

Insurance-related investments strategy

Investment update to 31 December 2025

The insurance-related investments strategy, managed by MLC Asset Management's (MLCAMs) Alternative Strategies team, uses carefully selected reinsurance managers from around the world.

Insurance-related investments are investments in natural catastrophe risks. Investors take on a role akin to the role of an insurer. They receive a yield - effectively an insurance premium - for taking the risk of a particular natural catastrophe causing losses above a certain level. As the occurrence of natural catastrophes has no expected correlation with share market movements, the strategy is an attractive source of diversification. For example, during the global financial crisis, shares fell but insurance-related investments performed well.

MLC's diversified funds' target allocations to insurance-related investments are shown in Table 1.¹ The MLC Premium and Value Separately Managed Account (SMA) Model Portfolios also have an indirect allocation through their investments in the MLC Real Return funds.

Table 1: MLC diversified funds with allocations to insurance-related investments as at 31 December 2025

Fund series	% of portfolio invested in insurance-related investments
MLC MultiActive	1-3%
MLC MultiSeries	2%
MLC Wholesale Horizon	1-3%
MLC Wholesale Inflation Plus	4%
MLC Real Return	4%
MLC Index Plus	2%

Source: MLC Asset Management Services Limited. The allocations shown in Table 1 are based on the fund's target allocations. The amounts allocated to insurance-related investments differ based on each fund's investment objective and strategy, risk profile and strategic asset allocation (SAA).

¹ This update is for MLC's diversified investment funds listed in Table 1. Refer to the 'Important Information' section of this report for details about the funds. MLC offers diversified funds in investments, superannuation and pension. While there may be similarities between MLC's diversified funds offered in investments, superannuation and pension, this update is focused on the investment funds listed in Table 1.

Investment objective

The strategy seeks to provide our diversified funds with sources of risk and return that are not correlated to mainstream asset classes.

Why invest in insurance-related investments?

While insurance-related investments have a long-term return and risk profile similar to other types of fixed income investments, insurance-related investments' returns can be distinctly different over short periods because the underlying assets generating the income are linked to the insurance market. As a result, insurance-related investments provide excellent diversification benefits to other types of fixed income, capable to reduce total portfolio risk and improve the risk-return efficiency of the portfolios.

Insurance-related investments are unusual because their returns are independent of the economic factors that influence the performance of most other investments. This makes them a rare and valuable source of fixed income returns that are also largely 'uncorrelated' with returns from shares.

Another distinctive feature of these investments is the visibility regarding its risk-return profile. Unlike other asset classes, where generally the expected returns are higher when risks are higher, in reinsurance the risks of a catastrophe occurring does not change materially from year to year, but the pricing can. This provides us with the ability to dial up and down our portfolio exposure according to the relative attractiveness of the pricing.

Certain risks can be rewarded with relatively better returns. An example of this is in Florida and California in the US. Both are densely populated cities where there are large economic exposures to major natural catastrophes via expensive real estate. Florida is exposed to hurricane risks and California is exposed to earthquake risks. It therefore makes sense for the reinsurance industry to reduce some of their exposure to these risks, particularly the very low probability, high impact events (which could jeopardise their solvency). This provides opportunities for investors to be rewarded for taking these 'remote peak peril' risks, while also benefiting from diversification from mainstream asset classes.

