



MLC's insights & portfolio positioning

January 2025

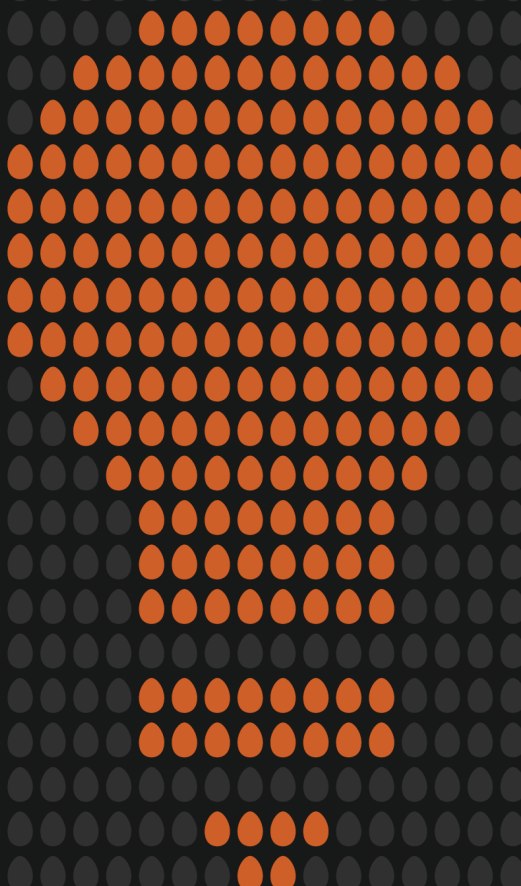
MLC Asset Management
Investment Team

MLC's wholesale investment portfolios

MLC MultiActive, MLC MultiSeries, MLC Horizon, MLC Real Return and MLC Index Plus

MLC's Managed Account Strategies

MLC Premium and Value model portfolios



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MLC funds and Managed Account Strategies referenced in this communication are listed below. These funds appear on MLC’s platforms, in addition to a number of external platforms:

| | |
|---|---|
| MLC MultiActive Capital Stable | MLC Index Plus Conservative |
| MLC MultiActive Conservative | MLC Index Plus Balanced |
| MLC MultiActive Moderate | MLC Index Plus Growth |
| MLC MultiActive Balanced | MLC Premium Conservative 30 Model Portfolio |
| MLC MultiActive Growth | MLC Premium Moderate 50 Model Portfolio |
| MLC MultiActive High Growth | MLC Premium Balanced 70 Model Portfolio |
| MLC MultiActive Geared | MLC Premium Growth 85 Model Portfolio |
| MLC MultiSeries 30 | MLC Premium High Growth 98 Model Portfolio |
| MLC MultiSeries 50 | MLC Value Conservative 30 Model Portfolio |
| MLC MultiSeries 70 | MLC Value Moderate 50 Model Portfolio |
| MLC MultiSeries 90 | MLC Value Balanced 70 Model Portfolio |
| MLC Wholesale Horizon 2 Income Portfolio | MLC Value Growth 85 Model Portfolio |
| MLC Wholesale Horizon 3 Conservative Growth Portfolio | MLC Value High Growth 98 Model Portfolio |
| MLC Wholesale Horizon 4 Balanced Portfolio | |
| MLC Wholesale Horizon 5 Growth Portfolio | |
| MLC Wholesale Inflation Plus Conservative Portfolio | |
| MLC Real Return Moderate | |
| MLC Real Return Assertive | |

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Quarterly insights

Highlights

- 2024 was a remarkable year for global shares given investor optimism over Artificial Intelligence prospects and more encouraging signs for inflation and interest rates.
- Milder prices for electricity and energy as well as improving production and transport supply chains lowered annual inflation. Yet consumers around the world remain angry with the "cost of living." There are still persistent price pressures in health care, insurance and rents that continue to squeeze consumers budgets.
- While Australia continued to display subdued economic activity as the negative impact of high consumer prices, mortgage interest rates and rents squeezed budgets, there was encouraging news with Australia recording strong jobs growth. This has key benefits with Australia now having a low unemployment rate with wages growth solid. Finally, Australian workers are starting to see that their pay packet increases are outpacing rising consumer prices.
- Risks to the cyclical outlook are skewed to the downside as a considerable degree of optimism is already priced by the market, and the key tailwind of lower interest rates turns into a headwind for 2025.
- We continue to maintain near neutral allocations to most risk assets for our diversified funds. Current yields for fixed income and credit exposures provide an alternate return source for the funds with greater resiliency should the outlook deteriorate. Near benchmark positioning will capture adequate upside as strength continues, while leaving dry powder to take advantage of a buying opportunity in shares if growth stalls, or if inflation remains stubborn. However what does remain certain is the wealth created from disciplined asset allocation over a long-term investment horizon.

MLC Asset

Management's active investment approach

Long-term returns matter, but we remain agile to adjust for emerging threats.

Our asset allocation process gives life to our investment beliefs.



More information about our investment philosophy is available on our **website** and in Appendix 2.

Key economic events driving markets over the December 2024 quarter

Global investment markets

Global shares (hedged) increased by 1.2% over the quarter given persistent inflation and fading hopes for US interest rate cuts over the coming year. Concerns over the escalating conflicts in the Middle East and Ukraine also weighed on share prices. Global shares (unhedged) recorded an exceptionally strong 10.9% return given the sharp decline in the Australian dollar (AUD).

Wall Street's benchmark S&P 500 Index made historic highs and delivered a solid 2.3% quarterly return in local currency terms. The exuberant optimism on Artificial Intelligence (AI) and technology shares are the tailwind behind Wall Street's ascent. Donald Trump's election as the next US President in November is also seen as positive for US shares given the potential for lower corporate taxes and extension of personal tax rate cuts.

