies for MLC's real return funds are shown in Table 1.[1]

Table 1: MLC real return funds with allocations to derivative strategies as at 31 December 2025

Fund series	% of portfolio invested in derivative strategies
MLC Real Return Assertive	14.8%
MLC Real Return Moderate	14.1%
MLC Wholesale Inflation Plus Conservative Portfolio	14.0%

Source: MLC Asset Management Services Limited. The allocations shown in Table 1 are based on the amount of cash we target the funds to invest in derivative strategies. Effective, or notional, exposures are different to these amounts. The amounts allocated to derivative strategies differ based on each fund's investment objective, strategy and risk profile.

Wholesale Horizon, MultiActive, Index Plus and Premium & Value SMA's

The MLC Wholesale Horizon Funds (2-5), the MLC MultiActive High Growth and the MLC Premium and MLC Value Separately Managed Account (SMA) Model Portfolios, have allocations to the MLC real return funds shown in Table 1, and therefore their derivative strategies indirectly.

Outside of these allocations to the MLC real return funds, the MLC Wholesale Horizon funds (2-5) and the MLC MultiActive funds can also use derivatives as part of their investment strategies. Examples of recent derivatives strategies used by these funds are detailed in Tables 3 and 4.[1]

MLC's Index Plus funds gain an exposure to derivative strategies through their alternatives strategy[1] These derivative strategies have been largely consistent with those employed within the MLC real return funds in Table 1, although percentage allocations may have differed^.

^ Note: From time to time, MLC Index Plus may choose not to invest in a derivative strategy shown in Table 1 if it is deemed unsuitable for the lower-cost nature of the MLC Index Plus funds.

[1] This update is for MLC's diversified investment funds listed in this report. Refer to the 'Important Information' section of this report for details about the funds. MLC offers diversified funds in investments, superannuation and pension. While there may be similarities between MLC's diversified funds offered in investments, superannuation and pension, this update is focused on the funds listed in this report.

What are derivative strategies?

Derivatives are contracts that have a value derived from another source such as an asset, market index or interest rate. Derivatives provide flexibility to efficiently manage both specific risk (eg options to protect against large falls in the US S&P 500 Index) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives, we're able to tailor attractive exposures and reduce (or hedge) unattractive exposures.

Our portfolios invest in both exchange traded (ie traded on a regulated exchange) and over-the-counter (ie traded off major exchanges).

Appendix 1 provides a short description of commonly used derivative strategies.

What are the key risks of derivatives?

Similar to other assets, the price of derivatives fluctuates with market conditions. For example, option contracts are sensitive to market expectations of future volatility. We constantly monitor and adjust our strategies to take advantage of favourable pricing when it becomes available. Proactively seeking these opportunities is essential as strategies that protect the portfolio from market falls can become unaffordable when it's most desired eg when market volatility increases significantly. The Derivatives team assists the portfolio managers to maintain affordability across a range of market conditions.

Complexities that are important to understand in using derivatives include the risks that:

- the value of a derivative may not move in line with the underlying asset
- counterparties to an over-the-counter derivative may not be able to meet payment obligations, and
- a particular derivative may be difficult or costly to trade.

Why use derivatives?

In our portfolios, derivatives allow our investment experts to manage risk or enhance returns, as an alternative to buying or selling assets directly. We make use of derivatives to help:

- generate returns which have a reduced risk exposure
- target attractive market opportunities
- reduce risks in the portfolio, and
- efficiently implement asset allocation decisions (i.e. quickly, cost effectively and while maintaining high liquidity) more efficiently and at lower cost than investing directly in 'physical' securities such as shares.

MLC's Derivatives team

The MLCAM Derivatives team was established in 2013. The team was formed to develop and implement derivative strategies and solutions to meet the specific requirements of MLCAM. The team is located in Sydney and Melbourne and employs three experienced investment professionals. Having an in-house team provides MLCAM with the ability to design unique, sophisticated and cost-effective derivative strategies to meet the specific needs of our diversified funds.

The MLCAM Portfolio Management team is responsible for the performance of the diversified funds, while the Derivatives team remains responsible for designing, implementing, monitoring of trades, and recommending when to revise or exit strategies.

The Derivatives team is proactive and constantly monitors the market for opportunities which emerge due to market movements or the development of market inefficiencies. Both the Derivatives and Portfolio Management teams need to be nimble, as market pricing often determines the effectiveness of a strategy and prices can move quickly.

The Derivatives team focuses on keeping costs low both through the design process and by obtaining the best execution rates.

MLC's Derivatives Policy further outlines how MLC manages derivatives.

