



Investment update for financial advisers

July 2019

This material is not for circulation to retail investors



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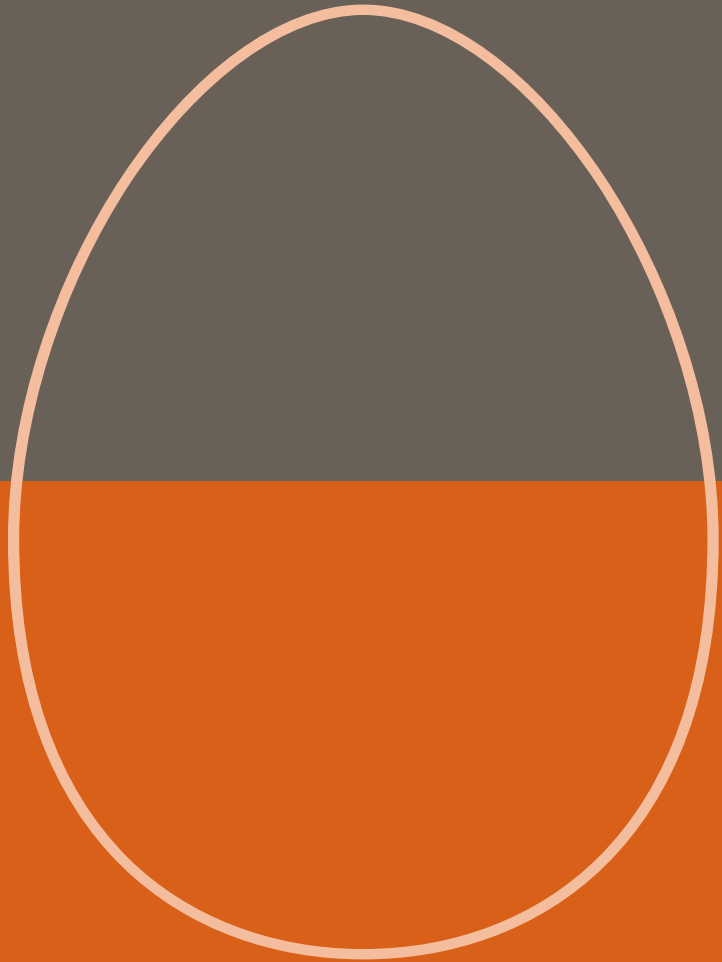
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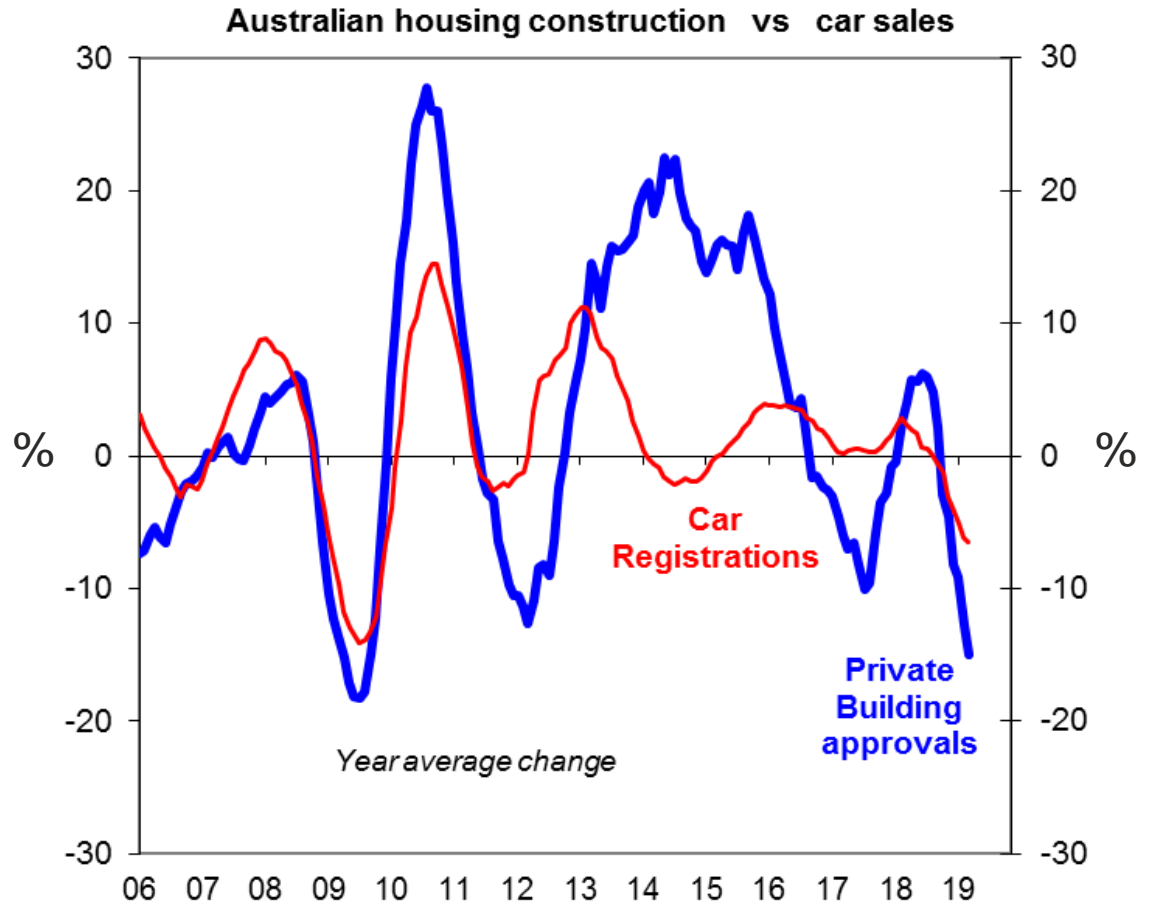


Market update

A trifecta of troubles has warranted the RBA cutting interest rates



- The Reserve Bank of Australia (RBA) has cut interest rates again by 0.25%. This now sees the official cash interest rate fall to only 1%
- This seems extraordinarily low given the Australian share market has generated a robust 20% return in the first half of 2019 and jobs growth is solid
- However the key concern for Australia is the consumer's resilience to a trifecta of troubles:
 - falling house prices
 - high household debt, and
 - slow income growthhave proven to be troubling for the Australian consumer
- Notably the very sharp falls in both new housing construction approvals (chart blue line) and car sales (chart red line) over the past year show that Australian consumers have become very cautious

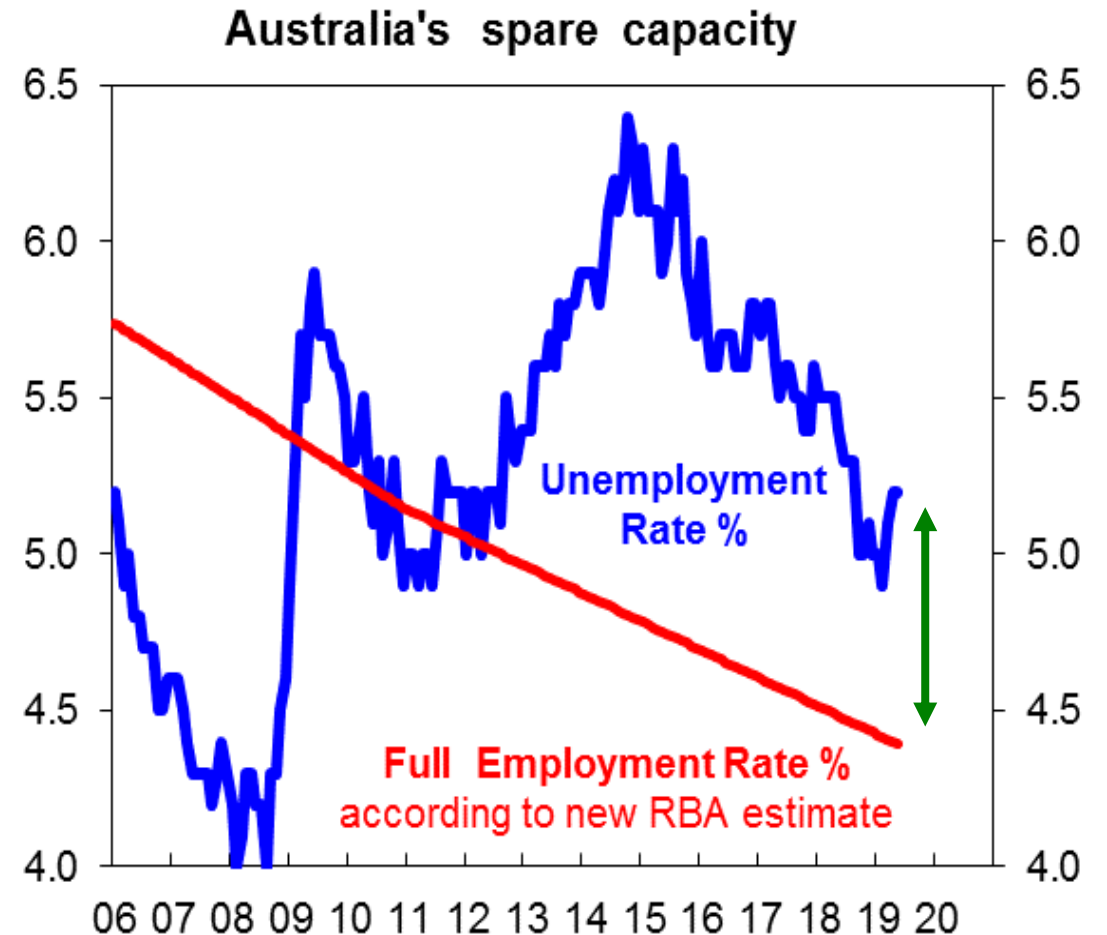


Source: ABS Building Approvals and FACT Car Registrations

Australia's labour market has considerable “*spare capacity*”



