



## Asset Management

### Goldman Sachs Asset Management

- Manages global government bonds for MLC (since 2010)

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- Total AUS is A\$1,052 billion as of June 30, 2014

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- Origins dating back to 1869

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- Headquartered in New York, USA

Among our Global Credit Team members, 19 languages are fluently spoken.

### Why MLC has chosen Goldman Sachs Asset Management?

MLC uses Goldman Sachs Asset Management because it has a well resourced and experienced global investment team. Team members are organised into smaller specialist teams, each responsible for a key investment strategy, enabling each team to focus primarily on enhancing portfolio returns while ensuring accountability for outcomes. That's why they are an appropriate choice as a specialist global government bond manager for MLC.

The team is supported by an impressive internally-developed risk management system that efficiently monitors, allocates and attributes the key investment risks in the portfolio.

### Philosophy on investing

#### Fixed income philosophy

The Goldman Sachs Asset Management (GSAM) investment philosophy is founded upon the belief that consistent long-term positive excess returns can be generated by employing the broadest possible array of diverse investment opportunities, combined with disciplined and detailed portfolio risk management.

The GSAM investment process seeks to create excess returns by:

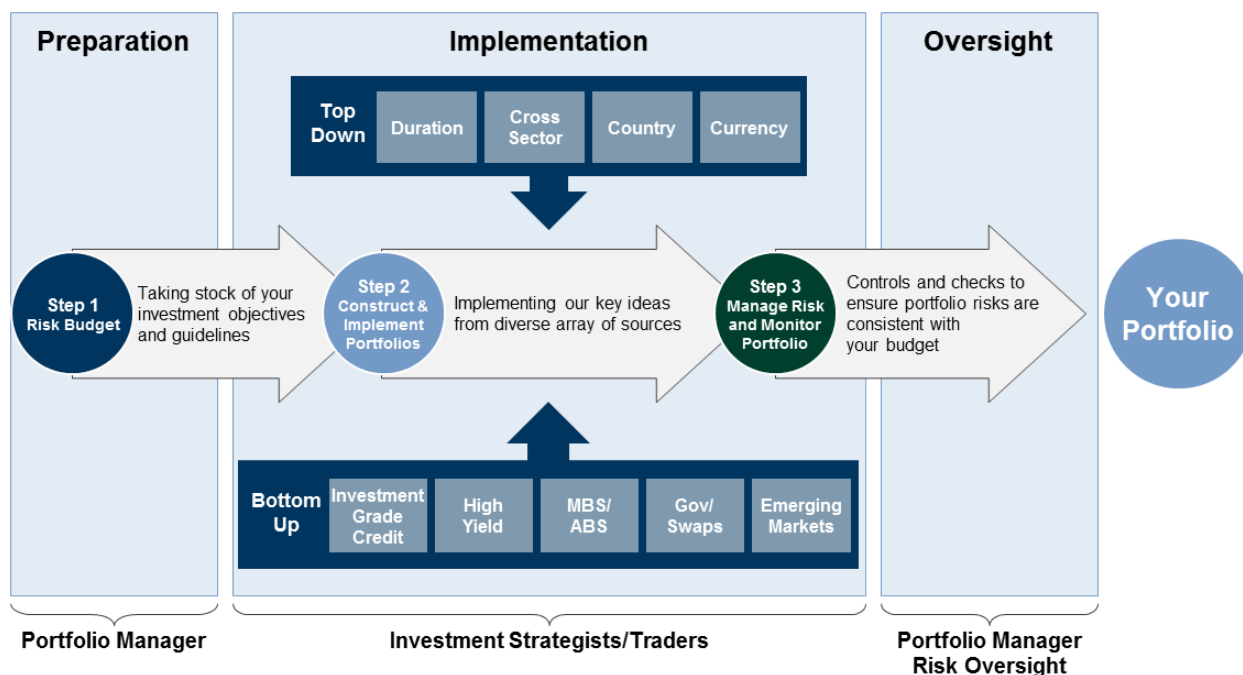
- adopting a global perspective to compare and contrast investment opportunities around the world
- employing specialist Investment Strategy Teams that each conduct very detailed fundamental and quantitative research in their search for attractive investments
- capturing the value in the inherent diversification benefits among the different investment strategies, and
- using a disciplined risk management approach to implement the strategy.

GSAM believes this investment philosophy can produce robust excess returns across a full market cycle. The approach to evaluate GSAM's management skill is a three to five year investment time frame.

## Investment process

The management of all GSAM's fixed income portfolios is team-based, with investment decisions taken collectively after thorough discussion and debate.

