

# Strategy enhancement

Change in MLC's fixed income strategies

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## What are the changes?

- **Global mortgages sector, and its manager Apollo, removed**
- **FFTW and Insight appointed**
- **Peridiem removed**

**“We’ve added two new managers to our global absolute return strategy and capitalised on the strong performance from our global mortgages allocation. We believe the changes will provide greater diversity of managers’ insights and reduce the overall risk of the portfolio”.**

**At MLC, we actively manage our portfolios and work continually to improve them.**

That’s why we’re making changes to our fixed income strategies.

Our global mortgages sector, managed by Apollo Global Management (‘Apollo’), has performed strongly since we introduced it to our fixed income strategy in March 2010. However, we believe the sector is now fully priced and offers limited return potential. As a result, we’ve removed global mortgages, and its manager Apollo, from our fixed income strategy and reallocated the assets to our global bank loans (high yield loans) sector.

We’ve appointed two new managers, Fischer Francis Trees & Watts (‘FFTW’) and Insight Investment Management (Global) Limited (‘Insight’), to manage our global absolute return bond allocation.

Finally, Peridiem Global Investors (‘Peridiem’) has closed its business. As a result we’ve terminated our mandates with Peridiem in global multi-sector bonds, global absolute return bonds and high yield bonds.

## Which funds are affected?

The following funds across our platform product range<sup>1</sup> are affected by these changes:

- MLC Diversified Debt Fund
- MLC Horizon portfolios 1 to 5
- MLC Index Plus portfolios, and
- MLC MySuper

## How may investors benefit?

We expect the benefits of the changes to include:

- a reduction in exposure to the global mortgages sector in favour of bank loans increases the portfolios’ yield, and
- greater diversity of managers’ insights in the global absolute return bonds sector.

<sup>1</sup> A listing of the funds and platforms affected by these changes is in the Important Information at the end of this document.

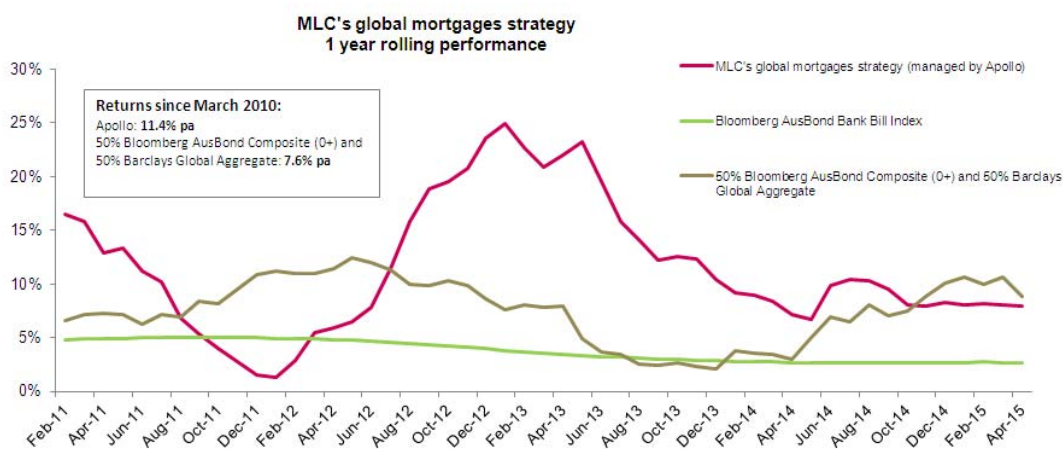


### Why are we making the changes?

#### Why we've removed global mortgages

Our global mortgages allocation in our fixed income strategies has delivered strong returns over the last five years due to the accommodative monetary policy in the US and recovery in the US housing market and employment. The strong returns our global mortgages manager, Apollo, has delivered are shown in Chart 1 below. We've compared Apollo's performance to the market benchmark for the MLC Diversified Debt Fund and Cash.

Chart 1 – Performance of global mortgages



Source: JANA Corporate Investment Services Limited.

Note: Returns are for the global mortgages strategy component for the MLC Diversified Debt Fund and for MLC's Horizon portfolios 1 to 5. Returns are before fees and tax. Past performance is not a reliable indicator of future performance.