- The RBA Governor highlighted, with June's interest rate cut, that the labour market is not as robust as previously thought
- Dr Philip Lowe noted that “there is still spare capacity in the labour market”. The RBA now estimates that the full employment rate is closer to 4.5%, than the previous 5% estimate
- Given that Australia's unemployment rate is currently 5.2% and is well above the 4.5% full employment rate, this suggests that there is considerable spare capacity

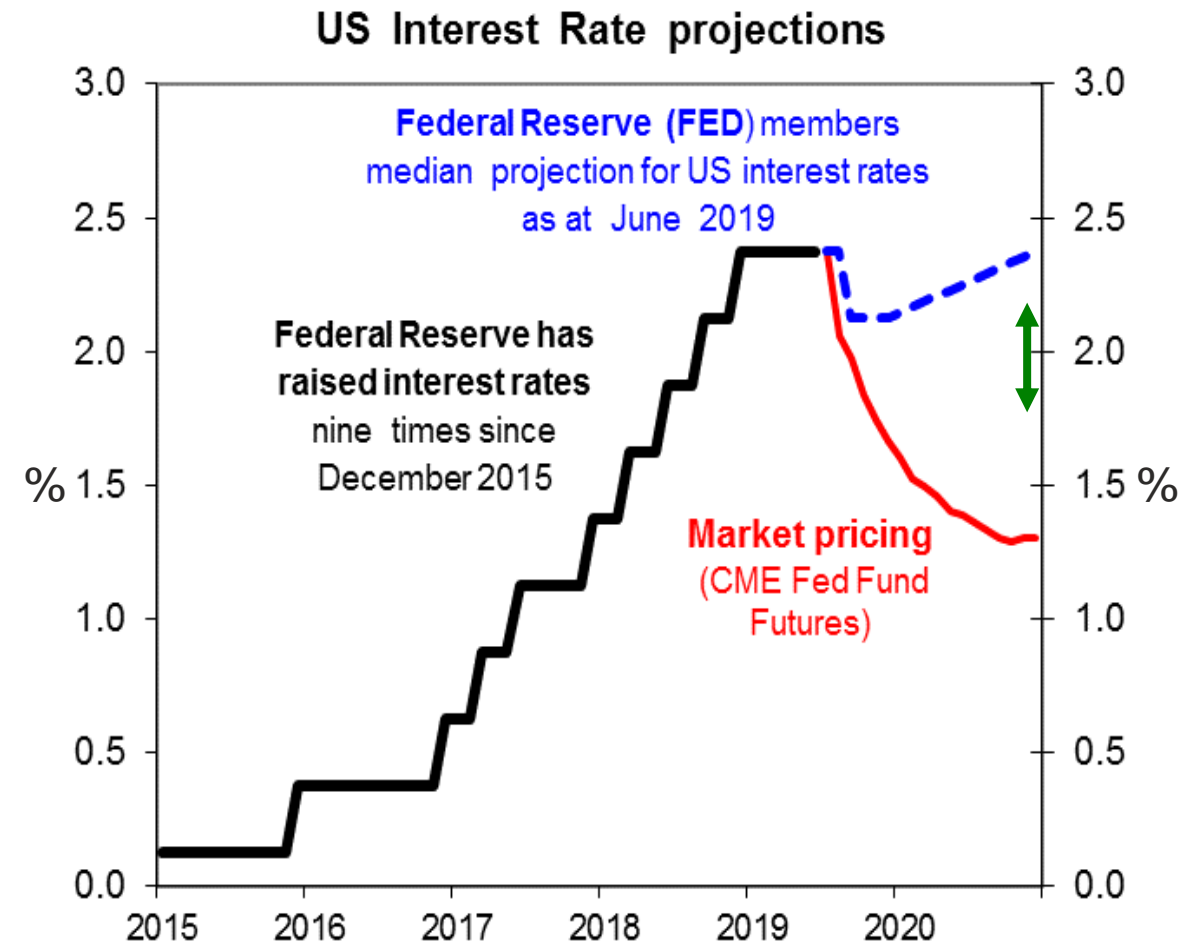


Source: Australian Bureau of Statistics (ABS) for unemployment rate and RBA for commentary

Federal Reserve's projections signal a 0.25% interest rate cut this year



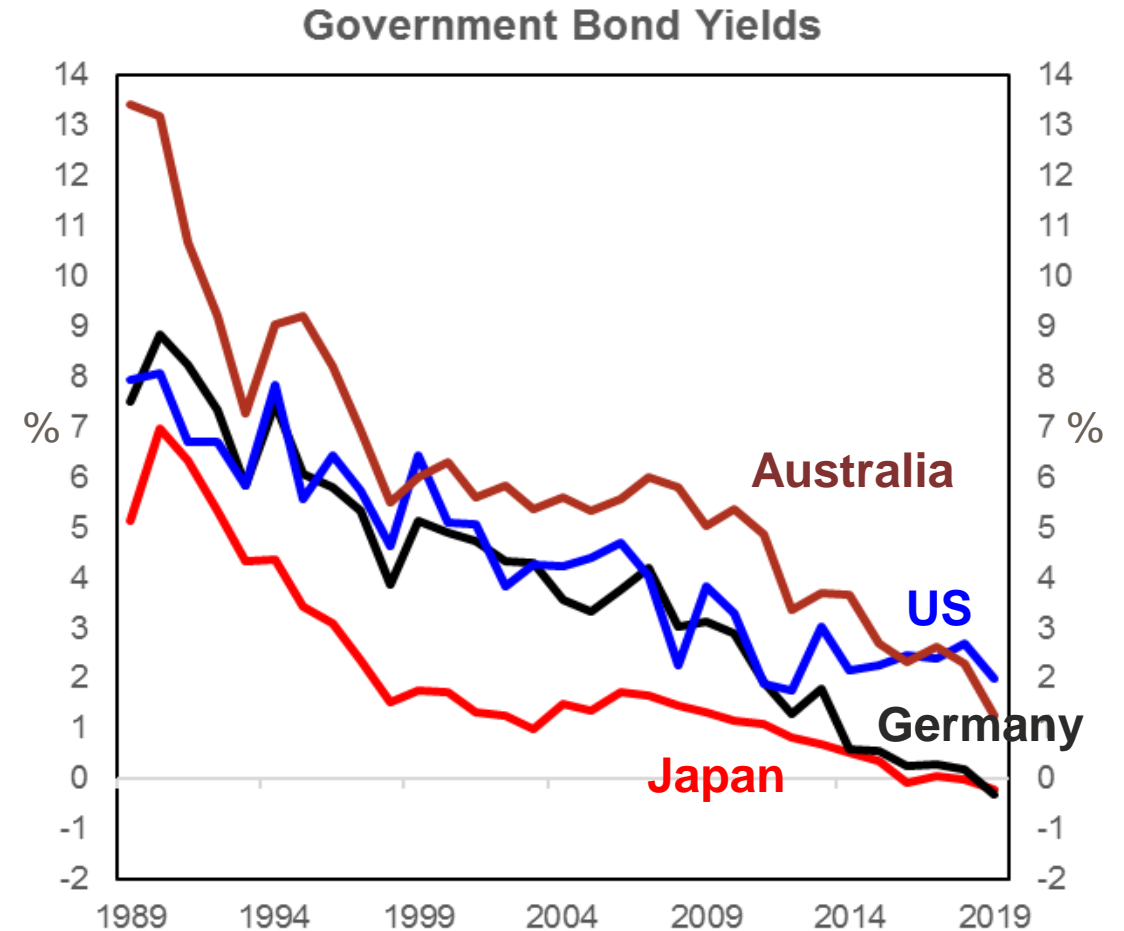
- After three year of raising US interest rates, the Federal Reserve (Fed) is now signalling a change in direction. The Fed's commentary indicates that "uncertainties" over global growth and trade tensions as well as "muted inflation pressures" could warrant lower US interest rates
- Financial markets are adamant that much lower interest rates are required. US interest rate futures are priced to be 0.75% lower by the end of this year
- However financial markets may be running on exaggerated expectations. The Fed still considers that US economic growth is running at a "moderate pace" and that the "labour market remains strong" even with global concerns

