



## Changes to MLC's fixed income strategies for financial advisers

January 2023

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retail investors



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The following funds are affected by the changes to MLC’s fixed income strategy. These funds appear on MLC’s platforms, in addition to a number of external platforms:

**MLC Investment Trust:**

- MLC Wholesale Horizon 1 Bond Portfolio
- MLC Wholesale Horizon 2 Income Portfolio
- MLC Wholesale Horizon 3 Conservative Growth Portfolio
- MLC Wholesale Horizon 4 Balanced Portfolio
- MLC Wholesale Index Plus Conservative Growth Portfolio
- MLC Wholesale Index Plus Balanced Portfolio
- MLC Wholesale Index Plus Growth Portfolio

**MLC Super Fund:**

- MLC Horizon 3 Conservative Growth Portfolio
- MLC Horizon 4 Balanced Portfolio
- MLC Index Plus Conservative Growth Portfolio
- MLC Index Plus Balanced Portfolio
- MLC Index Plus Growth Portfolio
- MySuper
- MLC Stable
- MLC Conservative Balanced

**Pre Select:**

- Conservative
- Balanced
- Growth
- High Growth



# What's changed and why?

## What's changed?

- Restructure of Short-Maturity strategy
- **Australian:** appointed Janus Henderson Income, Metrics Diversified Australian Senior Loan and replaced Antares 0-3 years with Antares Short Maturity Credit.
- **Global:** appointed Western Asset Management High Grade Multi-Asset Credit, and replaced Wellington 1-3 years Investment Grade Credit with Wellington 1+ years Investment Grade Credit, and removed Ardea, Insight Investment Management and Loomis Sayles.
- Funds affected are:
  - MLC Horizon 1 to 4
  - MLC Index Plus
  - MySuper, MLC Stable, MLC Conservative Balanced
  - Pre Select
- There's no impact on fees as a result of these changes

## Client benefits

- We believe the changes will provide better risk-adjusted return outcomes for our fixed income strategies that use Short Maturities as a building block.

## Why?

- The restructure to the Short-Maturity strategy will complement the existing MLC fixed income strategies through its lower volatility, higher income and shorter duration approach.
- We believe these changes will generate better and more consistent returns for our diversified fund investors in an environment of higher, more normalised, bond yields.
- The changes better manage the benchmark risk that is posed by the Your Future Your Super performance test
- These changes reduce the complexity of our fixed income strategies and provide an improvement to the risk/return characteristics of the existing strategy.
- The Australian and global managers we've chosen have a diversity of investment approach, insight, and demonstrated ability at outperforming their respective market indices.
- We're familiar with the new managers as they're already used in other MLC or IOOF portfolios.

# MLC Short Maturity

## New target manager allocations



Australian	Updated	Change
Antares 0-3 Years	-	-60.0%
Antares Credit	15.0%	+15.0%
Janus Henderson Income	30.0%	+30.0%
Metrics Diversified Australian Senior Loan	15.0%	+15.0%
<b>Total</b>	<b>60.0%</b>	<b>-</b>

Global	Updated	Change
Ardea	-	-5.0%
Insight	-	-8.0%
Loomis Sayles	-	-13.5%
Wellington 1-3 years IG Credit	-	-13.5%
Wellington 1+ years IG Credit	20.0%	+20.0%
Western Management High Grade Multi-Asset Credit	20.0%	+20.0%
<b>Total</b>	<b>40.0%</b>	<b>-</b>

# MLC Short Maturity

Target manager allocations, MLC Wholesale



ASSET MANAGEMENT

MLC Short-Maturity Managers	Horizon 1	Horizon 2*	Horizon 3*	Horizon 4*		Index Plus Conservative*	Index Plus Balanced*	Index Plus Growth*
<b>Australian</b>	<b>33.0%</b>	<b>10.8%</b>	<b>5.4%</b>	<b>1.8%</b>		<b>7.2%</b>	<b>3.9%</b>	<b>1.8%</b>
Antares Credit	8.25%	2.70%	1.35%	0.45%		1.80%	0.98%	0.45%
Janus Henderson Income	16.50%	5.40%	2.70%	0.90%		3.60%	1.95%	0.90%
Metrics Diversified Australian Senior Loan	8.25%	2.70%	1.35%	0.45%		1.80%	0.98%	0.45%
<b>Global</b>	<b>22.0%</b>	<b>7.2%</b>	<b>3.6%</b>	<b>1.2%</b>		<b>4.8%</b>	<b>2.6%</b>	<b>1.2%</b>
Wellington 1+ years Investment Grade Credit	11.00%	3.60%	1.80%	0.60%		2.40%	1.30%	0.60%
Western Management High Grade Multi-Asset Credit	11.00%	3.60%	1.80%	0.60%		2.40%	1.30%	0.60%
<b>Total</b>	<b>55%</b>	<b>18%</b>	<b>9%</b>	<b>3%</b>		<b>12%</b>	<b>7%</b>	<b>3%</b>