We believe the global mortgage sector is fully priced, offering limited return opportunities relative to other sectors. We see better return opportunities in US high yield credit and are therefore reallocating the assets in the MLC Horizon portfolios and the MLC Diversified Debt Fund from global mortgages to our existing global bank loans sector.

#### Why we've added FFTW and Insight to the global absolute return bonds sector

We believe the global absolute return bonds sector provides an attractive alternative to traditional benchmark-relative fixed income strategies in the current market environment. Most developed market bonds offer very little by way of diversification and return potential given the current very low levels of bond yields. While traditional active bond managers can continue to generate returns above market benchmarks, absolute returns can be quite low. That's why our research in recent years has focused on diversifying returns away from traditional bonds and into sectors such as global absolute return bonds. We've found that managers with diverse skills, and the flexibility to invest in many sectors of the market, can generate attractive returns without the interest rate risk embedded in traditional fixed income benchmarks.

Global absolute return bond managers are assessed relative to a cash benchmark because they focus on generating returns that are higher than cash. Therefore they have no systematic exposure to interest rates, credit or currency and we expect they will have a relatively low correlation with interest rate and credit markets.

The appointment of FFTW and Insight provides our global absolute return bond strategy with manager diversification and exposure to two experienced and well regarded managers that have the skills to manage an unconstrained bond mandate.

FTFW and Insight have long histories of solid performance in the global absolute return bonds sector. We believe they will assist us in seeking to achieve above-benchmark returns in a low interest rate environment.

FTFW and Insight will replace allocations to Peridiem and Enhanced Cash, managed by Antares.

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### Why we've removed Peridiem

Peridiem has closed its business. As a result, we've terminated our mandates with Peridiem and reallocated the assets as follows:

- global high yield bonds to existing global bank loans manager, Shenkman Capital
- global absolute return bonds to newly appointed managers FFTW and Insight, and
- global multi-sector bonds to existing manager Amundi.

### How does FFTW manage money?

Owned by BNP Paribas, FFTW is the institutional fixed income arm of BNP Paribas Investment Partners. FFTW manages A\$51 billion across the world (as of March 2015) and has over 80 investment professionals dedicated to global fixed income.

FFTW manages four absolute return fixed income and currency strategies. We have employed their multi-strategy absolute return product which aims to generate a positive absolute return by actively managing a portfolio of global bonds employing strategies such as security selection, credit and duration management and active currency management.

### How does Insight manage money?

Owned by BNY Mellon Asset Management, Insight is a specialist fixed income manager. Insight manages A\$691 billion across the world (as at 31 December 2014) and is staffed by 61 investment professionals.

Insight manages three absolute return fixed income strategies and also manages a range of 'specialist' (hedge fund like) absolute return strategies. The strategy we have employed for our portfolios is the absolute return bond strategy which allocates risk across five principal opportunity sets (global rates; foreign currency; global credit; emerging market debt; and security selection).

Full manager profiles for FFTW, Insight and the other managers in our fixed income strategies are available on [mlc.com.au](http://mlc.com.au)

### What are the new allocations?

The new fixed income sector and manager allocations are in Appendix 1.

### Are there fee implications?

Fees for MLC products will be largely unchanged as a result of 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](http://mlc.com.au) and [mlcinvestmenttrust.com.au](http://mlcinvestmenttrust.com.au)

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



### Important information:

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### The funds and platforms affected by these changes

The following funds and platforms are affected by the changes to our fixed income strategies.

#### Funds affected:

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

#### Platforms that the affected funds are available on:

MLC MasterKey Allocated Pension (Five Star)  
MLC MasterKey Allocated Pension (Gold Star)  
MLC MasterKey Business Super  
MLC MasterKey Investment Bond (Five Star)  
MLC MasterKey Investment Bond (Gold Star)  
MLC MasterKey Investment Service  
MLC MasterKey Investment Service Fundamentals  
MLC MasterKey Pension  
MLC MasterKey Pension Fundamentals  
MLC MasterKey Personal Super  
MLC MasterKey Super  
MLC MasterKey Super Fundamentals  
MLC MasterKey Superannuation (Five Star)  
MLC MasterKey Superannuation (Gold Star)  
MLC MasterKey Term Allocated Pension  
MLC MasterKey Unit Trust  
MLC Wrap

# Strategy update

Change in MLC's fixed income strategies



## Appendix 1 – New allocations

The new target sector and manager allocations within our fixed income strategies are below. We have used the MLC Wholesale Horizon portfolios 1 to 5, MLC Diversified Debt Fund and MLC Index Plus portfolios for illustrative purposes. MLC MySuper shows the changes to the benchmark asset allocation. The new allocations will also impact the funds and platforms listed in the Important Information at the end of this document.