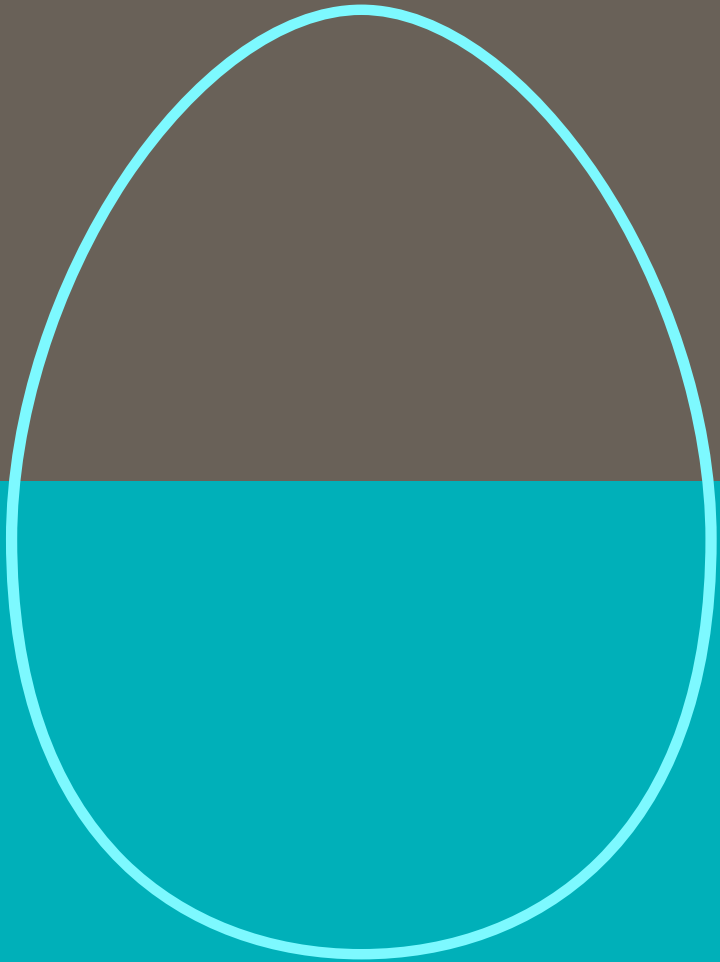


Government bond yields are pricing in a climate of slow growth and very low inflation



- Japan has struggled to revive solid economic growth and mild inflation over recent decades. The sharp fall in Japanese ten year government bond yields to -0.1% has been a key contributor to lower global yields
- Some European bonds seem to be now pricing in stagnation. Indeed German government bond yields are now at -0.3% and are actually below Japan. However, Germany is also seen as a 'safe haven' in Europe
- Australia and the US have positive but very low bond yields. Low yields imply sedate economic growth and very low inflation are likely over coming years





Scenario insights and portfolio positioning

Things we think about



Central bank intervention has once again propelled share and bond markets higher. US and Australian share markets have exceeded previous all-time highs. Across many markets including Australia, monetary policy is getting close to the limit of its power to drive economic growth



Two rate cuts are a poor reflection on the strength of the Australian economy. Post the mining and housing booms, efforts to grow the economy are hampered by the level of debt held by households which limits their capacity and desire to spend. Much of these lower rates may be used to pay down debt rather than consumer spending.



Uncertainties over global growth, the ongoing trade tensions and persistently low inflation has led to the US Federal Reserve to signal that lower interest rates are being considered



The trade truce after the meeting between President Trump and Premier Jinping has provided some comfort to markets but the tariffs remain in place and are impacting corporate profits, business sentiment and spending.



There are suggestions that central banks, and notably the Fed, may prolong the cycle by tolerating inflation above the 2% target rate. That could mean that growth remains stronger for longer, but this increases risks of an eventual inflation shock and/or profit margin squeeze

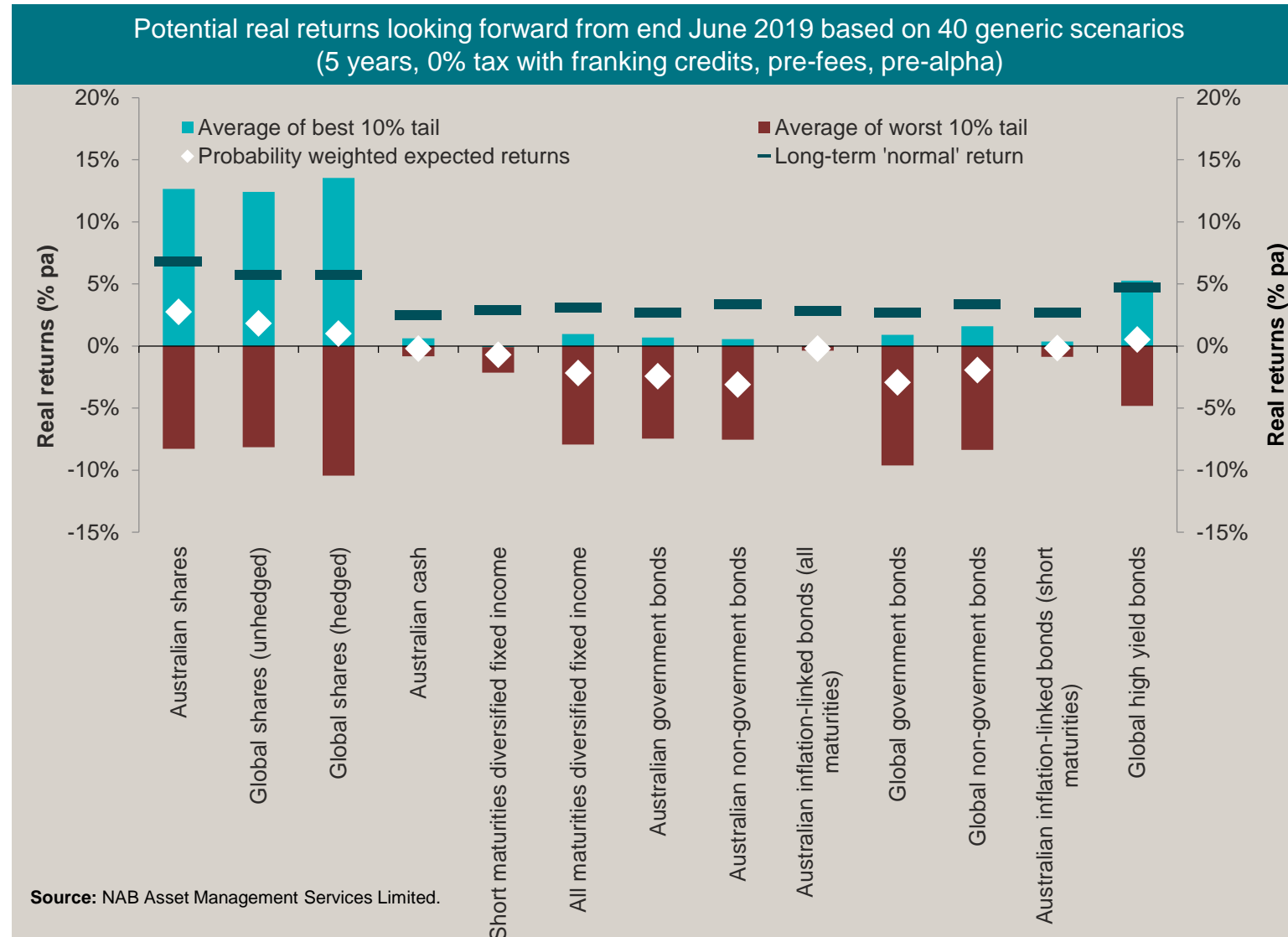


While it can take a long time, the fundamentals will ultimately drive investment outcomes. Asset prices that are high and premised on lower interest rates for longer, suggest low future return potential. Bonds have the potential to provide only very limited diversification of equity risk. The only robust way to control risk remains to give up return potential



We suspect that many investors remain over-optimistic and vulnerable to misperception about the risks lying just beneath the surface

More accommodative monetary policy in the US and Australia reduces return potential



In the June quarter we cautiously added to our Australian share allocations for Inflation Plus. We have also added US shares via futures on the back of the flagged rate cut by the Fed. Gold futures are being considered to balance the risks of a higher allocation to shares.