The GSAM fixed income investment process, as illustrated below, encompasses three key steps, from setting investment themes and context and identifying specific investment opportunities to the construction of diversified portfolios consistent with client objectives.



Source: GSAM. For illustrative purposes only

### Fixed Income Strategy Group (FISG)

FISG sets the medium- to long-term investment themes (including outlooks on global growth, inflation, and interest rates) by which the portfolios are managed, and provides broad oversight over the investment process. While the FISG does not formulate specific strategies, their views form the macro backdrop for the Investment Strategy Teams. Meeting on a regular basis, the FISG is comprised of the most senior members of the Global Fixed Income and Liquidity Management Team, and draws upon over 23 years' experience per member from various areas of expertise.

#### Step 1: Risk budgeting

The Portfolio Manager (PM) establishes the investment framework within which the portfolio is to be managed. This framework, or risk budget, takes account of the investment objectives, investment constraints and benchmark of the mandate. The risk budget then becomes the common reference point used during Step 2 (Investment research and portfolio construction) by the specialist Investment Strategy Teams and Step 3 (Risk monitoring and oversight) by the PMs.

The risk budget determines at the outset how GSAM intends to add value over the benchmark. This is reflected in how active risks are allocated among the available investment strategies, along with the team's estimate of the active returns those risks are targeted to generate. Each mandate typically has its own unique risk budget, reflecting the need to customise to each mandate specific investment objectives and investment guidelines.

Every portfolio is managed according to a risk budget and a maximum risk limit. The risk budget is derived from the proprietary Risk Budget Analyser (RBA), which is a mean variance optimisation tool. The output from RBA is an optimal risk budget with a standalone risk budget for each strategy team. RBA optimises portfolio construction based on correlation assumptions between the different strategies (duration, corporate credit, collateralised, etc), assumed information ratios, and constraints imposed by the benchmark or client investment guidelines and by fixed income markets (asset volatility, liquidity etc).

The portfolio management process includes an effort to monitor and manage risk, but does not include low risk.

#### Step 2: Investment research and portfolio construction

The Investment Strategy Teams research and identify attractive investment opportunities and are divided into four Top Down Strategy and five Bottom Up Strategy Teams.

### *Top Down Strategy Teams*

GSAM's Top Down Strategy Teams generate macro decisions on duration, country, currency and broad sector allocations. These teams are deliberately small and comprised of professionals that are most qualified to drive these decisions. Through this approach, these teams are able to confer in response to changes in market conditions and to ensure decisions reach portfolios quickly. For each team, the unambiguous objective is to generate excess returns from a specific relative value or timing strategy.

### *Bottom Up Strategy Teams*

GSAM's Bottom Up Strategy Teams drive the management of sub-sector allocations (eg, banks versus telecoms within the credit sector) and the selection of the individual securities from within each of the specialist sectors. The teams are divided into the following broad sectors: government/agency, mortgage-backed and asset-backed sectors, investment grade corporate credit and emerging market debt.

A broad research platform and accessibility to diversified inputs is key to the GSAM fixed income investment process. The Investment Strategy Teams employ three distinct inputs to identify attractive investment opportunities, namely fundamental analysis, quantitative analysis and technical (market positioning) analysis. The relative importance of particular research tools, methods or analysis employed by each team is dictated by the opportunities presented by the nature of the particular investment opportunity.

### *Portfolio construction*

The investment strategy teams, based on their conviction, would then scale their views in risk units ranging from -2 to +2, where the maximum position of +2 corresponds to the maximum permissible tracking error. Portfolio managers calculate the appropriate trade size in risk terms based upon the portfolio risk budget and then calculate the target amount of market value exposure, ie, name and number of bonds to buy or sell by their contribution to risk. Investment decisions are therefore 'sized' in portfolios by their contribution to risk relative to their risk budget.

During portfolio construction, we seek to ensure that fair allocation of investment ideas is carried out across portfolios with similar guidelines and risk parameters to ensure consistency of views. We utilize our proprietary portfolio management system Fixed Income Trading System – Trading Analytics ("FITS-TA"), which helps to ensure that all portfolios are treated equally, thus all transactions are executed at the same price. Orders are aggregated and the order is filled in accordance with market liquidity and best pricing. For example, if a portion of the total order is filled, all participating portfolios will receive a pro-rata allocation. This process will occur until the entire order is completed to ensure that all portfolios transact at the same weighted average price.

