

Strategy update

Manager change in MLC's global shares strategy

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What are the changes?

- **Intermede appointed**
- **Walter Scott removed**
- **Manager weights adjusted**

“These changes provide our clients with early exposure to a well-credentialed investment team”.

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

That's why we're making a manager change in our global shares strategy.

Walter Scott & Partners Limited (Walter Scott) has been a global shares manager for MLC since 2005. We're now replacing this manager with Intermede Investment Partners Ltd (Intermede).

We're also adjusting some of the manager weights based on our assessment of market 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 Global Share Fund
- MLC Hedged Global Share Fund
- MLC Global Share Growth Style Fund
- MLC Horizon portfolios 2 to 7
- MLC MySuper
- MLC Inflation Plus portfolios
- Pre Select diversified funds, and
- Pre Select International Equity Fund.

Walter Scott will continue to manage part of the defensive global shares strategy for the MLC Inflation Plus – Assertive Portfolio. Walter Scott has been a defensive global shares manager for the past 10 years and their approach continues to be appropriate for that strategy given its focus on downside protection.

How may investors benefit?

We expect the benefits of this change to include exposure to Intermede, a manager that has greater flexibility to invest in their best ideas and a relatively deeper investment opportunity set due to their low assets under management, which we expect to result in:

- higher returns than the market benchmark, and
- continued downside protection in the event of markets declining.

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



Who is Intermede?

Intermede is a specialist global equities manager based in London. Intermede is majority owned by its investment team. Intermede was established in 2014 when it formed a partnership with NAB Asset Management²; which has a minority interest in Intermede. As at 30 November 2015 Intermede managed approximately \$2 billion (including the MLC mandate).

Intermede has an experienced investment team. Barry Dargan, Chief Executive Officer and Portfolio Manager, has 30 years' investment experience which includes successfully managing global growth share products at MFS Investment Management and Artisan Partners. Barry is supported by five investment professionals, most of whom have worked together previously, applying a consistent investment approach to managing global share funds.

As Intermede uses an investment approach that the Portfolio Manager has successfully applied for many years and through many types of market conditions, including the global financial crisis, we have been able to carefully observe their investment process and performance over a number of years. We have also been closely monitoring Intermede since the firm was established and have considerable confidence in Intermede's ability to manage global shares.

How does Intermede manage money?

Intermede's investment philosophy is that companies with good management and strong market positions in attractive industries will outperform if their shares are bought at the right price. Intermede engages in intensive bottom-up research to find investment opportunities in mid and large capitalisation companies, across developed and emerging markets.

Full manager profiles for Intermede and the other managers in our global shares strategies are available on mlc.com.au

Why have we appointed a manager that is a related party of MLC?

We appoint the combination of managers who we believe can best meet a fund's objective, whether they're a related party or not. We wouldn't be acting in our clients' interests if we excluded an outstanding manager from our funds because it was a related party. We've also removed managers who are related parties when they no longer fit with our strategy. For example, we've previously removed Northward Capital, an Australian shares manager that NAB Group has a minority interest in.

Why are we making the changes?

Why we've appointed Intermede

Intermede is a well-credentialed and high quality manager that focuses on a single strategy – global shares. Intermede's portfolios have similar quality growth characteristics to Walter Scott.

The integrity of Walter Scott's investment process and philosophy has remained strong since we appointed them 10 years ago, and their investment team remains focussed. They have produced an impressive long-term performance record for our investors. However when designing our strategies we need to consider:

1. The returns we expect a manager to produce in the future, and
2. Whether we have the optimum set of managers.

If we believe a manager change will benefit the portfolio, we will make a change.

The appointment of Intermede provides our strategy with early exposure to a manager that has similar characteristics to Walter Scott but with greater flexibility due to their lower assets under management. This enables them to be nimble and have access to a deeper opportunity set of stocks.

Intermede's investment approach has a history of delivering excess returns across most market environments. Prior to establishing Intermede, Barry Dargan was a partner at Artisan Partners where he established their London office and founded, lead managed and was sole decision maker on their global share strategy, which had top decile performance during his tenure. He also spent 14 years as Managing Director and Portfolio Manager at MFS Investment Partners, managing the MFS International Growth Fund and was co-manager of the MFS Global Growth Fund.

² NAB Asset Management is the brand name which covers entities sitting within the investment management and asset consulting business of the National Australia Bank group. This includes nabiInvest Capital Partners Pty Limited, the distribution partner for Intermede.