It remains possible that robust returns may continue. However, risks are higher and we are continually reviewing portfolio positions.

We continue looking for assets and strategies that have an attractive trade-off between risk and return.

MLC Wholesale Inflation Plus Moderate Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	5.8%
Defensive global shares	21.0%
Derivatives strategies	7.0%
Australian non-government bonds (short maturities)	23.0%
Australian inflation-linked bonds (short maturities)	7.0%
Global short-maturity credit strategy	3.0%
Global bank loans	2.0%
Enhanced cash	12.2%
Multi-asset real return strategy	12.5%
Insurance-related investments	1.5%
Low correlation strategy	5.0%

Source: NAB Asset Management Services Limited

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
- **Foreign currency exposure** for diversification as global shares and the AUD tend to move in the same direction. Exposures continue to be reduced as the AUD:USD has declined under 70 cents. The exposure is also partially protected (using options) from a significant rise in the AUD
- **High exposure to non-benchmark aware strategies** (eg real return strategies) to assist in achieving the portfolio's real return objective by limiting the risk of negative returns
- **Defensive orientation of shares exposures** skews the pattern of returns from shares – participation in rising markets is reduced in favour of lower risk of negative returns. Defensive global shares is under review due to its disappointing returns
- **Interest rate risk limited** through no direct allocation to long-maturity traditional bonds
- **Tailored short-maturity Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
- **Global short-maturity credit strategy** introduced to add diversity and return enhancement with an acceptable level of risk
- **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

MLC Wholesale Horizon 4 Balanced Portfolio



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	27.5%	28.0%	-0.5%
Global shares (unhedged)	20.5%	20.0%	+0.5%
Global shares (hedged)	7.5%	8.0%	-0.5%
Global property securities	4.0%	4.0%	0.0%
Fixed income (all maturities)	10.0%	16.0%	-6.0%
Fixed income (short maturities)	3.0%	0.0%	+3.0%
Australian inflation-linked bonds (short maturities)	5.0%	8.0%	0.0%
Australian inflation-linked bonds (government)	3.0%		
High yield bonds and loans	2.0%	2.0%	0.0%
Enhanced cash	3.0%	1.0%	+2.0%
Real return strategies (Inflation Plus)	11.5%	10.0%	+1.5%

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** While the potential for further falls in bonds yields is less than the potential for yields to rise, this position has been challenged this year and underweights have been moderated. We're continuing to review and positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small underweight position

MLC Wholesale Index Plus Balanced Portfolio



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	27.5%	28.0%	-0.5%
Global shares (unhedged)	19.0%	16.0%	+3.0%
Global shares (hedged)	13.5%	16.5%	-3.0%
Global property securities	4.0%	4.0%	-
Fixed income (short maturities)	8.0%	2.0%	+6.0%
Fixed income (all maturities)	10.5%	17.0%	-6.5%
Australian inflation-linked bonds (short maturities)	5.0%	7.0%	-
Australian inflation-linked bonds (all maturities)	2.0%		
Enhanced cash	4.0%	3.5%	+0.5%
Real return strategy (simple real return strategy)	6.5%	6.0%	+0.5%

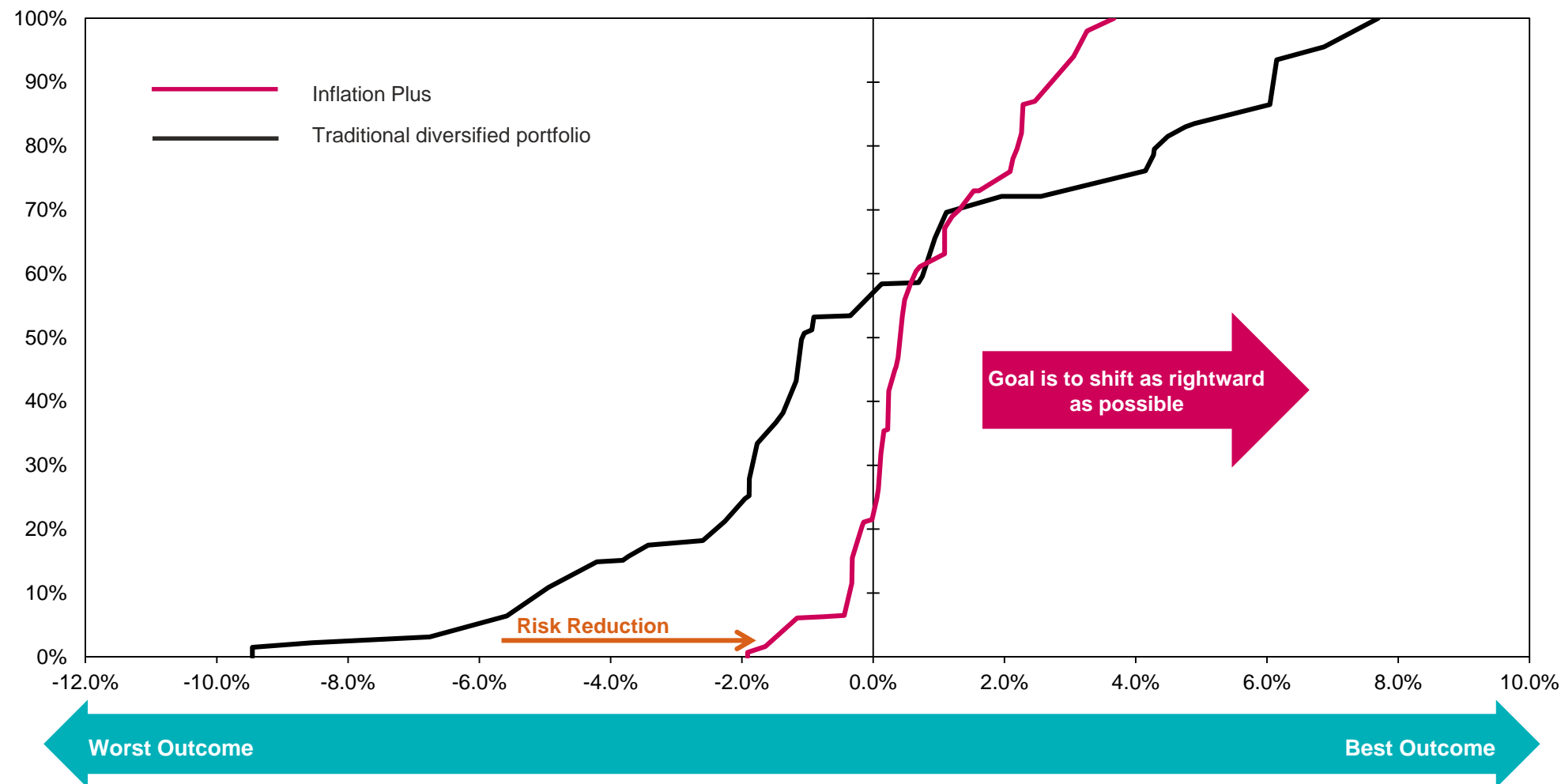
We've focussed on defensively positioning the portfolio relative to its benchmark by:

- **Overweight to a real return strategy (ie simple real return strategy)** is in part a response to low return potential and high risk of mainstream asset classes. The defensiveness of the real return strategy has enabled Index Plus to maintain exposure to shares at close to benchmark weight
- **Underweight interest rate risk.** While the potential for further falls in bonds yields is less than the potential for yields to rise, this position has been challenged this year and underweights have been moderated and positions may be re-set if yields move lower
- **Modest overweight foreign currencies** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures
- **Tailored short maturities Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
- **Underweight to Australian shares.** This is a small underweight position