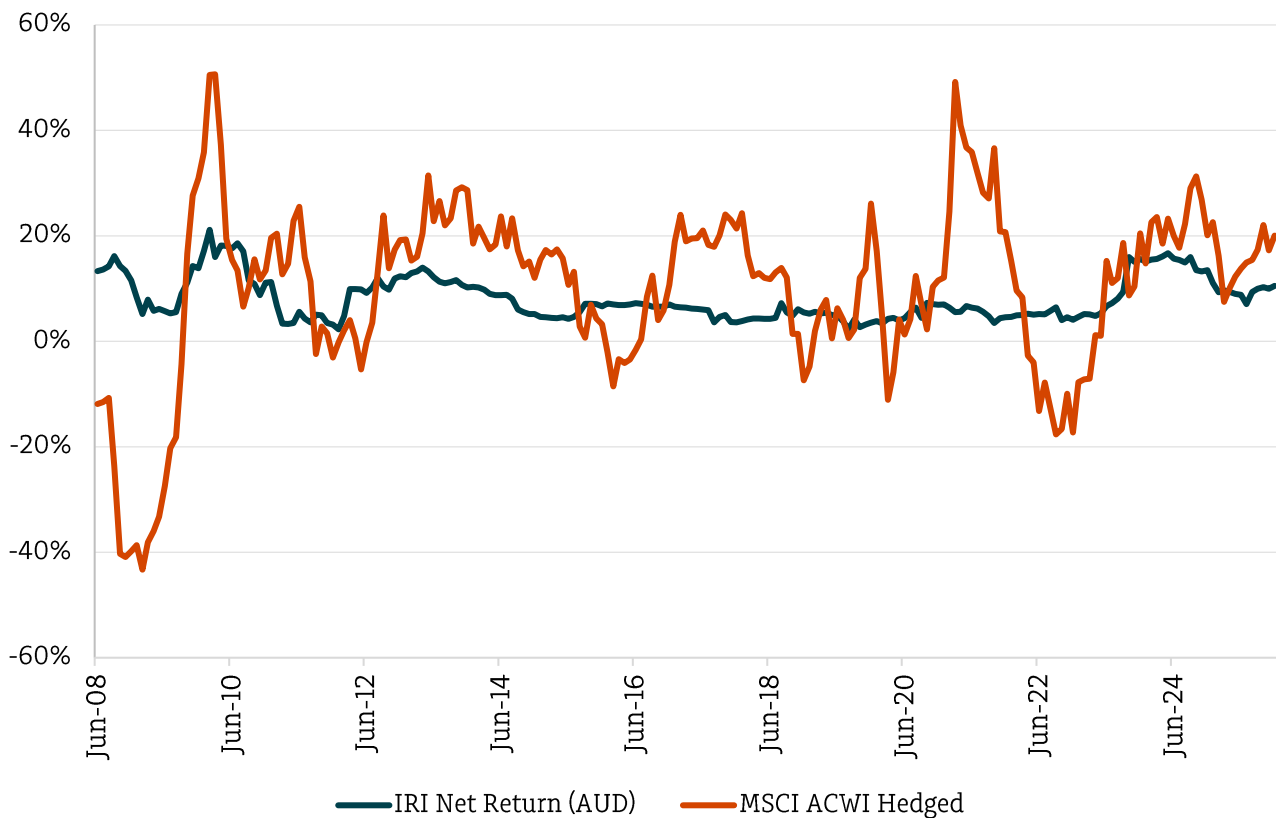
While there's no denying insurance-related investments aren't as well-known, or as liquid, as traditional asset classes such as equities and bonds, their ability to deliver relatively consistent returns irrespective of what's happening in listed markets is evident. This is highlighted in Chart 1 which shows the performance of the MLC insurance-related investments strategy since 2008. While past performance isn't reliably indicative of future performance, the strategy has produced a positive return each year and provided excellent diversification for investors from more volatile asset classes in the same period.

Performance

The insurance-related investments strategy has worked well for our diversified funds, making an important contribution to real returns and helping to moderate risk, particularly in periods of share market volatility. The strategy has low correlation to shares and has delivered 8.4% pa (hedged into Australian dollars, net of indirect costs directly associated with the insurance-related investments and gross of all other fees and costs) from July 2007 to 31 December 2025.

Chart 1: Performance of insurance-related investments relative to global shares to 31 December 2025

Rolling 12 month returns



Source: MLC Asset Management Services Limited. Insurance-related investment strategy returns are hedged into Australian dollars, net of indirect costs directly associated with insurance-related investments and are gross of all other fees and costs. Refer to Appendix 1 for more information. Past performance is not a reliable indicator of future performance.

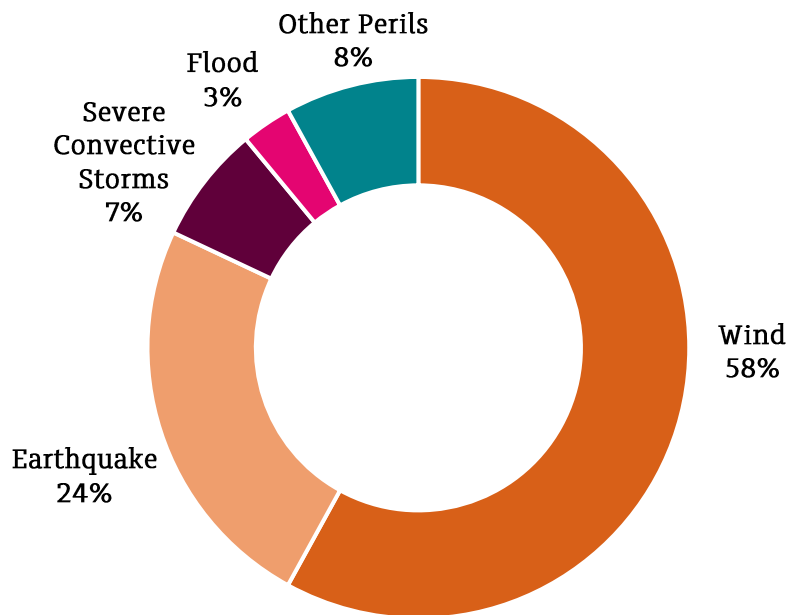
How we manage insurance-related investments

We have appointed five investment managers with expertise in the management of natural catastrophe and weather-related reinsurance risk exposures.