European shares disappointed with a negative return despite lower inflation and the European Central Bank (ECB) cutting interest rates. Slow economic growth and modest corporate profits are weighing on Europe.

Asian share markets delivered mixed performances. Chinese shares have slipped back in the past three months after an extraordinary recovery in September. Investors have once again become cautious about China's prospects given the struggling property market. However, Japanese share markets have made strong gains given that the Japanese central bank has paused on raising interest rates in recent months.

Global bonds (hedged) posted a weak -1.2% quarterly return. More persistent inflation in the US and a more cautious outlook for 2025 from the US central bank has diminished expectations for lower interest rates in 2025. Australian bonds delivered a weak return (-0.3%) given a more cautious assessment of the prospects for lower global interest rates in the coming year.

Australia's investment market

Australian shares delivered a weak quarterly return of -0.8%. The Resources sector was the weakest link with a disappointing -11.2% return given more concern over China's growth prospects which resulted in lower commodity prices. There was also a disappointing return of -6.1% for property securities given higher bond yields. There were some pockets of strength with solid gains for Financial sector shares (5.9%), Industrials (3.2%) and Communication Services (2.2%). However, these gains were not enough to compensate for the broader market weakness.

Australia continued to display subdued economic activity. The negative impact of high consumer prices, mortgage interest rates and rents continued to squeeze budgets. Australia is regrettably in a 'per capita' recession where annual population growth was greater than economic growth in the year to September. Yet there has been some more encouraging news in terms of solid jobs growth and milder inflation. Australia's annual inflation rate declined to 2.1% in October. This moderation in price rises reflects the benefit of government electricity subsidies. According to the Australian Bureau of Statistics, "Electricity prices fell 35.6% in the 12 months to October". Given the "softer than expected" Australian economic activity and milder inflation results, the Reserve Bank of Australia (RBA) appears more open to cutting interest rates in 2025 judging by their commentary from the December 2024 meeting.

Global prospects

Global share prices made very strong gains in 2024 despite some challenges. The enthusiasm for AI and technology were the key factors supporting global rising share prices. There was also confidence that with inflation gradually falling across the world, central banks would make further cuts to interest rates. A lower interest rate environment should be more supportive of corporate profits and thereby share prices in the long run.

However, these exuberant expectations may be challenged by considerable global political risks in 2025 with the continuing Russian-Ukraine war as well as the intensifying conflict in the Middle East. The return of Donald Trump to the White House in January 2025 could also generate concerns for the global economy with the potential imposition of large tariff increases for America's trading partners (particularly China and Europe) as well as the threatened deportation of illegal immigrants.

Given these complex and significant risks, investors should maintain a disciplined and diversified investment strategy.

References:

¹ Australian Bureau of Statistics, media release 27/11/2024, "Monthly CPI Indicator rose 2.1% in the year to October 2024".

Cyclical factors influencing our asset allocation process

It has been a turbulent quarter for global asset prices, and a story of two halves. The election of Donald Trump amidst a broader Republican sweep of Congress was a decisive event, causing a bounce in consumer and corporate sentiment, a rise in the US dollar (USD), and a strong rebound in risk appetite. Contributing further to this rebound in risk assets was the continuation of the US Federal Reserve (Fed) easing cycle amidst wider and globally synchronised interest rate cuts. The persistence of strong earnings growth, particularly from mega-cap Information Technology companies also spurred positive sentiment in markets. However, there was a sting in the tail as global shares softened towards year-end because market participants fretted about the risk of higher interest rates in 2025. Sometimes, at least for markets, there can be too much of a good thing.

We retain a constructive cyclical outlook on a 12 month time horizon, with the **US economy** back in expansion phase. Near-term, the lagged effect of interest rate cuts, and a pull-forward in stronger growth due to Trump induced “animal spirits” will see a growth re-acceleration and a re-tightening in the labour market. However, a likely US Fed pause, higher mortgage, and corporate rates, alongside a rise in tariffs will usher in a new growth slowdown over the medium term. Household and corporate balance sheets remain strong, so this slowdown is unlikely to be recessionary unless we see considerable deterioration. That is, the growth environment will be supportive near-term, but some storm clouds are building.

The **global inflation moderation** story continued, but at a slower pace this quarter, as the last mile towards central bank inflation targets proves hard to hit. A return of goods inflation from two years of deflation normalisation was a key contributor to this stickiness. So too was continued stubbornness in services inflation. Energy and petrol prices also accelerated, placing upward pressure on headline inflation indices. Shelter inflation continued to trend downwards; a trend set to stay for the first half of 2025. This will likely mark the final phase of lower inflation, as lead indicators suggest modest price pressure building through late 2025. The 2% inflation target in the US now looks hard to hit. Australian headline inflation fell into the target band, primarily because of lower electricity prices from government subsidies. However, Australian core inflation is following a similar trajectory to that of the US, as sticky services inflation implies a slow grind lower.

The US transitioned to the **expansion phase of the cycle**, from the slowdown phase where it has been for several years. This was marked by a turn and re-tightening in the US labour market, a rebound in consumer spending, and a re-acceleration in activity. Some of this rebound is a pull-forward of US growth because of positive sentiment post Trump election. That is, growth will be flatter in the first half of 2025. The lagged impact of monetary policy easing through 2024 will also boost growth over this period. However, this expansion is unlikely to last long. A late-stage business cycle, little spare capacity, a return of cyclical inflation pressure, and tightening financial conditions from central banks going on pause will cause a new period of caution in the global economy. Globally, the US remains the bright spot. China is still experiencing balance sheet concerns and soft consumer sentiment, amidst broader emerging market weakness. On the other hand, developed market economies such as Europe and Australia are, like the US, showing signs of recovery as the global cycle turns.