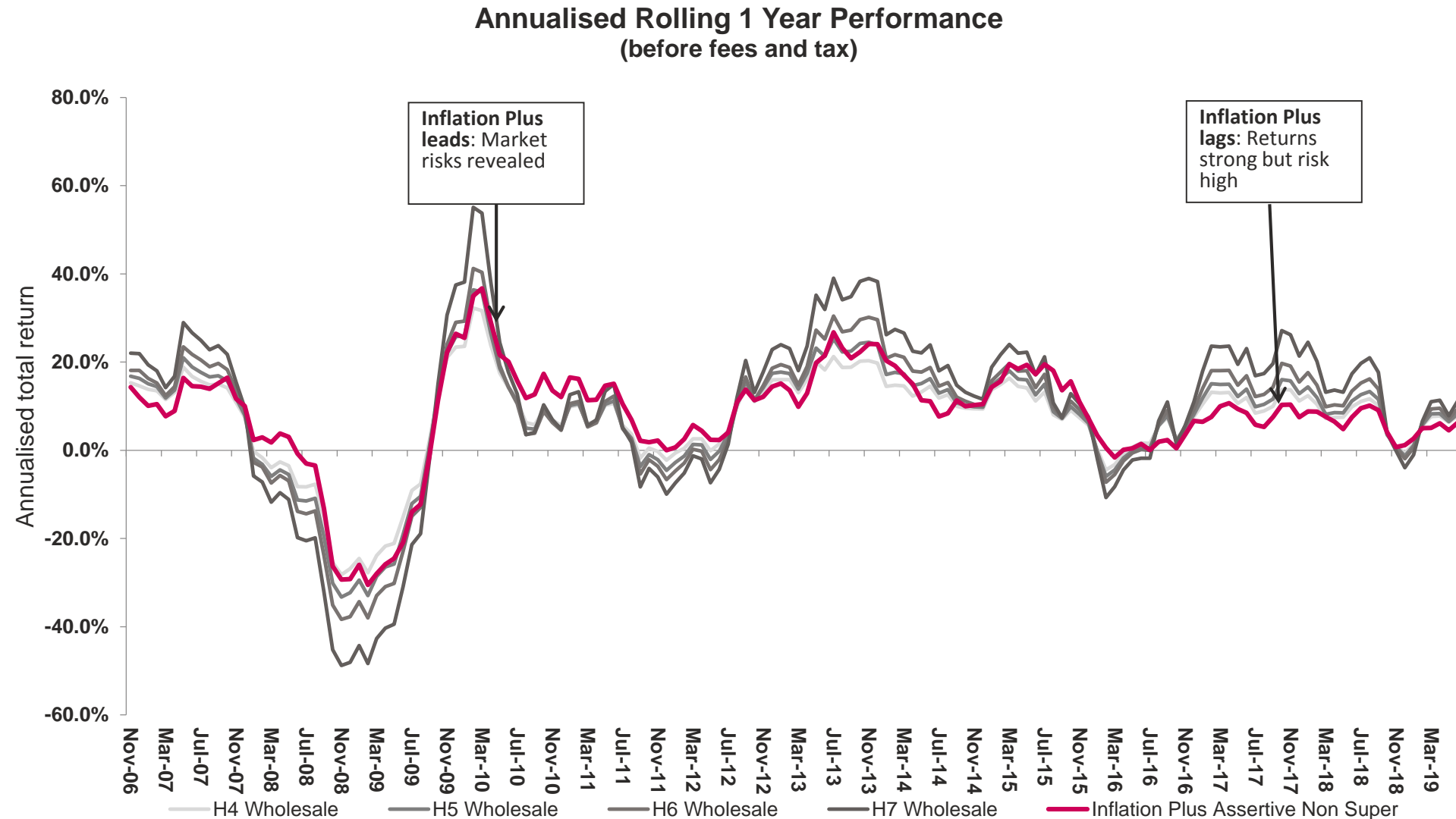
MLC Inflation Plus portfolios deliver different outcomes to traditional diversified portfolios



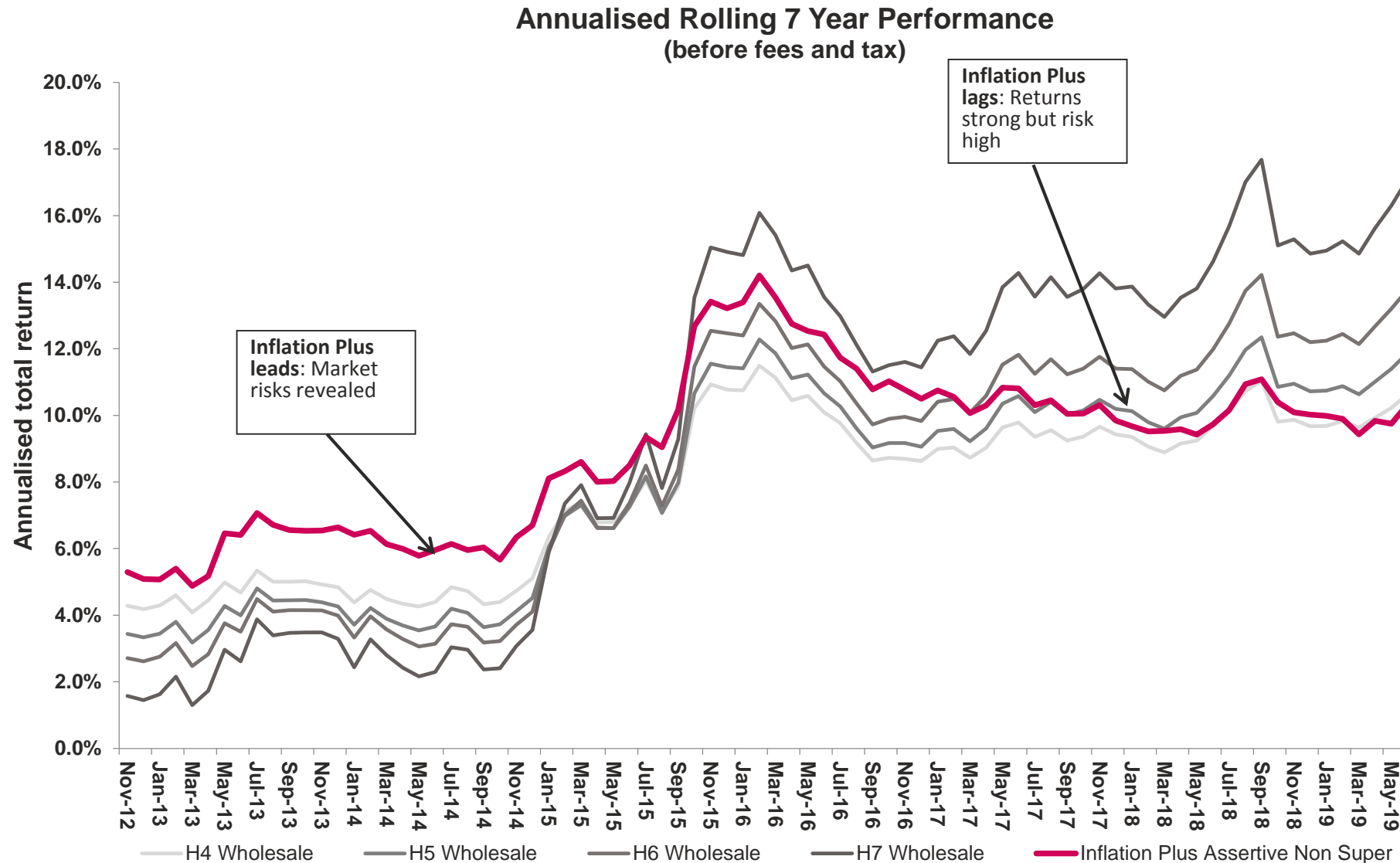
The objective is to maximise the return for risk taken by investing in assets which, in combination, provide an attractive potential pay-off