Our insurance-related investments strategy consists of a combination of catastrophe bonds (~15%) as well as direct reinsurance. The direct reinsurance market is a much larger pool of exposures compared to the catastrophe bond market, which creates more opportunity. This is where investing through specialist reinsurance managers is most advantageous to our investors. These managers and their parent companies are extremely well positioned to source and sift attractive risks from insurance companies and analyse these risks accurately.

Risk exposure

Chart 2: Expected risk by catastrophe type (at 31 December 2025)



Source: MLC Asset Management Services Limited. Figures have been rounded to the nearest percent. Other perils include, but are not limited to, Japan Wind and Quake, Europe Quake, US Wildfire, Mid Atlantic Wind and Caribbean Wind.

Current strategy positioning

Returns are net of indirect costs directly associated with insurance-related investments, and gross of all other fees and costs.

The Insurance-Related Investments strategy produced an estimated return of +3.8% for the fourth quarter and +10.5% over the twelve months to December 2025. These results mark the third consecutive calendar year in which the strategy has yielded double-digit returns, demonstrating its resilience in the face of significant catastrophes such as the California Wildfires in Q1 of the year.

The Hurricane season concluded without any major hurricane landfalls in the U.S. and a general pause in Atlantic storm activity during the climatological peak of the season, resulting in insured losses about 25% below average in the fourth quarter.

Reinsurers and ILS funds also delivered strong earnings in 2025, buoyed by robust premiums, even as global insured losses topped \$100 billion for the sixth consecutive year. Sector profitability was supported by higher attachment points that shielded reinsurers from losses, with the California wildfires (\$40 billion) standing out as the year's only major severity event. Severe convective storms, a secondary peril category, again contributed a significant portion of annual insured losses at the industry level, while having minimal impact on our remote risk focused strategy.

Three years of strong performance in the reinsurance sector has attributed to an increase in capacity for January 1 renewals with pricing reductions approaching 15%. However, whilst lower than prices seen in 2023-25, reinsurance remains attractive both relative to the longer-term averages and, we would argue, other mainstream asset classes due to its low market correlation.

Looking ahead to 2026, demand for reinsurance also continues to grow and pleasingly, while spreads have tightened, underwriting terms and the higher attachment points negotiated in 2023 at the market stress point have remained largely intact.

At the time of writing, winter storm Fern is impacting large parts of North America, with snow exceeding 40–60 cm in parts of the Midwest and Northeast. These conditions have caused widespread power outages, major transport disruption, thousands of flight cancellations nationwide and most tragically a rising death toll. Our thoughts are with those affected during this difficult time. Industry insured loss estimates are expected to fall approximately \$US10bn lower than Winter Storm Uri, which given the remote focus of our strategy would have minimal impact. We will continue to monitor the situation.

Appendix 1: Understanding fees that are deducted from returns in this investment update

The insurance-related investments strategy is one of a number of different strategies that form part of MLC's diversified funds. As such, the strategy only makes up a small component of the Management Fees and Costs that are charged to members when they invest in one of the diversified funds. When publishing the performance of the insurance-related investments strategy in this document, we have used figures that are gross of the Management Fees and Costs, with the exception of the Indirect Costs directly associated with the insurance-related investments. This is to ensure the performance shown isn't impacted by the total fees and costs that are charged for all of the strategies within the diversified funds. The Indirect Costs taken out of the performance shown in this report are incurred when the strategy invests in external investment funds. They aren't additional fees retained by MLC.

The asset allocation to insurance-related investments is relatively small compared to the total assets of the relevant diversified funds and are set to serve the investment objectives of the funds. The returns shown in this report demonstrate the insurance-related investments strategy's past performance over periods of time in history. These historical returns shouldn't be relied upon as any indication of the future and ongoing performance of the insurance-related strategy held by the MLC diversified funds or any other funds.

Important information

Unless otherwise specified, the information in this communication has been prepared based on data as at 31 December 2025.

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