The globally synchronised **interest rate cutting cycle** continued through the end of 2024. Major developed and emerging market central banks eased policy rates and injected much needed liquidity into the global economy. After starting with an outsized 0.50% interest rate cut last quarter, the US Fed continued with two more 0.25% interest rate cuts in the final quarter of 2024. However, as one of the first central banks to begin cutting, the US Fed will also be one of the first to stop. Stronger employment, the end of inflation cooling, and a Trump win all allowed for a hawkish pivot by Fed Reserve Chair Jerome Powell at the final meeting of 2024, where he signalled a potential pause in the easing cycle. This caused global treasury, corporate, and mortgage yields to rise as the market priced tighter conditions for 2025. The RBA is on an offset cycle but will likely see soft enough inflation and employment data to ease once or twice in the first half of 2025. The RBA won't have an extended easing cycle, as global conditions turn, and the easing window passes.

What could cause a deviation from the most likely path?

The above stated central case represents the most obvious near term future, however the inherent complexity of markets makes it difficult to predict a path with any consistency. Because the potential for deviation from the most likely path will always exist, investment consequences of less-obvious futures must also be considered and understood, as illustrated in the following examples.

Growth disappoints...

Policy implementation of the new Trump administration could disrupt the current US growth trajectory. Immediate changes to trade (via tariffs), immigration and regulation via executive orders will see markets attempt to price the impacts. While most changes will be offered as beneficial to US economic growth, there will inevitably be unintended impacts on the real economy that will neither be known nor experienced for some time. Financial markets desire certainty to facilitate accurate asset pricing, however rapidly changing environments increase uncertainty and widen the range of outcomes leading to the application of higher discount rates. The emergence of a global **Protectionism** scenario remains a threat to global growth. History suggests US government increases of tariffs with the aim of protecting and strengthening domestic industries, will likely be met with a retaliatory response from affected countries. Under a rising tariff environment, capital expenditure by businesses will likely slow, weighing on economic growth.

Growth surprises...

With the global economy generally experiencing normalised levels relating to economic growth, private balance sheet stability, low unemployment and moderating inflation, the possibility of a surprise in either economic growth or asset prices remains a possibility. With relatively high starting risk asset prices, even higher prices would likely require a burst of "animal spirits". A potential catalyst is the business and market friendly policies offered by the new Trump administration. The potential for a **Speculative Bubble** exists and should not be dismissed. Under such a scenario the need for valuation discipline would be essential as prices materially disconnect from fundamentals.

Recession...

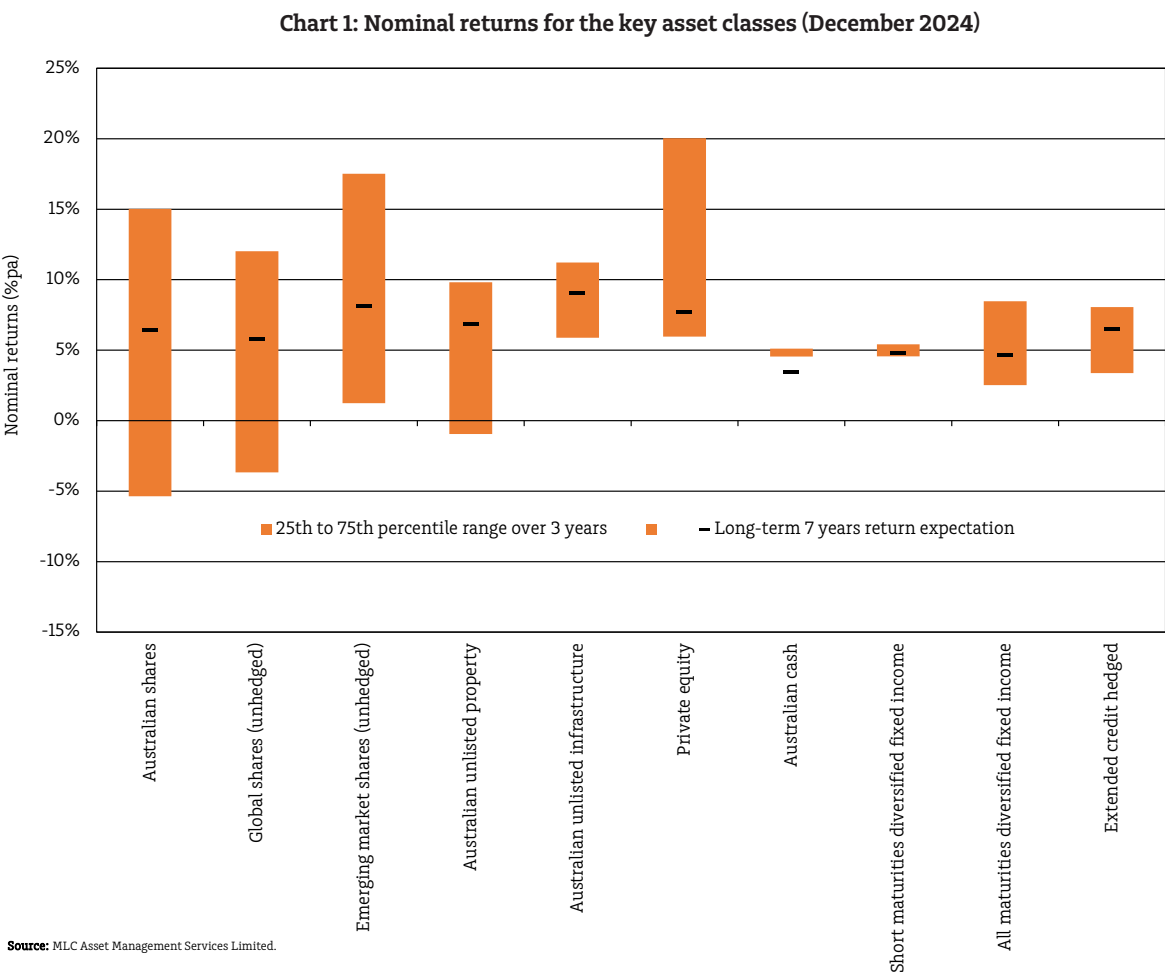
The prospect remains that US consumer spending slows, reducing corporate revenues and leading to margin protection behaviour. The most recent employment data suggests a stabilisation in the labour market which should support ongoing consumer spending. Unemployment usually rises quickly as companies aggressively cut costs. Stubborn above core inflation may force central banks to prioritise inflation fighting over growth, leading to restrictive financial conditions through higher rates weighing on growth.