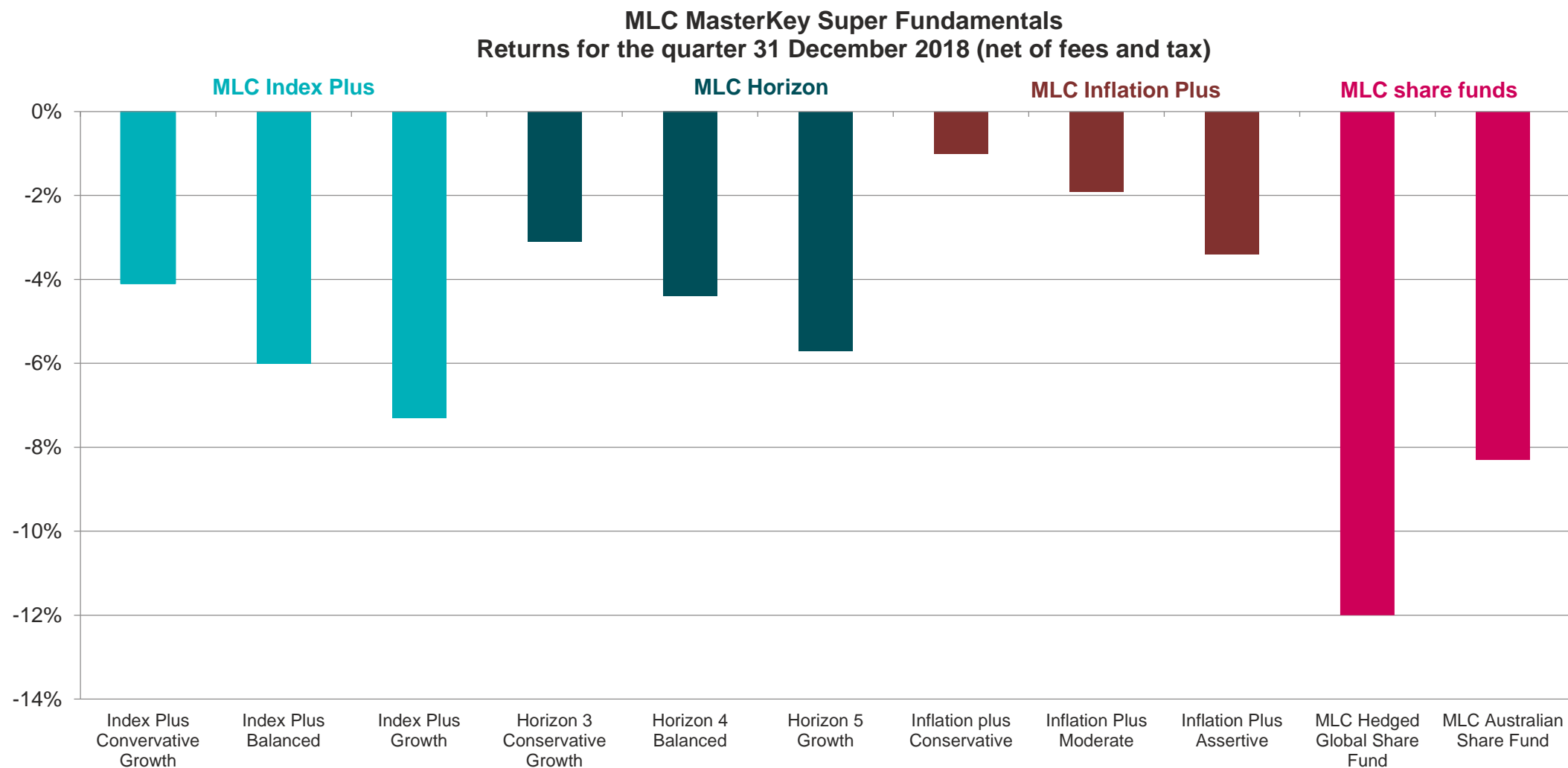
Inflation Plus performance has lagged when returns are strong and persistent, and led when returns are significantly negative (1 year periods)



Inflation Plus performance has lagged when returns are strong and persistent, and led when returns are significantly negative (7 year periods)



Returns in the share market fall in Q4 2018

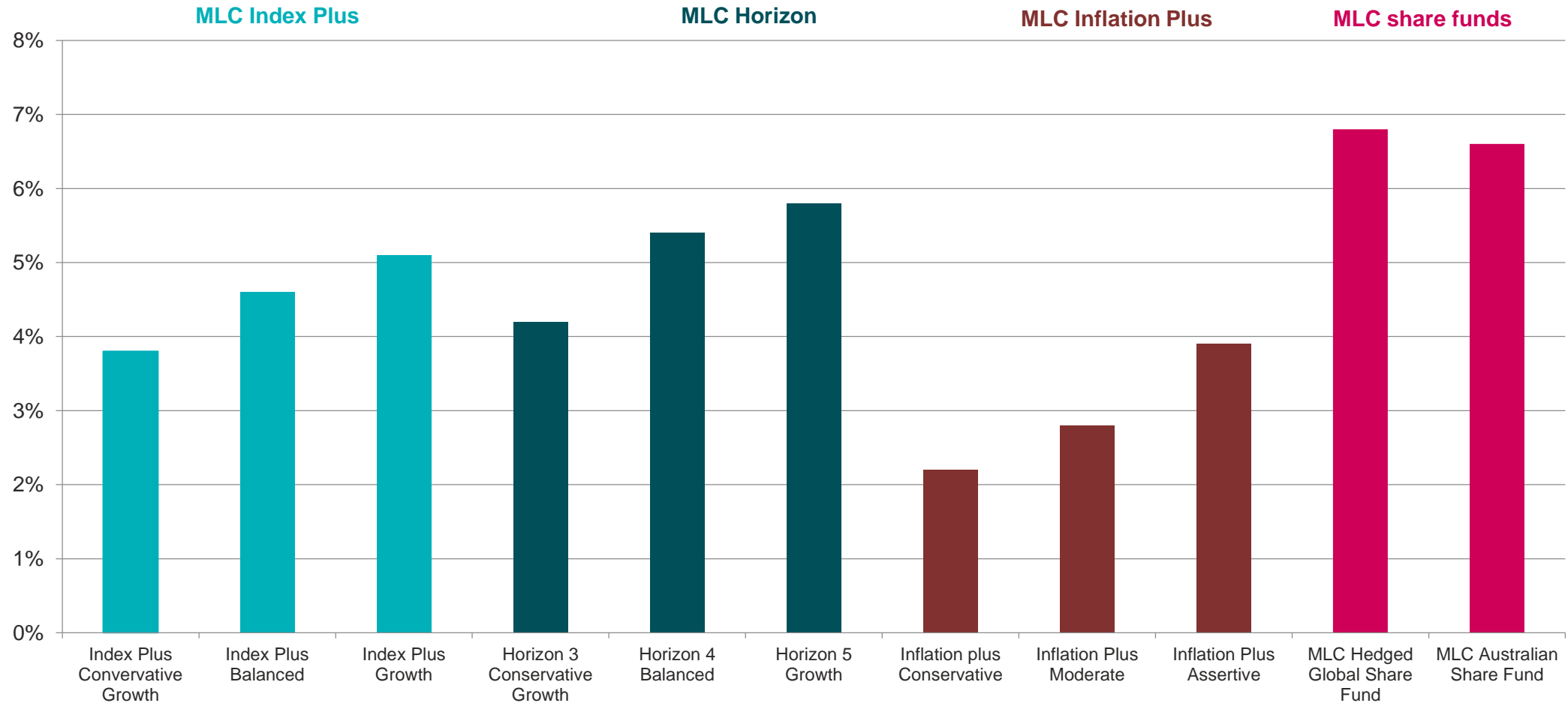


Past performance is not a reliable indicator of future performance.
Source: NAB Asset Management Services Limited.

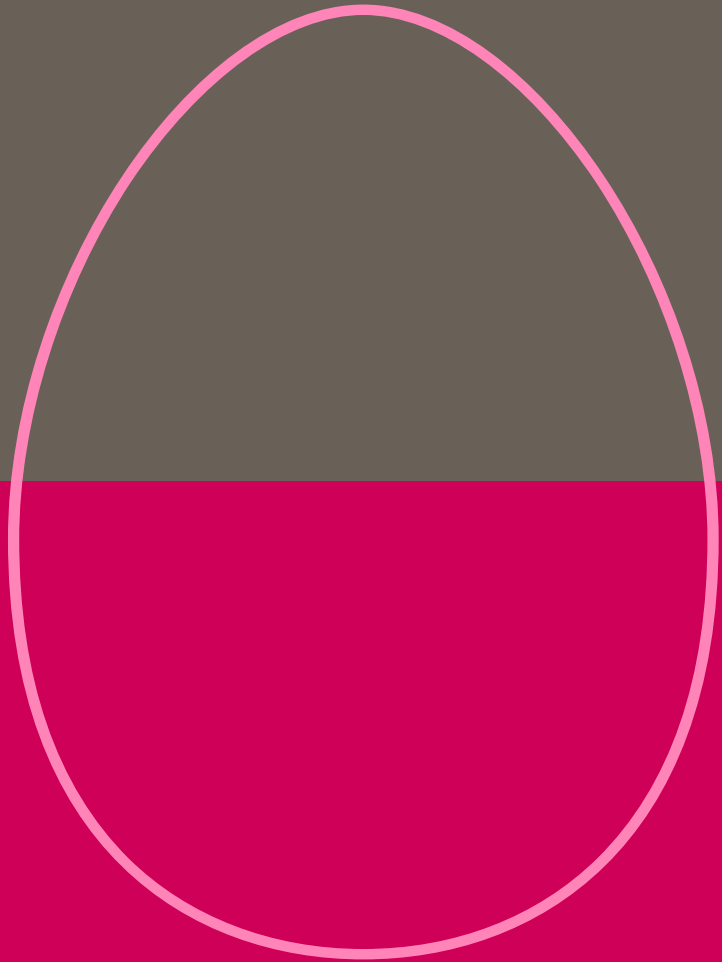
Longer-term returns also demonstrate how the process works



MLC MasterKey Super Fundamentals
3 year returns to 31 December 2018 (net of fees and tax)



Past performance is not a reliable indicator of future performance.
Source: NAB Asset Management Services Limited.