Changes to MLC's fixed income strategies, for financial advisers. \*Same manager mix applies to MLC MasterKey Super and Pension Fundamentals and Business Super

# MLC Wholesale

## Horizon 1 Bond Portfolio – Portfolio Characteristics



	Previous	New
Effective Duration	1.15	1.27
Spread Duration	2.29	2.92
Yield to Maturity	5.05%	5.62%
Average Quality	BBB+	BBB+

- The Short Maturity restructure has improved the risk-adjusted returns for Horizon 1.
- The yield has improved, whilst maintaining credit quality.
- The spread duration has increased, which reflects the ability of Wellington and Western Asset Management to invest in greater credit opportunities than the strategies they replaced.

# MLC Wholesale

## Horizon 1 Bond Portfolio – Investment Manager Allocation



ASSET MANAGEMENT

MLC Horizon 1: Short-Maturity Managers	New Target
<b>Australian</b>	<b>33%</b>
Antares Credit	8.25%
Janus Henderson Income	16.50%
Metrics Diversified Australian Senior Loan	8.25%
<b>Global</b>	<b>22%</b>
Wellington 1+ years Investment Grade	11.00%
Western Management High Grade Multi-Asset Credit	11.00%
<b>Total Short-Maturity</b>	<b>55%</b>

MLC Horizon 1: Short-Maturity Managers	Old Target
<b>Australian</b>	<b>33%</b>
Antares 0 – 3 years	33%
<b>Global</b>	<b>19.25%</b>
Insight	4.40%
Loomis Sayles	7.43%
Wellington 1 – 3 years Investment Grade	7.43%
<b>Total Short-Maturity</b>	<b>52.25%</b>

MLC Horizon 1: All-Maturity Managers	New Target
<b>Australian</b>	<b>30.0%</b>
Antares Enhanced Cash	15.0%
Antares Credit	15.0%
<b>Global High Yield</b>	<b>7.5%</b>
Loomis Sayles	1.87%
Oaktree	1.50%
Muzinich	1.87%
Shenkman	2.25%
<b>Securitized Debt</b>	<b>7.5%</b>
TCW	7.5%
<b>Total All-Maturity</b>	<b>45%</b>

MLC Horizon 1: All-Maturity Managers	Old Target
<b>Australian</b>	<b>30.0%</b>
Antares Enhanced Cash	15.0%
Antares Credit	15.0%
<b>Global High Yield</b>	<b>7.5%</b>
Loomis Sayles	1.87%
Oaktree	1.50%
Muzinich	1.87%
Shenkman	2.25%
<b>Securitized Debt</b>	<b>7.5%</b>
TCW	7.5%
<b>Absolute Return</b>	<b>2.75%</b>
Ardea	2.75%
<b>Total All-Maturity</b>	<b>47.75%</b>

Changes to MLC's fixed income strategies, for financial advisers

# Profile of Janus Henderson

## Australian fixed income



ASSET MANAGEMENT

### About Janus Henderson

- Established in 2017 through the merger of Henderson Global Investors (founded in the UK in 1934) and the Janus Capital Group (founded in the US in 1969). It's headquartered in London.
- Manages \$480.7 billion (at 31 March 2022).
- Parent company Janus Henderson Group plc is dual listed on the New York Stock Exchange (NYSE) and Australian Securities Exchange (ASX).
- The Australian Fixed Interest team at Janus Henderson believes that investment markets are inefficient, causing market pricing to overshoot 'fair value' levels. They believe that by applying a rational and disciplined valuation framework, an active approach in both interest rate and credit management can take advantage of these market overshoots and deliver superior risk adjusted returns over time. They focus their research on three key areas: economic, market trends, and credit.