Our systems have been developed inhouse to accommodate the size and complexities of the global, regional and single country bond portfolios that we manage. Our comprehensive pre- and post-trade compliance-monitoring tool, Sentinel, also provides portfolio managers with the necessary tools to adhere to compliance and portfolio guidelines

### *.Step 3: Risk monitoring and oversight*

The LPM ensures that the investment strategies developed by the specialist Investment Strategy Teams are employed as extensively as possible in every portfolio while taking stock of each portfolio's unique investment objective, benchmark and guideline framework. This is achieved using the GSAM Global Risk Factor Model that compares and contrasts the risk budget, as developed in Step 1, with the risks currently being experienced by the portfolio. The same model also allows the LPM to provide oversight of the returns generated by the active risks.

The **Global Risk Factor Model** extends beyond the traditional limits of estimating portfolio tracking error. This model allows risk to be defined at a very granular level. By deconstructing risk into credit quality, country, curve and specific risks, the model provides an extraordinarily powerful tool to analyse and understand the many risks that are taken on a daily basis.

In most instances, investment views are readily implemented into the portfolios. Only in the cases that guidelines obstruct this or two investment views conflict do the LPM exercise judgment to amend the investment views as appropriate to capture its essence and maintain diversity of views.

Below is an example of how risk and attribution is monitored:



For illustrative purposes only. Predicted tracking error are statistical estimates of the divergence between the price behaviour of a strategy and the price behaviour of its benchmark, derived from statistical models. Actual tracking errors are likely to vary from the predicted tracking error. Targets are subject to change and are current as of the date of this presentation. Targets are objectives and do not provide any assurance as to future results. Please see additional disclosures. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

## Investment people

The management of all GSAM's fixed income accounts is team-based, with investment decisions taken collectively following thorough discussion and debate. GSAM believes that this team approach is vital to the long-term success of any active management strategy.

### Global Fixed Income and Liquidity Management team

The management of MLC Investment Management's portfolios employs the broad resources and expertise of the full GSAM Global Fixed Income and Liquidity management team, comprising over 270 investment professionals (as at July 2014), located across London, New York, Tokyo, Beijing, Bangalore, Mumbai, Singapore, Sydney and Melbourne. The team is led by Jonathan Beinler and Andrew Wilson.

The full Global Fixed Income and Liquidity Management team is shown in the diagram below, detailing employees (including senior management, investment professionals and support staff), their roles and location.



## Fixed Income Strategy Group

The FISG is responsible for setting the medium to long-term investment themes (including outlooks on global growth, inflation, and interest rates) by which the portfolios are managed, and provides broad oversight of the investment process. While the FISG does not formulate specific strategies, their views form the macro backdrop for the Investment Strategy Teams. Meeting on a regular basis, the FISG comprises the most senior members of the Global Fixed Income and Liquidity Management Team and draws upon an average of over 23 years' experience per member from various areas of expertise.

The following tables outline the experience of the key members of our Global Fixed Income and Liquidity Management team, who are all members of the FISG, which consists of our most senior professionals. The FISG have the responsibility for overseeing the fixed income process and ensuring that adequate controls and review procedures are in place.

| Name                   | Title             | Responsibilities   | Investment Experience | Years With Firm |
|------------------------|-------------------|--|-----------------------|-----------------|
| Jonathan Beinrer       | Managing Director | CIO, Co-Head of Global Fixed Income and Liquidity Management                   | 26                    | 24              |
| Andrew Wilson          | Managing Director | Co-Head of Global Fixed Income and Liquidity Management, Co-Head of GSAM EMEA  | 29                    | 18              |
| Sam Finkelstein        | Managing Director | Global Head of Macro Strategies  | 18                    | 17              |
| Iain Lindsay, PhD, CFA | Managing Director | Co-Head of Global Portfolio Management   | 25                    | 13              |
| Philip Moffitt         | Managing Director | Global Fixed Income  | 27                    | 15              |
| Michael Swell          | Managing Director | Co-Head of Global Portfolio Management   | 22                    | 7               |
| Tom Teles              | Managing Director | Global Head of Securitized and Government Investments, Global Head of Duration | 20                    | 14              |
| Stephen Warren         | Managing Director | Head of Global Portfolio Construction and Risk Management                      | 21                    | 14              |
| Kent Wosepka, CFA      | Managing Director | Head of Global Corporate Credit  | 22                    | 3               |
| Mark Van Wyk           | Managing Director | Global Head of Gov/Swaps Team  | 20                    | 20              |
| Jonathan Bayliss       | Managing Director | Head of Country Team   | 29                    | 5               |

Note: As of April 23, 2014. Numbers are rounded using basic rounding rules. Department Heads noted in **bold**.

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