Fixed income sectors and managers	MLC Wholesale Horizon 1 Bond Portfolio % (change)	MLC Wholesale Horizon 2 Income Portfolio % (change)	MLC Wholesale Horizon 3 Conservative Growth Portfolio % (change)	MLC Wholesale Horizon 4 Balanced Portfolio % (change)	MLC Wholesale Horizon 5 Growth Portfolio % (change)	MLC Wholesale Diversified Debt Fund % (change)	MLC Index Plus Conservative Growth % (change)	MLC Index Plus Balanced % (change)	MLC Index Plus Growth % (change)	MLC MySuper % (change)
<b>Enhanced cash</b>	<b>25.0% (-6.9)</b>	<b>14.0% (-2.6)</b>	<b>6.5% (-1.6)</b>	<b>2.5% (-0.6)</b>	<b>2.5% (-0.2)</b>	<b>0.0% (-1.2)</b>	<b>7.0% (-1.8)</b>	<b>3.5% (-0.7)</b>	<b>1.8% (-0.3)</b>	<b>0.0% (-1.2)</b>
Antares	25.0% (-6.9)	14.0% (-2.6)	6.5% (-1.6)	2.5% (-0.6)	2.5% (-0.2)	0.0% (-1.2)	7.0% (-1.8)	3.5% (-0.7)	1.8% (-0.3)	0.0% (-1.2)
<b>Australian non-government bonds</b>	<b>10.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Antares	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Australian inflation-linked bonds</b>	<b>0.0%</b>	<b>8.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>0.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>7.0%</b>
Antares	0.0%	8.0%	6.0%	5.0%	4.0%	0.0%	6.0%	5.0%	4.0%	7.0%
<b>Australian bonds</b>	<b>31.2%</b>	<b>26.4%</b>	<b>18.8%</b>	<b>10.1%</b>	<b>4.3%</b>	<b>47.5%</b>	<b>21.3%</b>	<b>12.0%</b>	<b>5.2%</b>	<b>11.9%</b>
Antares	15.6%	13.2%	9.4%	5.1%	2.1%	23.8%	10.7%	6.0%	2.6%	5.9%
UBS	15.6%	13.2%	9.4%	5.1%	2.1%	23.8%	10.7%	6.0%	2.6%	6.0%
<b>Global absolute return bonds</b>	<b>11.7% (+6.8)</b>	<b>4.5% (+2.6)</b>	<b>2.9% (+1.8)</b>	<b>1.2% (+0.8)</b>	<b>0.5% (+0.3)</b>	<b>3.8% (+2.9)</b>	<b>3.3% (+1.9)</b>	<b>1.4% (+1.0)</b>	<b>0.7% (+0.4)</b>	<b>1.2% (+1.2)</b>
Peridiam	0.0% (-5.0)	0.0% (-2.0)	0.0% (-1.2)	0.0% (-0.4)	0.0% (-0.3)	0.0% (-0.9)	0.0% (-1.3)	0.0% (-0.4)	0.0% (-0.2)	0.0%
FFTW	5.9% (+5.9)	2.3% (+2.3)	1.5% (+1.5)	0.6% (+0.6)	0.3% (+0.3)	1.9% (+1.9)	1.6% (+1.6)	0.7% (+0.7)	0.3% (+0.3)	0.6% (+0.6)
Insight	5.9% (+5.9)	2.3% (+2.3)	1.5% (+1.5)	0.6% (+0.6)	0.3% (+0.3)	1.9% (+1.9)	1.6% (+1.6)	0.7% (+0.7)	0.3% (+0.3)	0.6% (+0.6)