Global economies are transitioning to a monetary easing cycle now inflation has been tamed. Risks to the growth outlook remain as labour markets begin to soften. To us, this continues to set the scene for maintaining near neutral allocations to most risk assets for the diversified funds. Current yields for fixed income and credit exposures provide an alternate return source for the funds with greater resiliency should the outlook deteriorate. Near benchmark positioning will capture adequate upside as strength continues, while leaving dry powder to take advantage of a buying opportunity in shares if growth stalls, or if inflation remains stubborn.

However what does remain certain is the wealth created from disciplined asset allocation over a long-term investment horizon.

Asset class return expectations

Longer period return expectations for key asset classes are shown in Chart 1, along with shorter term return uncertainty attributable to the current environment and the possible futures that could eventuate.



Notes: The nominal returns for each asset class are shown above. Black horizontal bars represent 7 year long-term return expectations. Orange vertical bars represent the 25th to 75th probability percentile range for each asset class over 3 years. All returns are nominal, pre-tax and pre-fees. Portfolios with wider ranges could have more extreme return outcomes than those with narrow ranges.

The below insights into the attractiveness of key assets classes, reflect our consideration of the cyclical outlook and alternative scenarios:

| | |
|---------------------|---|
| Shares | <p>Shares continue to present as an asset class with both upside and downside risks, with a balanced and neutral view still warranted. Fundamentals remain very strong, with signs of re-acceleration as the cycle moves into the expansion phase. Corporate earnings are robust, and earnings quality remains high. Balance sheets are resilient. This fundamental support should continue to provide near-term support for shares, although further out risks are rising from Trump's trade policies.</p> <p>On the other hand, the policy and liquidity cycle has turned. The key tailwind for global shares through 2023 and 2024 of easing in financial conditions is now a headwind as mortgage and corporate yields rise. Moreover valuations, particularly in the US, are now very expensive. Similarly, euphoric sentiment and bullish positioning suggests medium term caution as investors increasingly overprice this constructive cyclical outlook. That is, the fundamental story is strong, but the policy cycle is turning, and valuations and positioning imply an overly optimistic and exuberant market prone to disappointment.</p> |
| Fixed income | <p>As long-end yields eased towards 4% due to the US Fed's easing cycle continuing last quarter, we moved from a neutral to a modest underweight view on fixed income. As the US cycle moves into the expansion phase, growth surprises to upside, the labour market re-tightens, and we witness the end of inflation moderation as the US Fed is likely to go on hold. As a result of this strong growth environment through 2025, together with inflationary Trump priorities on trade and tariffs, we are likely to see yields rise. In this way, we see global sovereign bonds as a low returning asset class through 2025 despite elevated yields. Further, fixed income will likely provide little diversification and protection against the next shares sell-off as higher rates are likely to be the cause of growth and therefore shares weakness as they were in 2022.</p> |
| Credit | <p>Credit continues to offer an attractive return profile under the central case of a global economic soft-landing and return to expansion. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. However, spreads have tightened, and the policy support for credit is turning. This implies a still positive though moderated return profile from public credit through 2025 as defaults will still rise and spreads modestly widen. Very attractive yields can still be found in pockets across the credit asset class spectrum (high yield, private credit, specialty finance, loans). Given the stage of the cycle, we prefer higher quality, and shorter duration credit.</p> |
| Currency | <p>The AUD has fallen over the last quarter alongside commodity softening amidst a still soft industrial sector in China, a strong USD post Trump election, and moderating Australian growth and inflation relative to that seen in the US. We maintain our underweight to the AUD in a world where the US outperforms, and the USD is likely to rise on the back of US-led exceptionalism and Trump style trade policy. Further, an underweight to the AUD provides good protection in the event of a share market sell-off.</p> |

Our cyclical outlook is consistent with a neutral position to most risk assets. Our view of asset class attractiveness is summarised below.

| Asset class | Attractiveness | | | | | Comments |
|-------------------------------|----------------|--|--|--|---|---|
| | - | | | | + | |
| Australian shares | | | | | | <ul style="list-style-type: none"> We have a neutral view on growth assets. Australian and global shares continue to present both upside and downside risks with a balanced and neutral view warranted. Whilst fundamentals remain strong, valuations and positioning imply an optimistic market with potential for disappointment. Unlisted infrastructure continues to offer attractive yields, but unlisted property is a modest underweight due to weak valuations. Credit remains a modest overweight given the constructive cyclical outlook, elevated yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit. As long bond yields fell towards 4% on the back of the US Fed easing cycle continuing last quarter, we moved from a neutral to a modest underweight view on fixed income (all maturity). |
| Global shares | | | | | | |
| Emerging market shares | | | | | | |
| Foreign currency | | | | | | |
| Private equity | | | | | | |
| Unlisted infrastructure | | | | | | |
| Unlisted property | | | | | | |
| Credit | | | | | | |
| Fixed income (all maturity) | | | | | | |
| Fixed income (short maturity) | | | | | | |
| Cash | | | | | | |



Current



Previous quarter

MLC MultiActive

Changes were made to the credit strategy during the quarter. We believe these changes will generate better and more consistent returns for our investors. More details are available at mlc.com.au.

