

Strategy update

Manager change in MLC's fixed income strategies

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What are the changes?

- Loomis appointed
- W.R. Huff removed

“We’ve made a manager change that we believe will strengthen our ability to respond to the opportunities and risks in high yield fixed income markets”.

At MLC, we actively manage our portfolios and work continually to evolve them as the investment environment changes and opportunities arise.

That’s why we’re making a manager change in our fixed income strategies.

W.R. Huff Asset Management Co., L.L.C. (W.R. Huff) has been a global high yield bonds manager for MLC since 2000. We’re now removing this manager and reallocating the assets to one of our existing managers, Loomis, Sayles & Company, LP (Loomis).

We appointed Loomis last year to manage half of our global non-government bond (investment grade credit) allocations. We have now extended our relationship with Loomis to include the management of a global high yield mandate.

Loomis has the credit skills and experience to manage a global high yield mandate that includes corporate bonds and bank loans sourced from issuers across developed and emerging markets. Loomis will capably implement allocations across sectors of the global high yield market based on our assessment of the changing risks and opportunities.

Which funds are affected?

The following funds¹ across MLC’s platform and wholesale product range, in addition to a number of external platforms, are affected by these changes:

- MLC Diversified Debt Fund and
- MLC Horizon portfolios 1 to 5.

As part of this strategy change, global high yield fixed income allocations have been introduced to MLC MySuper.

How may investors benefit?

We expect the benefits of this change to include:

- access to greater diversity of investments in the high yield fixed income sector which will
- further increase our ability to deliver more stable returns on fixed income investments, and
- further improve the responsiveness of our high yield strategies to changing market conditions.

¹ Funds affected by these changes are listed in the Important Information section at the end of this document.

Why invest in global high yield fixed income?

Global high yield fixed income can offer attractive returns for the risk taken at times when credit risks are appropriately compensated. Our allocation to this sector is therefore opportunistic and currently focuses on high yield corporate bonds and bank loans:

- **Global high yield bonds:** These are fixed rate bonds issued by companies that have a credit rating below investment grade. They usually pay higher fixed rates of interest because they have a higher risk of default.
- **Global bank loans:** These instruments are a floating interest rate source of funding issued by companies rated below investment grade. They usually pay higher floating rates of interest because they have a higher risk of default. Global bank loans are secured and hence are expected to provide superior capital protection relative to high yield bonds which are typically unsecured.

Why we've appointed Loomis

Loomis is a well-credentialed and experienced manager of credit assets, with the capability to manage across a broad range of high yield sectors in developed and emerging markets. Relative to W.R. Huff, we believe their investment style, credit selection process and investment breadth is better suited to the needs of our strategies. Loomis has a proven track record of constructing well diversified and liquid high yield portfolios which have produced strong relative performance. When choosing securities, Loomis applies a fundamental bottom up credit research approach in combination with a macro-economic overlay.

Loomis has long been dedicated to high yield investing, successfully managing senior secured high yield bank loans for over 10 years. As at 30 September 2015 Loomis managed more than \$19 billion in assets within dedicated high yield strategies and had more than \$47 billion in high yield securities that are held within other products in the firm.

Full manager profiles for Loomis and the other managers in our fixed income strategies are available on mlc.com.au

What are the new manager allocations?

Table 1 shows the new manager allocations in the global high yield fixed income strategies. We have used MLC Wholesale and MLC MySuper portfolios for illustrative purposes. A complete listing of the funds affected by the new manager allocations is contained in the Important Information section at the end of this document.

Table 1 – Manager allocations in the global high yield fixed income strategy

Manager	MLC Wholesale Diversified Debt Fund	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 Horizon 5 Growth Portfolio	MLC MySuper
	% (change)	% (change)	% (change)	% (change)	% (change)	% (change)	% (change)
Oaktree	0.75% (-0.3%)	0.3% (-0.1%)	0.2% (-0.1%)	0.2% (-0.1%)	0.3% (-0.1%)	0.2% (-0.1%)	0.3 (+0.3)
Loomis	1.5% (+1.5%)	0.6% (+0.6%)	0.3% (+0.3%)	0.5% (+0.5%)	0.6% (+0.6%)	0.3% (+0.3%)	0.6 (+0.6)
W.R. Huff	0% (-1.0%)	0% (-0.4%)	0% (-0.2%)	0% (-0.3%)	0% (-0.4%)	0% (-0.2%)	0% (0%)
Shenkman Capital	2.8% (-0.3%)	6.1% (-0.1%)	0.6% (-0.1%)	0.8% (-0.1%)	1.1% (-0.1%)	0.6% (-0.1%)	1.1% (+1.1%)
Short maturities fixed income	N/App	N/App	N/App	N/App	N/App	N/App	(-2.0)

Note: Figures are rounded to one decimal place.

The latest manager allocations for all our portfolios are available on the Fund Profile Tool on mlc.com.au



Are there fee implications?

There'll be a negligible decrease in fees due to these manager changes. Fee changes will flow through to the MLC products that have variable investment fees.

MLC products that have fixed investment fees will have no fee change.

Fee impacts are an important consideration in our decisions. To approve a strategy change, we must expect it to benefit clients after taking into account the impact on fees.

Investment fees are available in the Fund Profile Tool on mlc.com.au and mlcinvestmenttrust.com.au

For further information regarding fees please refer to the relevant product PDS.

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The funds affected by these changes

The following funds are affected by these changes to our fixed income strategies. These funds appear on MLC's platforms, in addition to a number of external platforms.

MLC Diversified Debt Fund	MLC Wholesale Diversified Debt Fund
MLC Horizon 1 - Bond Portfolio	MLC Wholesale Horizon 1 Bond Portfolio
MLC Horizon 2 - Capital Stable Portfolio	MLC Wholesale Horizon 2 Income Portfolio
MLC Horizon 2 - Income Portfolio	MLC Wholesale Horizon 3 Conservative Growth Portfolio
MLC Horizon 3 - Conservative Growth Portfolio	MLC Wholesale Horizon 4 Balanced Portfolio
MLC Horizon 4 - Balanced Portfolio	MLC Wholesale Horizon 5 Growth Portfolio
MLC Horizon 5 - Growth Portfolio	MLC MySuper