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<b>Global government bonds</b>	<b>3.6% (+0.1)</b>	<b>3.5% (+0.1)</b>	<b>2.9% (+0.1)</b>	<b>2.1%</b>	<b>0.9%</b>	<b>12.4%</b>	<b>3.4% (+0.1)</b>	<b>2.5%</b>	<b>1.0%</b>	<b>3.0%</b>
Goldman Sachs	3.6% (+0.1)	3.5% (+0.1)	2.9% (+0.1)	2.1%	0.9%	12.4%	3.4% (+0.1)	2.5%	1.0%	3.0%
<b>Global non-government bonds</b>	<b>11.4%</b>	<b>9.4%</b>	<b>6.4%</b>	<b>3.1%</b>	<b>1.3%</b>	<b>13.3%</b>	<b>7.2%</b>	<b>3.8%</b>	<b>1.7%</b>	<b>3.5%</b>
Wellington Management	5.7%	4.7%	3.2%	1.6%	0.7%	6.7%	3.6%	1.9%	0.6%	1.7%
Loomis	5.7%	4.7%	3.2%	1.6%	0.7%	6.7%	3.6%	1.9%	0.6%	1.8%
<b>Global multi-sector bonds</b>	<b>0.0%</b>	<b>1.1% (-0.1)</b>	<b>2.0% (-0.2)</b>	<b>2.5% (-0.2)</b>	<b>1.0% (-0.1)</b>	<b>18.1% (-1.7)</b>	<b>2.3% (-0.2)</b>	<b>2.8% (-0.3)</b>	<b>1.1% (-0.1)</b>	<b>3.4%</b>
Amundi	0.0%	0.4% (+0.1)	0.6% (+0.1)	0.8% (+0.1)	0.3%	5.7% (+0.9)	0.7% (+0.1)	0.9% (+0.1)	0.4% (+0.1)	1.0%
Franklin Templeton	0.0%	0.2%	0.30%	0.4%	0.2%	2.9%	0.4%	0.4%	0.2%	0.5%
Peridiem	0.0%	0.0% (-0.2)	0.0% (-0.3)	0.0% (-0.3)	0.0% (-0.1)	0.0% (-2.6)	0.0% (-0.3)	0.0% (-0.4)	0.0% (-0.2)	0.0%
PIMCO	0.0%	0.6%	1.1%	1.3%	0.5%	9.5%	1.2%	1.5%	0.6%	1.9%
<b>Global high yield bonds</b>	<b>0.8% (-0.2)</b>	<b>0.4% (-0.1)</b>	<b>0.6% (-0.2)</b>	<b>0.8% (-0.2)</b>	<b>0.4% (-0.1)</b>	<b>2.0% (-0.5)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Oaktree	0.4%	0.2%	0.3%	0.4%	0.2%	1.0%	0.0%	0.0%	0.0%	0.0%
Peridiem	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.2)	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.5)	0.0%	0.0%	0.0%	0.0%
W.R. Huff	0.4%	0.2%	0.3%	0.20%	0.2%	1.0%	0.0%	0.0%	0.0%	0.0%
<b>Global bank loans</b>	<b>6.2% (+0.4)</b>	<b>0.6% (+0.2)</b>	<b>0.9% (+0.3)</b>	<b>1.2% (+0.4)</b>	<b>0.6% (+0.2)</b>	<b>3.0% (+1.0)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Shenkman Capital	6.2% (+0.4)	0.6% (+0.2)	0.9% (+0.3)	1.2% (+0.4)	0.6% (+0.2)	3.0% (+1.0)	0.0%	0.0%	0.0%	0.0%

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Global mortgages	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.2)	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.5)	0.0%	0.0%	0.0%	0.0%
Apollo	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.2)	0.0% (-0.2)	0.0% (-0.1)	0.0% (-0.5)	0.0%	0.0%	0.0%	0.0%
<b>TOTAL FIXED INCOME</b>	<b>100.0%</b>	<b>68.0%</b>	<b>47.0%</b>	<b>28.5%</b>	<b>15.5%</b>	<b>100.0%</b>	<b>50.5%</b>	<b>31.0%</b>	<b>15.5%</b>	<b>30.0%</b>

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](https://mlc.com.au)