The main positions of the funds at the end of the December 2024 quarter were:

- Underweight position to unlisted property. Whilst unlisted property provides a relatively stable income yield, some inflation protection and the potential for capital growth, the shorter-term return outlook for some sectors is below long-term averages.
- The overweight to fixed income includes an overweight to credit via short maturities and private debt. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.
- Underweight position to cash and all maturities to fund the fixed income overweights.

MLC MultiActive are our flagship active, fully diversified multi-manager portfolios with defined asset allocations for differing risk profiles. These portfolios may suit clients who value higher active management to enhance returns and manage volatility.

Here is a summary of the positioning of MLC MultiActive Balanced. Refer to Appendix 1 for performance to 31 December 2024.

| Asset allocation | Actual (%) | Strategic asset allocation (%) | Difference (%) |
|-----------------------------------|-------------|--------------------------------|----------------|
| Australian shares | 24.9 | 25 | -0.1 |
| Global shares | 29.3 | 29 | 0.3 |
| Global shares (unhedged) | 17.2 | 17 | 0.2 |
| Global shares (hedged) | 12.1 | 12 | 0.1 |
| Property | 5.5 | 7 | -1.5 |
| Unlisted property | 2.8 | 4 | -1.2 |
| Global listed property | 2.6 | 3 | -0.4 |
| Infrastructure | 3.8 | 4 | -0.2 |
| Listed infrastructure | 1.8 | 2 | -0.2 |
| Unlisted infrastructure | 2 | 2 | - |
| Alternatives | 8.2 | 8 | 0.2 |
| Private equity | 8.2 | 8 | 0.2 |
| Fixed income | 25.3 | 21 | 4.3 |
| All maturities | 11.5 | 13 | -1.5 |
| Short maturities | 2.8 | - | 2.8 |
| Australian inflation-linked bonds | 1 | - | 1 |
| High yield bonds and loans | 2.8 | 2 | 0.8 |
| Private debt | 2.7 | 1 | 1.7 |
| Opportunistic capital solutions | 2.4 | 3 | -0.6 |
| Insurance-related investments | 2.1 | 2 | 0.1 |
| Cash | 3.1 | 6 | -2.9 |

MLC MultiSeries

Changes were made to the credit strategy during the quarter. We believe these changes will generate better and more consistent returns for our investors. More details are available at mlc.com.au.

The main positions of the funds at the end of the December 2024 quarter were:

- Underweight position to unlisted property. Whilst unlisted property provides a relatively stable income yield, some inflation protection and the potential for capital growth, the shorter-term return outlook for some sectors is below long-term averages.
- The overweight to fixed income includes an overweight to credit via short maturities. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.
- The overweight to cash on 31 December was to fund the half-yearly distribution. Post the distribution, the overweight to cash and underweight to shares has since been neutralised.

MLC MultiSeries are diversified multi-manager portfolios with predominantly active exposures at an attractive price point with defined asset allocations for differing risk profiles. These portfolios may suit clients who value low-cost and active management. These investment strategies are predominantly active and blend factor-based and passive investment strategies.

Here is a summary of the positioning of MLC MultiSeries 70. Refer to Appendix 1 for performance to 31 December 2024.

| Asset allocation | Actual (%) | Strategic asset allocation (%) | Difference (%) |
|-------------------------------|-------------|--------------------------------|----------------|
| Australian shares | 23.2 | 24 | -0.8 |
| Global shares | 29.7 | 30 | -0.3 |
| Global shares (unhedged) | 19.3 | 19.5 | -0.2 |
| Global shares (hedged) | 10.4 | 10.5 | -0.1 |
| Property | 8 | 10 | -2 |
| Unlisted property | 4.3 | 6 | -1.7 |
| Listed property | 3.7 | 4 | -0.3 |
| Infrastructure | 1.1 | 1 | 0.1 |
| Listed infrastructure | 1.1 | 1 | 0.1 |
| Alternatives | 4.8 | 5 | -0.2 |
| Fixed income | 27.9 | 26 | 1.9 |
| All maturities | 16 | 16 | - |
| Short maturities | 1.8 | - | 1.8 |
| Private debt | 8 | 8 | - |
| Insurance-related investments | 2.1 | 2 | 0.1 |
| Cash | 5.3 | 4 | 1.3 |

MLC Horizon 2 - 5

Changes were made to the fixed income investment strategy during the quarter for these funds. We believe these changes will generate better and more consistent returns for our investors. More details are available at mlc.com.au.

The main positions of the funds at the end of the December 2024 quarter were:

- Underweight position to unlisted property. Whilst unlisted property provides a relatively stable income yield, some inflation protection and the potential for capital growth, the shorter-term return outlook for some sectors is below long-term averages.
- Overweight position to alternatives. The real return strategy and derivatives provide the portfolio with more liquid sources of real asset-like exposures to offset the underweight to property.
- The overweight to fixed income includes an overweight to credit via short maturities and private debt. A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.
- Underweight position to cash and all maturities to fund the fixed income overweights.

MLC Horizon are active, fully diversified multi-manager portfolios. We continue to actively manage and support the Horizon 2 – 5 suite in line with the MLC MultiActive range.