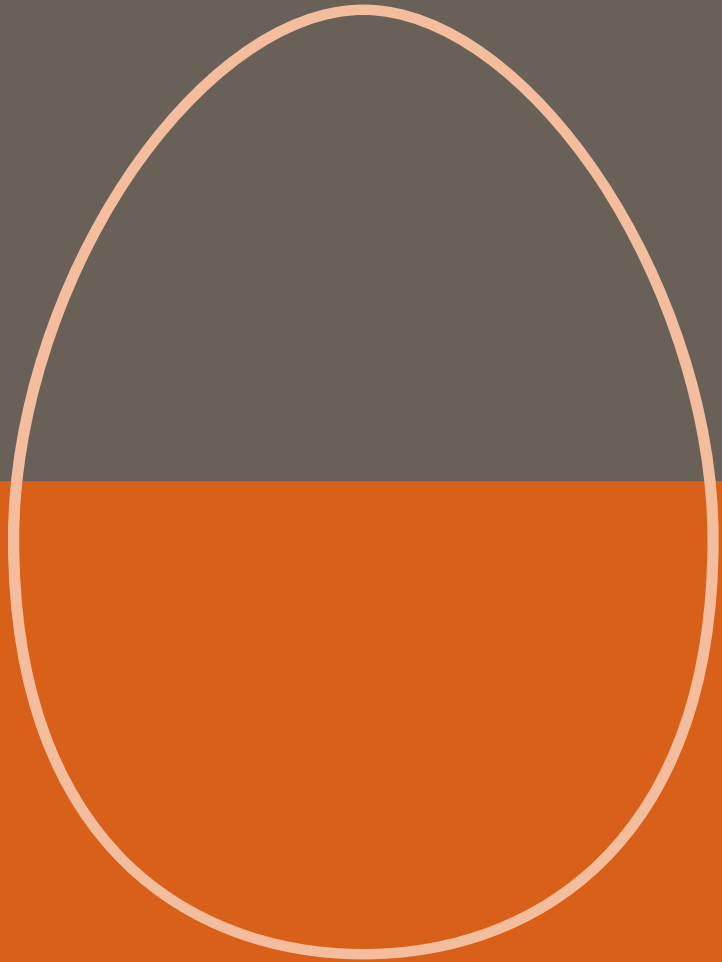


Recent portfolio changes

Recent portfolio decisions



DECISION	WHEN	REASON	MLC INFLATION PLUS	MLC HORIZON	MLC INDEX PLUS
Increased allocation to defensive Australian shares strategy and US shares via options	Q2 2019	The recent interest rate cuts in Australia and potential rate cuts overseas have improved the return potential for shares	✓		
Increase to inflation-linked bonds and addition of the global short-maturities credit strategy, funded from cash	Q2 2019	The change in central bank rhetoric and negative real cash rates has led to an improvement in the return potential for global credit	✓		
Decreased foreign currency exposure	Q2 2019 (and again in July 2019)	The fall in the Australian dollar in recent months has led us to take profit on this position	✓	✓	✓
Increased allocation to long and short-maturity bonds, funded from cash	Q2 2019	The change in central bank rhetoric and negative real cash rates has led to an improvement in the return potential for bonds		✓	✓



Performance

MLC Wholesale - Absolute returns (net of fees)



MLC Wholesale as at 30 June 2019 (net of fees)	3 mths (%)	1 year (%)	3 years (% pa)	5 years (% pa)	7 years (% pa)	10 years (% pa)
MLC Horizon 1 - Bond Portfolio	0.8%	2.5%	2.2%	2.3%	2.7%	3.5%
MLC Horizon 2 – Income Portfolio	2.1%	4.3%	4.2%	4.2%	5.5%	6.1%
MLC Horizon 3 – Conservative Growth Portfolio	3.1%	5.6%	6.9%	5.9%	7.6%	7.5%
MLC Horizon 4 – Balanced Portfolio	4.1%	6.9%	9.0%	7.4%	9.7%	9.0%
MLC Horizon 5 – Growth Portfolio	4.5%	7.2%	10.2%	8.2%	10.9%	9.7%
MLC Horizon 6 – Share Portfolio	5.5%	8.3%	12.3%	9.6%	12.8%	10.8%
MLC Horizon 7 – Accelerated Growth Portfolio	7.1%	9.7%	15.8%	11.5%	15.6%	12.8%
MLC Inflation Plus Conservative Portfolio	1.1%	2.7%	3.4%	3.9%	-	-
MLC Inflation Plus Moderate Portfolio	1.5%	3.0%	4.3%	4.9%	-	-
MLC Inflation Plus Assertive Portfolio	2.3%	5.0%	6.3%	6.8%	9.0%	9.4%
MLC Index Plus Conservative Growth Portfolio	3.1%	6.3%	-	-	-	-
MLC Index Plus Balanced Portfolio	4.1%	7.6%	-	-	-	-
MLC Index Growth Portfolio	4.7%	8.4%	-	-	-	-

The returns shown are calculated after deducting MLC Wholesale fund's 'headline fee' which is not reduced by the rebate commonly paid to platforms and investors.
Source: MLC Investments Limited. Past performance is not indicative of future performance.

MasterKey Super Fundamentals - Absolute returns (net of fees and tax)



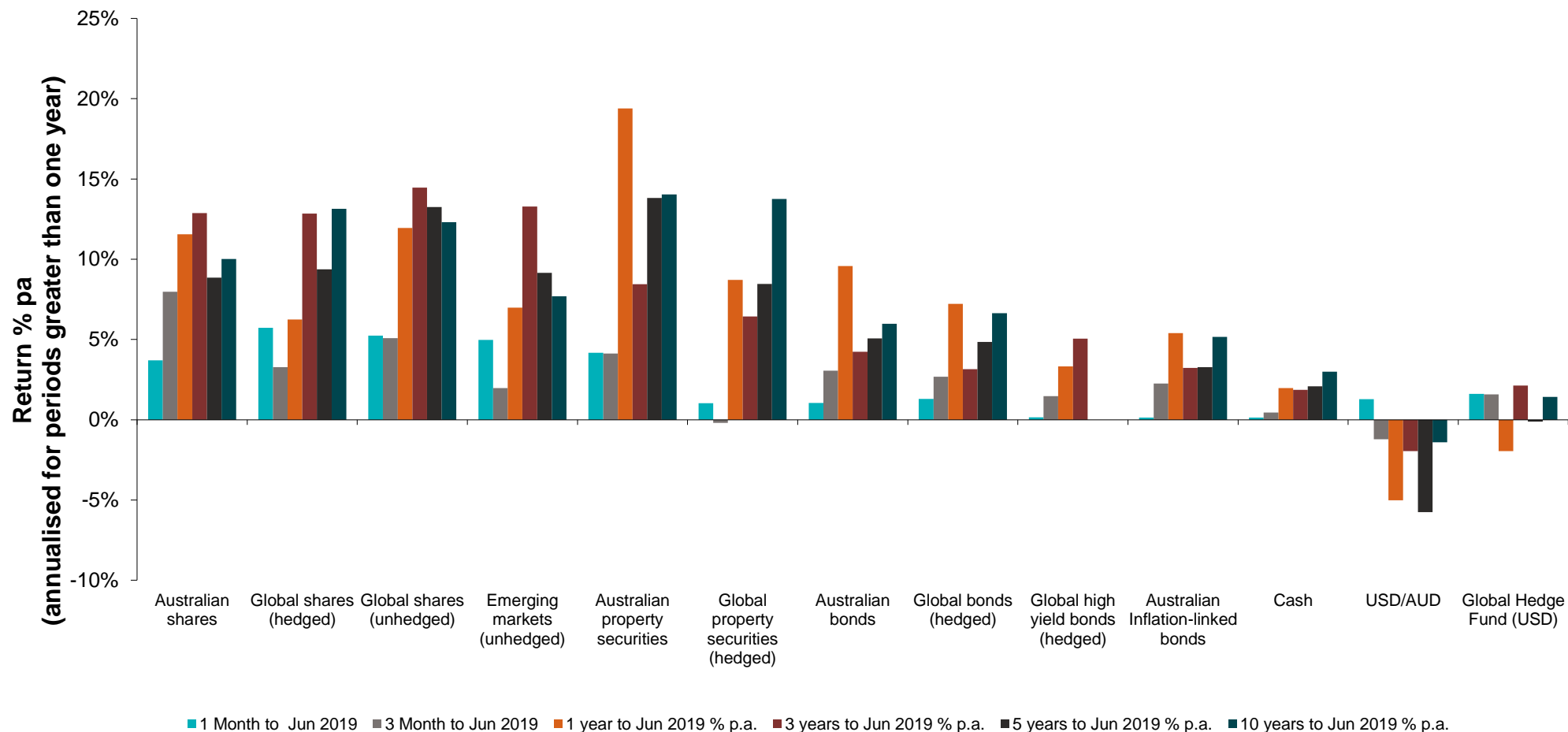
MasterKey Super Fundamentals as at 30 June 2019 (net of fees and tax)	3 mths (%)	1 year (%)	3 years (% pa)	5 years (% pa)	7 years (% pa)	10 years (% pa)
MLC Horizon 1 - Bond Portfolio	0.6%	1.8%	1.6%	1.7%	2.0%	2.8%
MLC Horizon 2 – Capital Stable Portfolio	1.9%	4.0%	4.5%	4.1%	5.1%	5.3%
MLC Horizon 3 – Conservative Growth Portfolio	2.8%	5.6%	6.4%	5.8%	7.2%	7.0%
MLC Horizon 4 – Balanced Portfolio	3.7%	7.3%	8.6%	7.5%	9.2%	8.5%
MLC Horizon 5 – Growth Portfolio	4.2%	7.9%	9.8%	8.4%	10.5%	9.3%
MLC Horizon 6 – Share Portfolio	5.2%	9.1%	11.8%	9.8%	12.2%	10.3%
MLC Horizon 7 – Accelerated Growth Portfolio	7.7%	10.9%	15.3%	12.0%	15.5%	12.7%
MLC Index Plus Conservative Growth Portfolio	2.8%	5.7%	6.3%	5.5%	7.2%	-
MLC Index Plus Balanced Portfolio	3.8%	7.0%	8.2%	6.9%	9.2%	-
MLC Index Plus Growth Portfolio	4.3%	7.8%	9.5%	7.8%	10.6%	-
MLC Inflation Plus Conservative Portfolio	1.0%	2.3%	2.9%	3.3%	-	-
MLC Inflation Plus Moderate Portfolio	1.4%	2.9%	3.9%	4.3%	-	-
MLC Inflation Plus Assertive Portfolio	2.2%	4.8%	5.8%	6.6%	8.3%	8.5%