Why we've changed manager weights

We've reduced the strategy's slight growth bias for the following reasons:

- We're six years into a share bull market, and at a time when many managers are commenting that markets are expensive, our strategy's ability to protect on the downside is becoming more critical. Walter Scott, the manager we are removing from this strategy, has provided our global shares strategy with downside protection that we are replacing with increased weightings to our existing value managers.
- Over the long term, value-oriented approaches have historically produced returns higher than the broader market. As shown in Table 1, value has underperformed growth for a prolonged period of time (namely, six of the last eight years) as a result of the share bull market. We are taking the opportunity to rebalance the portfolio towards value-oriented managers.

Table 1 – Growth has generally outperformed value in global share markets over recent years

Calendar year	Annual returns		
	MSCI All Country Value Index (%)	MSCI All Country Growth Index (%)	Annual Difference (Value - Growth) (%)
2001	-6.5	-11.6	5.1
2002	-26.3	-26.4	0.1
2003	4.6	-3.3	7.9
2004	15.2	7.3	7.8
2005	19.2	18.8	0.4
2006	17.7	8.6	9.0
2007	-3.6	5.1	-8.7
2008	-25.7	-27.9	2.1
2009	2.9	7.1	-4.2
2010	-2.7	1.3	-4.0
2011	-6.7	-7.0	0.3
2012	15.0	15.7	-0.7
2013	43.0	43.5	-0.4
2014	13.2	15.7	-2.5
2015 to 30 November	8.8	16.9	-8.1

Source: Factset. Past performance is not a reliable indicator of future performance.

As part of this strategy change we've therefore increased our exposure to our value managers - Tweedy Browne and Kiltarn. To achieve this, we've reduced our exposure to the growth managers that have performed well in the past three to five years - Sands Capital, Harding Loevner and Carnegie.

What are the new manager allocations?

Table 2 shows the new manager allocations in MLC and Pre Select global shares strategies. The new manager allocations will flow through to the global shares allocations of the multi-asset portfolios in MLC Horizon and Pre Select. 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 2 – Manager allocations in the global shares strategies

Manager	MLC Global Share Fund / MLC Hedged Global Share Fund / Pre Select International Equity Fund		MLC Global Share Growth Style Fund		MLC MySuper	
	%	(% change)	%	(% change)	%	(% change)
Dimensional	12.5	-	-	-	12.5	-
Walter Scott	-	(-15.0)	-	(-33.3)	-	(-12.0)
Tweedy Browne	14.0	(+1.5)	-	-	14.0	(+2.0)
Carnegie	12.5	(-0.5)	-	-	12.5	-
Sands Capital	12.0	(-1.5)	33.3	-	12.0	(+2.0)
Harding Loevner	12.5	(-1.5)	33.3	-	12.5	(-2.0)
Jackson Square Partners	11.5	-	-	-	11.5	-
Kiltearn	12.5	(+4.5)	-	-	-	-
Causeway	-	-	-	-	12.5	(-2.5)
Intermede	12.5	(+12.5)	33.3	(+33.3)	12.5	(+12.5)
Total	100.0		100.0		100.0	

Note: Figures are rounded to one decimal place.

The latest manager allocations for all our funds are available on the Fund Profile Tool on www.mlc.com.au/fundprofiletool

Are there fee implications?

Fees for MLC and Pre Select products will be largely unchanged as a result of these manager changes.

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 www.mlc.com.au/fundprofiletool 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 global shares strategy. These funds appear on MLC's platforms, in addition to a number of external platforms.

MLC Global Share Fund	MLC Wholesale Global Share Fund
MLC Hedged Global Share Fund	MLC Wholesale Hedged Global Share Fund
MLC Global Share Growth Style Fund	MLC Wholesale Horizon 2 Income Portfolio
MLC Horizon 2 - Capital Stable Portfolio	MLC Wholesale Horizon 3 Conservative Growth Portfolio
MLC Horizon 2 - Income Portfolio	MLC Wholesale Horizon 4 Balanced Portfolio
MLC Horizon 3 - Conservative Growth Portfolio	MLC Wholesale Horizon 5 Growth Portfolio
MLC Horizon 4 - Balanced Portfolio	MLC Wholesale Horizon 6 – Share Portfolio
MLC Horizon 5 - Growth Portfolio	MLC Wholesale Horizon 7 – Accelerated Growth Portfolio
MLC Horizon 6 – Share Portfolio	MLC Pre Select Conservative Fund
MLC Horizon 7 – Accelerated Growth Portfolio	MLC Pre Select Balanced Fund
MLC MySuper	MLC Pre Select Growth Fund
MLC Inflation Plus – Conservative Portfolio	MLC Pre Select High Growth Fund
MLC Inflation Plus – Moderate Portfolio	MLC Pre Select International Equity Fund
MLC Inflation Plus – Assertive Portfolio	MLC Wholesale Inflation Plus – Assertive Portfolio