Here is a summary of the positioning of the MLC Horizon 4 Balanced Portfolio. Refer to Appendix 1 for performance to 31 December 2024.

| Asset allocation | Actual (%) | Strategic asset allocation (%) | Difference (%) |
|-----------------------------------|-------------|--------------------------------|----------------|
| Australian shares | 25.2 | 25 | 0.2 |
| Global shares | 29.7 | 29 | 0.7 |
| Global shares (unhedged) | 17.6 | 17 | 0.6 |
| Global shares (hedged) | 12.1 | 12 | 0.1 |
| Property | 5.6 | 7 | -1.4 |
| Unlisted property | 3 | 4 | -1 |
| Global listed property | 2.6 | 3 | -0.4 |
| Infrastructure | 3.3 | 4 | -0.7 |
| Unlisted infrastructure | 1.6 | 2 | -0.4 |
| Listed infrastructure | 1.7 | 2 | -0.3 |
| Alternatives | 9.8 | 8 | 1.8 |
| Private equity | 4.8 | 5 | -0.2 |
| Real return strategy | 3.6 | 3 | 0.6 |
| Derivatives | 1.4 | - | 1.4 |
| Fixed income | 25.1 | 21 | 4.1 |
| All maturities | 10 | 13 | -3 |
| Short maturities | 2.8 | - | 2.8 |
| Australian inflation-linked bonds | 1.8 | - | 1.8 |
| High yield bonds and loans | 2 | 2 | - |
| Private debt | 2.3 | 1 | 1.3 |
| Opportunistic capital solutions | 4 | 3 | 1 |
| Insurance-related investments | 2.2 | 2 | 0.2 |
| Cash | 1.4 | 6 | -4.6 |

MLC Real Return

Changes were made to the fixed income investment strategy during the quarter for these funds. We believe these changes will generate better and more consistent returns for our investors. More details are available at mlc.com.au.

The main positions of the funds at the end of the December 2024 quarter were:

- A relatively high level of diversified market exposure spread across traditional shares and fixed income assets. These exposures are supplemented by alternative sources of return such as private equity, MLC opportunistic capital solutions and insurance-related investments. We also maintain cost conscious hedging that should offset losses in the event that diversification fails. During the quarter we maintained the exposure to shares but increased the level of hedging.
- We have a defensive orientation to both the Australian and global share exposures. The Australian shares strategy is invested in what we believe are higher quality companies protected with additional risk control by hedging part of the strategy against large losses. Our focus on quality and the hedging overlay reduces the risk of negative returns in falling markets at the expense of participating fully in speculative markets. The global shares strategy doesn't employ the same hedging strategy, but exposures are split across managers with a defensive growth and quality focus.
- Within our derivatives and currency strategies we hold an exposure to Australian nominal government bonds to add additional duration. With yields elevated compared to the recent past, bonds once again provide diversification against growth risk. The derivatives strategy also holds an exposure to emerging markets. During the quarter we reduced the exposure to China small caps after the market's strong rally.
- Inflation-linked bonds provide important inflation protection, reducing the portfolios' exposure to inflationary risks and protecting against expectations of lower economic growth.
- Combined, these exposures position the portfolios favourably against their risk and return objectives.

MLC Real Return are diversified multi-manager portfolios with flexible asset allocations which are different to traditional funds with defined asset allocations. These portfolios may suit clients who value a focus on real returns while limiting the possibility of negative returns.

Here is a summary of the positioning of MLC Real Return Assertive. Refer to Appendix 1 for performance to 31 December 2024.

| Actual asset allocation | 31 December 2024 (%) | 30 September 2024 (%) | Asset class ranges (%) |
|-------------------------------------|----------------------|-----------------------|------------------------|
| Defensive Australian shares | 18.3 | 19.2 | 0 to 40 |
| Global shares | 32.1 | 29.9 | 10 to 80 |
| Property | - | - | 0 to 20 |
| Infrastructure | 2.1 | 2.3 | 0 to 20 |
| Listed infrastructure | 2.1 | 2.3 | |
| Alternatives | 16.5 | 17.3 | 0 to 65 |
| Private equity | 3.6 | 3.4 | |
| Derivatives and currency strategies | 12.9 | 13.9 | |
| Fixed income | 29.4 | 29.4 | 0 to 50 |
| All maturities | 4.9 | 5.1 | |
| Short maturities | 4 | 3.5 | |
| Australian inflation-linked bonds | 3 | 2.9 | |
| Global high yield bonds | 7.4 | 7.7 | |
| Opportunistic capital solutions | 5.8 | 6.0 | |
| Insurance-related investments | 4.3 | 4.2 | |
| Cash | 1.7 | 2.0 | 0 to 30 |

MLC Index Plus

Changes were made to the fixed income strategy during the quarter for these funds. We believe these changes will generate better and more consistent returns for our investors. More details are available at mlc.com.au.

The main positions of the funds at the end of the December 2024 quarter were:

- Overweight position to fixed income with the overweight to short maturities and the recent addition of high yield bonds and loans, providing increased credit exposure.
- A modest overweight to credit remains one of our highest conviction positions given the constructive cyclical outlook, elevated all-in yields, strong corporate balance sheets and historically high coverage ratios. Given the stage of the cycle, we prefer higher quality and shorter duration credit.
- Underweight to cash and all maturities to fund the overweights.

MLC Index Plus are low-cost diversified multi-manager portfolios that are active where it matters most, namely, asset allocation, fixed income, alternatives, and currency. These portfolios may suit clients who value a low-cost approach to investing.

Here is a summary of the positioning of MLC Index Plus Balanced. Refer to Appendix 1 for performance to 31 December 2024.

| Asset allocation | Actual (%) | Strategic asset allocation (%) | Difference (%) |
|-----------------------------------|-------------|--------------------------------|----------------|
| Australian shares | 26.7 | 27 | -0.3 |
| Global shares | 34 | 34 | - |
| Global shares (unhedged) | 21.1 | 21 | 0.1 |
| Global shares (hedged) | 12.9 | 13 | -0.1 |
| Property | 3.8 | 4 | -0.2 |
| Listed property | 3.8 | 4 | -0.2 |
| Infrastructure | 3.1 | 3 | 0.1 |
| Listed infrastructure | 3.1 | 3 | 0.1 |
| Alternatives | 2.8 | 3 | -0.2 |
| Real return strategy | 2.8 | 3 | -0.2 |
| Fixed income | 26 | 23 | 3 |
| All maturities | 16.5 | 17 | -0.5 |
| Short maturities | 4.8 | - | 4.8 |
| Australian inflation-linked bonds | 3.6 | 3 | 0.6 |
| High yield bonds and loans | 1.1 | 1 | 0.1 |
| Insurance-related investments | - | 2 | -2 |
| Cash | 3.5 | 6 | -2.5 |

