Strategy enhancement

Change in MLC's multi-asset real return strategy

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"Our multi-asset real return strategy is well positioned and has the flexibility to traverse through the complex and challenging investment environment we currently face".

What are the changes?

- **Pyrford removed**

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

That's why we're making changes to our multi-asset real return (MARR) strategy for MLC's Inflation Plus and Horizon portfolios.

Pyrford International Ltd (Pyrford) has been a MARR manager in these portfolios since 2012. We're now removing this manager and reallocating the assets to our other MARR manager, Ruffer LLP (Ruffer). Ruffer has been a manager in our MARR strategy since 2009.

Which funds are affected?

The following funds[1] across our platform product range are affected by these changes:

- MLC Horizon 2 – Capital Stable Portfolio (MLC Horizon 2 - Income Portfolio in MLC Wholesale and MLC MasterKey Unit Trust isn't affected as it doesn't have an allocation to MARR due to its income objective)
- MLC Horizon portfolios 3 to 5, and
- MLC Inflation Plus portfolios.

There's no change to the MLC Index Plus portfolios or MLC MySuper.

How may investors benefit?

We believe this change will increase the likelihood of the MARR strategy meeting its aim to:

- preserve investor's capital in adverse markets, and
- reliably achieve returns above inflation.

Why we've removed Pyrford

While we continue to have confidence that Pyrford is a well-credentialed manager, we believe that Ruffer's investment approach is better suited to meet the needs of our investors given the challenges of the complex investment environment we're currently facing.

[1] A listing of the funds affected by these changes is in the Important Information at the end of this document.

Why we've retained Ruffer

London-based Ruffer has been a manager since we introduced the MARR strategy in 2009.

Ruffer aims to construct portfolios delivering above inflation returns over 5 to 7 years, while limiting the risk of negative nominal returns in any 12 month period. Ruffer does this through their deep understanding of the fundamental drivers of the global investment environment and also the lessons of history with respect to its potential evolution. They mesh this top down understanding with the insights of their stock selection team to identify that combination of stocks and other assets which has the potential to both generate returns and control risk. This approach is well aligned with the focus of the MLC Inflation Plus and Horizon portfolios.

Ruffer manages its portfolios without benchmarks and invests across a range of assets, so its portfolios are very different to traditional diversified funds. For example, at 30 June 2015, Ruffer had a high weighting to inflation-linked bonds and an allocation to gold due to concerns about inflation eventually rising.

What is the MARR strategy?

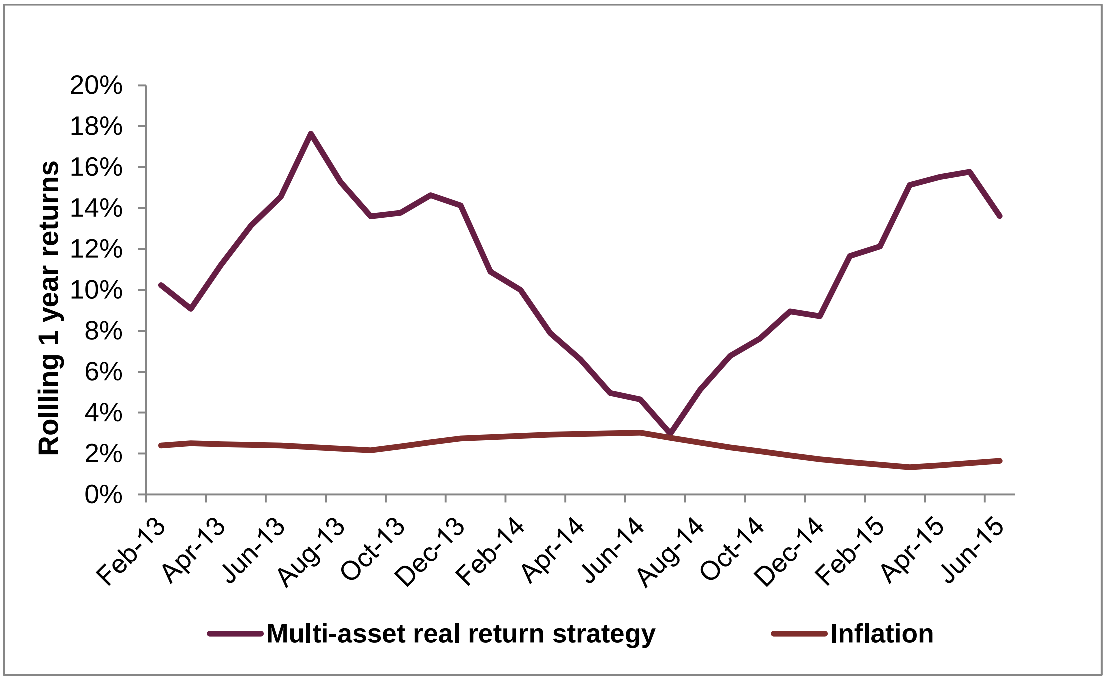
To manage risk and generate more robust returns we've increased our portfolios' diversification over time by investing in risk-controlled strategies, including the MARR strategy. It aims to generate attractive real returns (that is, returns above inflation) over a period of several years. At the same time, it aims to limit the risk of negative returns.