### Why we've appointed Janus Henderson

- Janus Henderson is a global asset manager which has a highly experienced and accomplished fixed income team based in Melbourne.
- A key attraction of the team is its ability to access the Group's broader global resources, as well as its nimbleness, as they have proven ability to quickly adjust the portfolio to the opportunities that present.
- The focus on credit and interest rate duration will complement Antares' focus on credit.
- The Janus Henderson Australian Credit Income Strategy we're investing in, has a track record of delivering returns exceeding its benchmark over the long term.
- The team uses multiple and diversified return drivers to generate risk controlled and risk scaled excess returns in its portfolios.
- Janus Henderson has been a core Australian fixed income manager for IOOF since 2009.



# Profile of Metrics

## Australian fixed income

### About Metrics

- Metrics Credit Partners is one of Asia's largest specialist private debt investors with a presence in Sydney, Melbourne and Auckland.
- Metrics manages in excess of A\$13bn in AUM and has an experienced team of 120 employees.
- Metrics capabilities cover all the fundamentals of direct lending and private credit including origination, credit analysis, portfolio analysis and distribution.
- Metrics has completed direct lending transactions exceeding A\$21bn across more than 700 individual loan transactions in the past 10 years.
- Metrics is owned 65% by the Metrics Managing Partners.



### Why we've appointed Metrics Credit Partners

- The Metrics Credit Partners Diversified Australian Senior Loan Fund (DASLF), invests in a diversified portfolio of primarily Australian Corporate loans and other associated debt instruments, designed to broadly reflect the Australian Corporate loan market.
- The Fund provides exposure to corporate loans across a range of industries and has a weighted average credit rating of BBB-, with 99% senior ranking loans and 55% Investment Grade.
- Metrics has an experienced management team that understands the various sources of income available from, and risks associated with, corporate loans, and is best able to implement investment strategies and processes able to maximise returns from this asset class.
- Metrics has very clear and long track record of performance where regular evidence of repayment at par without loss has been consistently demonstrated and their governance processes across their business and funds is of the highest standard.
- The DASLF has been used by IOOF since 2013.

# Profile of Western Asset Management

Global fixed income



ASSET MANAGEMENT

## About Western Asset Management

- Western Asset is one of the world's leading investment management firms.
- Primary business is managing fixed-income portfolios, an activity the Firm has pursued since 1971.
- Western Asset manages A\$577 billion (at 30 September 2022).



## Why we've appointed Western Asset Management

- The Western Asset Management High Grade Multi-Asset Credit (HGMAC) looks at opportunities across global investment grade and high-yield corporate bonds, bank loans, collateralized loan obligations and structured credit.
- Seeks to add value through sector rotation, issue selection, duration management, yield curve positioning, and tail risk hedging.
- The HGMAC strategy is expected to behave well in both periods of low and high market volatility given the strategy's fully diversified nature, active sector rotation program, tactical duration management and the presence of tail-risk hedging strategies.
- The HGMAC has been used by IOOF since April 2020.

# Communication plan

When	Who	What	Where
January 2023	Advisers	This presentation outlining the changes	<ul style="list-style-type: none"> <li>• Internal mlcamcomms email to BDMs</li> <li>• Included in Adviser Bulletin email to advisers</li> <li>• Published in adviser sections of <a href="http://mlc.com.au">mlc.com.au</a> and <a href="http://mlcam.com.au">mlcam.com.au</a> (in 'Strategy updates' section)</li> </ul>
Late January 2023	Advisers	Investment update for financial advisers MLC's scenario insights & portfolio positioning MLC wholesale fixed income funds update	<ul style="list-style-type: none"> <li>• Published on <a href="http://mlc.com.au">mlc.com.au</a> (in Fund Commentaries, under Prices and Performance accessed from Adviser tab) and <a href="http://mlcam.com.au">mlcam.com.au</a> (under 'Latest quarterly reporting resources' in 'Adviser only' section)</li> </ul>
Late January 2023	Advisers and clients	Fund commentaries	<ul style="list-style-type: none"> <li>• <a href="http://mlc.com.au/fundprofiletool">mlc.com.au/fundprofiletool</a></li> <li>• <a href="http://mlcam.com.au/MLCWholesale">mlcam.com.au/MLCWholesale</a>, select Fund Profile Tool</li> </ul>