MLC Managed Account Strategies

The main positions of the funds at the end of the December 2024 quarter were:

- Within Australian shares, we have a larger representation in large-cap direct shares and remain alert to more elevated valuations. We maintain exposure to small and mid-caps and see these allocations aligning with superior earnings growth, and over time stronger capital growth.
- Holding both hedged and unhedged global shares continues to be an important diversifier. We have maintained a structurally lower developed market foreign currency exposure due to the increasing valuation appeal of, and constructive medium-term outlook for the terms of trade for the AUD, particularly versus the USD. The surge in US mega-cap shares, strength in the USD and broader jubilation surrounding the incoming US President Trump, present near-term uncertainty and potential turbulence for emerging market shares.
- Alternatives provide the portfolios with important real return exposures and sources of low correlation return streams. They also provide diversification and versatility in downside scenarios via a high quality, dynamic real return solution that has a healthy allocation to genuine alternative assets.

Our Value and Premium Managed Accounts Strategies provide a range of multi-manager portfolios. These portfolios may suit clients who value the benefits of full transparency and direct equity exposure that is provided by separately managed accounts.

- We believe active management is appropriate within fixed income to effectively navigate a turbulent interest rate and yield curve environment. We see favourable risk-reward attributes with longer duration Australian fixed interest and high-quality credit.

Details of recent stock changes are available in the portfolio activity reports at mlcam.com.au.

The latest portfolio updates are available at mlcam.com.au.

Here is a summary of the positioning of MLC Value Balanced 70 Model Portfolio. Appendix 1 provides performance to 31 December 2024.

| Asset allocation | 31 December 2024 (%) | 30 September 2024 (%) | Asset class ranges (%) |
|--------------------------------------|----------------------|-----------------------|------------------------|
| Australian shares | 23.3 | 23.9 | 20 to 50 |
| Global shares | 30.1 | 29.0 | 10 to 50 |
| Global shares (unhedged) | 15.8 | 14.8 | |
| Global shares (hedged) | 14.3 | 14.2 | |
| Property & infrastructure | 6.4 | 6.9 | 0 to 20 |
| Listed property | 3.4 | 3.8 | |
| Listed infrastructure | 2.9 | 3.1 | |
| Alternatives | 9.9 | 9.8 | 0 to 20 |
| Real return strategy | 9.9 | 9.8 | |
| Fixed income | 25.7 | 26.2 | 5 to 40 |
| All maturities | 12.0 | 12.3 | |
| Short maturities | 5.3 | 5.3 | |
| High yield bonds and loans | 8.4 | 8.6 | |
| Cash | 4.6 | 4.3 | 2 to 15 |

Here is a summary of the positioning of MLC Premium Balanced 70 Model Portfolio. Appendix 1 provides performance to 31 December 2024.

| Asset allocation | 31 December 2024 (%) | 30 September 2024 (%) | Asset class ranges (%) |
|--------------------------------------|----------------------|-----------------------|------------------------|
| Australian shares | 24.3 | 24.4 | 20 to 50 |
| Global shares | 28.3 | 27.8 | 10 to 50 |
| Global shares (unhedged) | 14.5 | 14.1 | |
| Global shares (hedged) | 13.8 | 13.7 | |
| Property & infrastructure | 6.7 | 7.2 | 0 to 20 |
| Listed property | 3.8 | 4.1 | |
| Listed infrastructure | 2.9 | 3.1 | |
| Alternatives | 10.3 | 10.2 | 0 to 20 |
| Real return strategy | 10.3 | 10.2 | |
| Fixed income | 25.8 | 26.1 | 5 to 40 |
| All maturities | 12.3 | 12.5 | |
| Short maturities | 5.1 | 5.1 | |
| High yield bonds and loans | 8.4 | 8.5 | |
| Cash | 4.7 | 4.3 | 2 to 15 |