When we introduced the MARR strategy, we reduced allocations to broader Australian and global share markets. Investing in the strategy, rather than just share markets, is expected to help protect our portfolios in weak global growth scenarios (eg a recession).

The strategy doesn't have common restrictions such as asset class limits; instead the manager is unconstrained in their ability to combine individual assets to extract return potential while controlling risk. This can provide a more reliable path of returns and better preserve investors' capital in difficult markets.

It's a strategy that has worked well for the MLC Horizon and Inflation Plus portfolios as shown in Graph 1. The MARR strategy has made an important contribution to real returns in our portfolios and helped to moderate risk.

Graph 1 – Performance of MARR relative to inflation (rolling 1 year returns)



Source: JANA Corporate Investment Services Limited. Past performance is not a reliable indicator of future performance

Full manager profiles for Ruffer and the other managers in our portfolios are available on **mlc.com.au**

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What are the new allocations?

Table 1 shows the new allocations in the MARR strategy. While the allocations to managers within MARR are changing, the portfolios' allocations to MARR are not changing. We have used portfolios in the superannuation products for illustrative purposes. New allocations will also impact the funds listed in the Important Information at the end of this document.

Table 1 – Allocations of the portfolios to the MARR strategy and managers

Manager	MLC Horizon 2 Capital Stable	MLC Horizon 3 Conservative Growth	MLC Horizon 4 Balanced	MLC Horizon 5 Growth	MLC Inflation Plus Conservative	MLC Inflation Plus Moderate	MLC Inflation Plus Assertive
		% (change)	% (change)	% (change)	% (change)	% (change)	% (change)
MARR strategy	**1%**	**1%**	**1%**	**1%**	**12.5%**	**14%**	**18%**
Pyrford	0% (-0.5%)	0% (-0.5%)	0% (-0.5%)	0% (-0.5%)	0% (-6.75%)	0% (-7%)	0% (-9%)
Ruffer	1% (+0.5%)	1% (+0.5%)	1% (+0.5%)	1% (+0.5%)	12.5% (+6.75%)	14% (+7%)	18% (+9%)

In the MLC Inflation Plus portfolios we focus on bringing together very different investment strategies with unique return and risk outcomes to achieve the portfolios' real return objectives. That's why a manager such as Ruffer has a higher allocation in these portfolios than in MLC Horizon portfolios. In the MLC Horizon portfolios we focus more on bringing together very different investment managers in each mainstream asset class to achieve the portfolios' objectives of outperforming the market while reducing risk when market risk is high.

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

Are there fee implications?

Fees for impacted MLC products will be largely unchanged as a result of this strategy change. 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 the changes to our MARR strategy. These funds appear on MLC's platforms, in addition to a number of external platforms.

Funds affected:

MLC Inflation Plus – Conservative Portfolio

MLC Inflation Plus – Moderate Portfolio

MLC Inflation Plus – Assertive Portfolio

MLC Wholesale Inflation Plus – Conservative Portfolio

MLC Wholesale Inflation Plus – Moderate Portfolio

MLC Wholesale Inflation Plus – Assertive Portfolio

MLC Horizon 2 – Capital Stable Portfolio
MLC Horizon 3 - Conservative Growth Portfolio

MLC Horizon 4 - Balanced Portfolio

MLC Horizon 5 - Growth Portfolio

MLC Wholesale Horizon 3 Conservative Growth Portfolio

MLC Wholesale Horizon 4 Balanced Portfolio

MLC Wholesale Horizon 5 Growth Portfolio