MLC Real Return and Wholesale Inflation Plus Derivative Strategies

Table 2: Examples of derivative strategies in place during the six months to 31 December 2025

Strategy	Description	Benefits / Rationale
China: Shenzhen Composite Total Return Swap with put protection	The strategy allows the portfolios to participate in the upside of the Chinese market, with an actively managed hedge to reduce exposure to large falls. It is executed via Total Return Swaps which provide an index outperformance opportunity, in combination with purchasing deep out of the money put options using a small amount of the premium received from the outperformance swap. The exposure is currently targeted to the Shenzhen Composite Index and the CSI-1000 due to the high representation of small and mid-cap enterprises.	Chinese small to medium-sized companies in the technology, healthcare and consumer space are well positioned to benefit from structural changes underway in the Chinese economy. They also benefit from government policy support, have relatively cheap valuations and have potential for high growth. Exposure to Chinese small cap stocks remains a core position in the derivatives strategy. Attractive characteristics notwithstanding, China will continue to face risks from re-balancing the economy and geopolitical tension, hence the need to protect against significant losses by holding a deep out of the money put when pricing is favourable.
China: China H-share futures (HSCEI)	Exposure to China H-shares (large cap China stocks listed in Hong Kong) via futures.	Large cap China stocks listed in Hong Kong cover mature companies across Platforms (e.g. Tencent, Alibaba), Technology (e.g. Xiaomi), Consumer (e.g. JD.com), Healthcare (e.g. BeOne Medicines) and Financials (e.g. China Construction Bank). The index trades with a low valuation and has exposure to sectors that are likely to benefit from China's strategic growth policies.
Emerging Market Equity Futures	A highly liquid exposure to Emerging Market shares.	Exposure to Emerging Markets broadens exposure to higher growth and lower valuation emerging opportunities beyond China. Emerging market shares have a favourable risk/return outlook given they have: 1. a moderately strong growth profile, 2. favourable liquidity from US monetary policy and the US Dollar, and 3. acceptable valuations.
Japan: Topix ETF (iFree Topix ETF)	Liquid exposure to Japanese stocks	The Japanese stock market has several tailwinds that should support returns over the medium term. These include: 1. Continued focus on corporate governance reform. 2. An acceleration in investment across the economy. 3. The end of deflation and return of a stable increase in prices.
US: NASDAQ ETF (QQQ) and NASDAQ call option	Liquid exposure to high quality US technology shares.	The fund holds a small exposure to the NASDAQ as a cost-effective way to own high quality companies that are at the cutting edge of global technology and artificial intelligence. The exposure also complements a general underweight to the sector across the core global share strategies within the Real Return funds. Due to high valuations, we sold half of the NASDAQ ETF in the December quarter. The exposure was replaced by buying a call option. Holding the call is a way to prevent downside losses while retaining exposure to further gains.

Strategy	Description	Benefits / Rationale
Mining and Energy: Uranium miners ETF	A commodity that is critical for the energy transition but has had a decade of underinvestment.	Uranium is critical for the energy transition. Yet, following on from underinvestment, the uranium market faces a long period of a supply deficit. The large ramp up of power demand from AI is likely to exacerbate the imbalance. At the same time, the economics of uranium consumption in the production of electricity are such that utilities can pay significantly higher prices for uranium with only a modest impact on margins. Combined, the supply demand imbalance and the potential for utilities to pay higher prices whilst remaining profitable creates an attractive opportunity for uranium suppliers. Due to the high volatility of uranium miners, exposure to the uranium miners ETF will remain modest (target weight of less than 1.5%).
US and ASX share market protection	This strategy allows the portfolios to participate in the upside of the US share market, whilst providing downside protection should markets fall. The strategy is executed via put options on the S&P 500 at various levels.	The US and Australian share markets provide the portfolios with exposure to some of the world's best businesses. However, after a strong rally, valuations now appear stretched again. Hedges held over the S&P500 paid off during the period of high market volatility that occurred in April 2025 with the funds taking profit on these hedges when the market was near the trade-tariff lows. We continue to maintain a relatively high level of hedging over the US and Australian share markets, which in turn allows us to hold larger positions in shares than would be the case in the absence of hedges. The size of our hedges recognises: 1. the strong recovery in markets, but potnetial for more gains 2. the low level of implied volatility, and 3. the relatively high level of exposure to shares.
US share dispersion	An options strategy that focusses on the dispersion of returns in select US shares. Dispersion options increase in value when the difference in performance of shares increases. Based on our research, we have identified a group of US listed shares that are likely to be affected by changes in US government policy. If this is right, then the return performance of the shares we have identified will vary considerably and the option will increase in value.	Prior to the US election in November 2024, it was clear that the two candidates had vastly different policy agendas (e.g. de-carbonisation, de-regulation etc). While we had no insight on who would be the "winners" and "losers", we had high conviction regarding which shares would be candidates for winning or losing. Buying a dispersion option over this basket of shares meant that we didn't need to pick the winners, only the shares that would be impacted.
CNY/USD downside protection	A CNY/USD hedging strategy (known as a risk reversal strategy) that reduces exposure to the CNY falling.	Our share exposure to China introduces exposure to the Chinese currency. While we are happy to bear a degree of currency risk, we have effectively hedged out the potential for more than modest currency losses if China depreciates the yuan. We believe the risk of currency devaluation is currently higher than normal due to the ongoing trade conflict with the US.

Source: MLC Asset Management Services Limited. These strategies are used in the funds in Table 1 of this report and not used in all MLC diversified funds.