Appendix 1 – Performance

| Performance to 31 December 2024 (net of fees) | 3 mths (%) | 1 year (%) | 3 years (% pa) | 5 years (% pa) | 10 years (% pa) | 15 years (% pa) | 20 years (% pa) |
|--|---------------|---------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| MLC MultiActive | | | | | | | |
| MLC MultiActive – Capital Stable | 0.4% | 5.7% | 2.6% | 3.1% | 3.9% | 4.9% | - |
| MLC MultiActive – Conservative | 0.7% | 6.7% | 3.6% | 4.2% | 4.8% | 5.6% | - |
| MLC MultiActive – Moderate | 1.2% | 9.1% | 4.5% | 5.8% | 6.3% | 6.6% | 5.9% |
| MLC MultiActive – Balanced | 2.0% | 12.1% | 5.2% | 7.1% | 7.8% | 7.9% | - |
| MLC MultiActive – Growth | 2.5% | 14.3% | 5.7% | 8.0% | 8.8% | 8.6% | - |
| MLC MultiActive – High Growth | 2.7% | 15.7% | 6.7% | 8.5% | 8.9% | 9.1% | 7.8% |
| MLC MultiActive – Geared | 2.8% | 20.3% | 8.0% | 10.5% | 10.9% | 10.8% | 8.7% |
| MLC MultiSeries | | | | | | | |
| MLC MultiSeries – 30 | 0.6% | 6.9% | 3.1% | 3.9% | - | - | - |
| MLC MultiSeries – 50 | 1.0% | 9.5% | 4.2% | 5.3% | - | - | - |
| MLC MultiSeries – 70 | 1.7% | 12.6% | 5.9% | 7.1% | 7.4% | 7.5% | - |
| MLC MultiSeries – 90 | 2.1% | 14.7% | 7.0% | 8.2% | - | - | - |
| MLC Horizon | | | | | | | |
| MLC Horizon 2 | 0.9% | 7.1% | 3.6% | 3.4% | 3.5% | 4.7% | - |
| MLC Horizon 3 | 1.3% | 9.5% | 4.3% | 5.0% | 5.3% | 6.0% | 5.7% |
| MLC Horizon 4 | 2.0% | 12.2% | 4.9% | 6.2% | 6.6% | 7.2% | 6.5% |
| MLC Horizon 5 | 2.5% | 14.4% | 5.9% | 7.5% | 7.7% | 8.1% | 7.1% |
| MLC Real Return | | | | | | | |
| MLC Inflation Plus - Conservative | 1.3% | 7.7% | 5.1% | 4.6% | 3.9% | - | - |
| MLC Real Return – Moderate | 0.9% | 8.2% | 5.0% | 5.0% | 4.6% | - | - |
| MLC Real Return – Assertive | 2.0% | 10.7% | 5.2% | 6.1% | 6.0% | 7.4% | - |
| MLC Index Plus | | | | | | | |
| MLC Index Plus – Conservative | 1.0% | 10.4% | 4.5% | 5.3% | - | - | - |
| MLC Index Plus – Balanced | 1.5% | 13.2% | 5.5% | 6.7% | - | - | - |
| MLC Index Plus – Growth | 2.2% | 15.7% | 6.5% | 7.9% | - | - | - |

Past performance is not indicative of future performance. **Sources:** MLC Investments Limited and MLC Asset Management Pty Ltd.

| Performance to 31 December 2024 (net of fees) | 3 mths (%) | 1 year (%) | 3 years (% pa) | 5 years (% pa) | 10 years (% pa) | 15 years (% pa) | 20 years (% pa) |
|--|---------------|---------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| MLC Managed Account Strategies | | | | | | | |
| MLC Premium – Conservative 30 | 0.4% | 7.1% | - | - | - | - | - |
| MLC Premium – Moderate 50 | 0.7% | 8.7% | 4.2% | - | - | - | - |
| MLC Premium – Balanced 70 | 1.0% | 10.4% | 4.5% | - | - | - | - |
| MLC Premium – Growth 85 | 1.1% | 11.5% | 4.6% | - | - | - | - |
| MLC Premium – High Growth 98 | 1.1% | 12.0% | - | - | - | - | - |
| MLC Value – Conservative 30 | 0.4% | 7.1% | - | - | - | - | - |
| MLC Value – Moderate 50 | 0.9% | 9.2% | 4.7% | - | - | - | - |
| MLC Value – Balanced 70 | 1.4% | 11.4% | 5.2% | - | - | - | - |
| MLC Value – Growth 85 | 1.5% | 12.8% | 5.5% | - | - | - | - |
| MLC Value – High Growth 98 | 1.5% | 13.2% | - | - | - | | |

Past performance is not indicative of future performance. **Sources:** MLC Investments Limited and MLC Asset Management Pty Ltd.

* The performance is for the Model Portfolios and is not a guarantee or an indication of the actual performance of a client's portfolio due to differences in the timing and transaction prices for portfolio changes, client investments and withdrawals during the period, timing of receipt of dividends and income distributions, platform administration fees, transactional costs associated with the client's portfolio, and any portfolio exclusions required by the client. Returns are net of the model manager fee, rebates and indirect costs. Performance data is limited as inception was 1 July 2020 for Premium & Value 85, Premium & Value Balanced 70, Premium & Value Moderate 50. Inception was 1 May 2022 for Premium & Value High Growth 98, Premium & Value Conservative 30.

Appendix 2 – MLC Asset Management's investment beliefs

The core of any successful investment is a clear investment philosophy. Our investment philosophy has evolved over multiple investment cycles and guides how we manage your money.



Great culture is the foundation for great investing

A culture that fosters debate; encourages fearless enquiry; values humility; and which rests on trust and collaboration is the basis of great investing.

Consistent with this, we embrace change, and new ways of thinking and investing, recognising that what has been effective in the past, may be less so into the future.

Active management can add value

There are many factors that may lead to current market pricing not accurately reflecting the value of an asset to a long-term investor like us. This may include behavioural biases like overconfidence and herding (following the crowd), availability and access to information, and the fact that deep research and analysis can reveal the 'intrinsic value' of an asset which has been overlooked by other investors.

It's these market inefficiencies that present opportunities for skilled active management to add value, delivering stronger long-term returns than would be possible by investing in a passive manner.

Skilful diversification can deliver over the long-term

Skilfully constructed multi-manager funds made up of a wide breadth of asset classes, many assets within asset classes, risks, investment styles, and investments across many geographies maximises the odds of achieving strong long-term returns while managing risk.

Successful investing relies not just on strong performance in rising markets but also on preserving investors' capital in hostile markets. The combination of skilful diversification and active management is one of the best ways of achieving these dual objectives.

Intelligent risk taking is a must

It's understood that some risks must be taken to achieve return objectives. However, not all risks are equal.

Our role as active managers is to assess the range of possible market outcomes and position funds so that they maximise the chance of meeting clients' return expectations while minimising exposure to risks unsupported by high conviction.

The long-term matters but we remain agile

Deeply held investment convictions, sound judgments gained from navigating multiple market cycles, and structures and incentives that reward patience and perseverance, support our long-term focus.

At the same time, we are very mindful of occasions when market events can, if overlooked, undermine returns. Our risk-aware investment approach alerts us to possible threats enabling us to position funds to weather such market conditions.

More information on our investment philosophy and our investment approach is available at mlcam.com.au



**For more information, visit
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