MLC MultiActive Derivative Strategies (ex-High Growth & Geared)

Table 3: Examples of derivative strategies in place during the six months to 31 December 2025

Strategy	Description	Benefits / Rationale
Duration exposure	A strategy that adds duration to the portfolios via the purchase of bond futures.	The added duration offsets the lower duration of the credit allocations and reduces the tracking error against the fixed income benchmark. It also improves risk control.
Currency overlay	A strategy that uses FX forwards to hedge currency risk for our international share exposures.	Reduces the exposure of the portfolios to foreign currency. The currency overlay can be increased or decreased based on our view of the AUD. Currently, our view of the AUD is close to neutral, with a small bias away from foreign currency.
China share market exposure	The strategy allows the portfolios to participate in the upside of the Chinese market. It is executed via Total Return Swaps which provide an index outperformance opportunity. The exposure is currently targeted to the CSI-1000 Index.	This reflects our positive view on Emerging Markets, including China. A Total Return Swap provides attractive outperformance for this exposure.
US share dispersion	An options strategy that focusses on the dispersion of returns in a basket of US shares. Dispersion options increase in value when the difference in performance of shares increases. The basket consists of 13 names of AI 'winners and losers'.	Implemented within the global shares allocation, this strategy captures potential value from narrowly led markets. This strategy is valuable where markets are led by a handful of technology stocks and may experience different performance payoffs to more value and quality focused stocks. It acts as a partial non-directional hedge to the portfolio's underweight to AI names.
Outperformance option	An options strategy designed to take advantage of relative sector thematics with global share markets.	The option strategy has been implemented in the global share allocation to capture technology sector performance (via the NASDAQ) relative to the performance of global value shares (via MSCI World Value). It acts as a partial hedge to the portfolio's underweight to technology names.

Source: MLC Asset Management Services Limited. These strategies are used in the MultiActive Capital Stable, Conservative, Moderate, Balanced and Growth funds, and not used in all MLC diversified funds.

MLC Wholesale Horizon 2-5 and MultiActive High Growth Derivative Strategies

Table 4: Examples of derivative strategies in place during the six months to 31 December 2025

Strategy	Description	Benefits / Rationale
Emerging Markets replication	A strategy that adds additional exposure to Emerging Markets shares via the purchase of futures.	Increased diversification given the heightened concentration of developed market shares. Used when valuations of emerging market shares look attractive compared to developed markets, providing a return opportunity for the portfolios.
MSCI World replication	A futures strategy that adds exposure to global shares.	This provides a flexible exposure to global share markets, complementing our existing exposures via our global share managers, which allows us to move in and out of global shares quickly should the need arise.
China share market exposure	The strategy allows the portfolios to participate in the upside of the Chinese market. It is executed via Total Return Swaps which provide an index outperformance opportunity. The exposure is currently targeted to the Shenzhen Composite Index.	This reflects our positive view on Emerging Markets, including China. A Total Return Swap provides attractive outperformance for this exposure.
US share dispersion	An options strategy that focusses on the dispersion of returns in a basket of US shares. Dispersion options increase in value when the difference in performance of shares increases. The basket consists of 13 names of AI 'winners and losers'.	Implemented within the global shares allocation, this strategy captures potential value from narrowly led markets. This strategy is valuable where markets are led by a handful of technology stocks and may experience different performance payoffs to more value and quality focused stocks. It acts as a partial non-directional hedge to the portfolio's underweight to AI names.
Outperformance option	An options strategy designed to take advantage of relative sector thematics with global share markets.	The option strategy has been implemented in the global share allocation to capture technology sector performance (via the NASDAQ) relative to the performance of global value shares (via MSCI World Value). It acts as a partial hedge to the portfolio's underweight to technology names.

Source: MLC Asset Management Services Limited. These strategies are used in the Wholesale Horizon 2-5 funds and MultiActive High Growth and not used in all MLC diversified funds.

Appendix 1: Commonly used derivative strategies

Futures	An agreement to buy the underlying asset at an agreed price at a set future date. Futures contracts are traded on an exchange and settled daily. As the futures price changes the holder of the contract makes or loses money. The upfront cost is typically less than 10% of the value of the asset and therefore the strategy is very cost effective.
Options	When buying an option, you have the right, but not the obligation, to buy the underlying asset at an agreed price (strike price) on an agreed date. You pay an amount upfront, called the premium for this right. On the maturity date (or before, if you choose to sell) if the price of the underlying asset has gone up, you can exercise the option. The profit is the difference between the price at maturity and the strike price (after deducting the option premium). Conversely, if the price has gone down the option expires worthless.
Swaps	An exchange of cash flows between two parties whereby the terms of the swap are agreed at the outset. Swaps can be customised to meet both parties' requirements. They are most commonly used to swap fixed payments for floating and vice versa. Equity swaps allow investors to pay the return on an index and receive the return on another asset. For example, Manager A wants to maintain their equity exposure long-term but is concerned with a short-term market correction and doesn't want to incur transaction costs by selling and buying back later. Manager B is looking for a better return than cash and is bullish on the index. They agree to swap cash flows quarterly for one year.