The returns shown are calculated after deducting the 'headline fee' which means administration and investment fees and indirect costs are all deducted and are not reduced by any fee rebates.

Past performance is not indicative of future performance.

Contributors to returns

Share markets continued to rise



Index data source: Australian shares - S&P/ASX 200 Accumulation Index ; Global shares (hedged) - MSCI All Countries World (A\$ hedged) ; Global shares (unhedged) - MSCI All Countries World; Emerging markets - MSCI Emerging Markets ; Australian property securities - S&P/ASX 300 LPT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - BCGA Global Agg (A\$ hedged); Global high yield bonds (A\$ hedged) - Composite of BCGA US Corp HY BB/B (A\$ hedged) & S&P LSTA BB/B Leveraged Loan Index; Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; USD/AUD - WM/Reuters Daily; Global Hedge Fund - HFRX Global Hedge Fund (USD)

Contributors and detractors from absolute returns

Asset allocation decisions



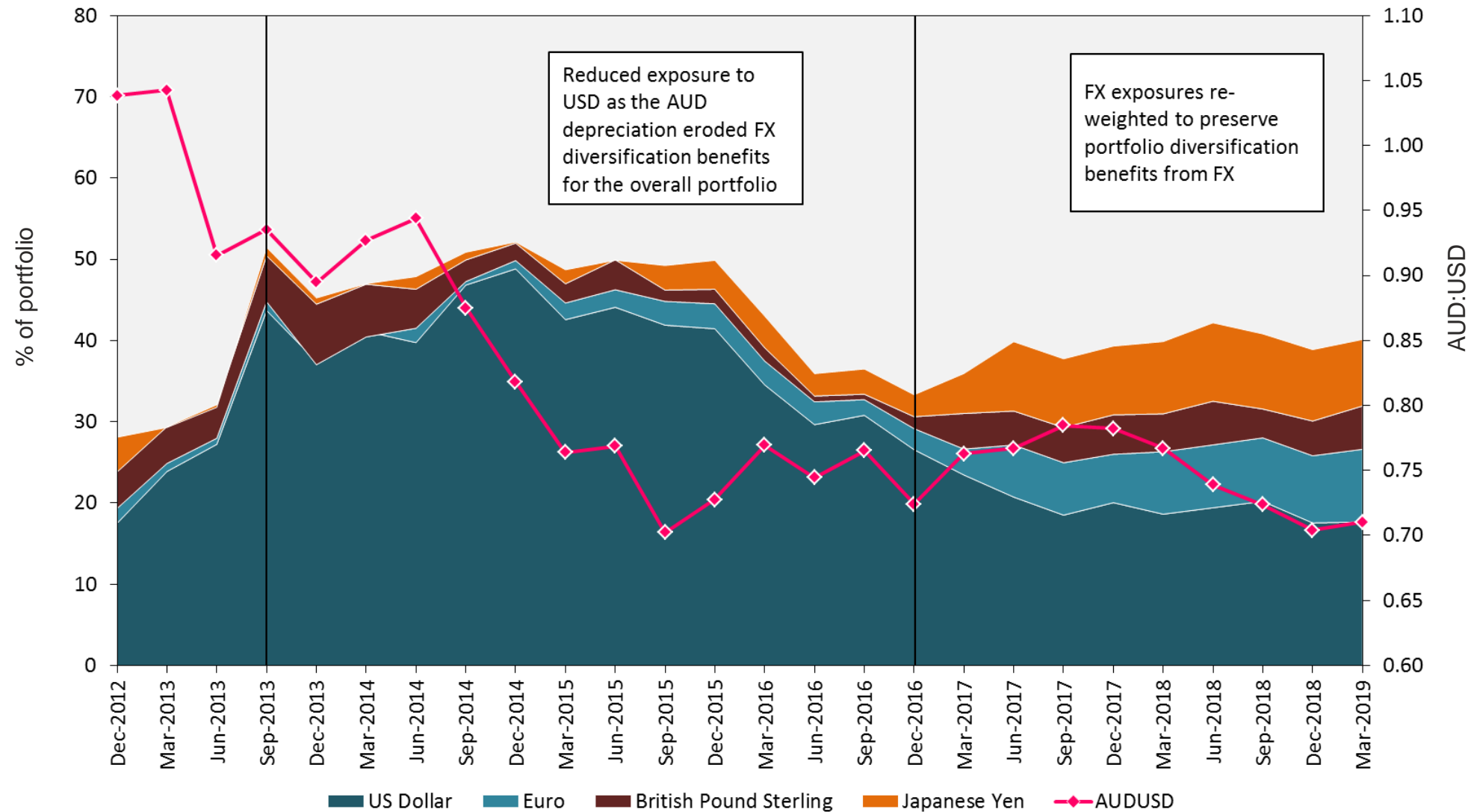
Decision	Impact on Jun-19 quarter's return	Impact on 1 year's return
Unhedged global assets' exposure (rather than hedged)	+	+
Private assets exposure (rather than listed markets)	+	+
Exposure to global and Australian shares	+	+
Exposure to high yield bonds and loans (rather than investment grade bonds)	-	-
Real return and low correlation strategies (rather than shares)	-	-
Reduced exposure to interest rate risk, high allocation to enhanced cash	-	-

The past 12 months have been challenging for our defensive positioning but it's served clients well during the various bouts of volatility we've experienced this year, including the December quarter.

Strategy example – FX exposure



Inflation Plus Assertive - FX exposure through time



Relative to peers – quartile performance rankings for MasterKey Super Fundamentals



Most portfolios' returns are above median over all periods

Portfolio	Returns to 30 June 2019			
	1 year	3 years	5 years	10 years
MLC Horizon 2	Q4	Q1	Q2	Q2
MLC Horizon 3	Q2	Q2	Q2	Q2
MLC Horizon 4	Q2	Q1	Q1	Q1
MLC Horizon 5	Q1	Q2	Q2	Q2
MLC Horizon 6	Q1	Q1	Q1	Q1

Peer universe is the Morningstar Superannuation Universe

Source: Morningstar Direct with MLC Super Fundamentals' returns provided by MLC. Past performance is not indicative of future performance.

Relative to peers – quartile performance rankings for MLC Wholesale



Most portfolios' returns are above median over most periods, despite 'headline fee' deduction

Portfolio	Returns to 30 June 2019			
	1 year	3 years	5 years	10 years
MLC Horizon 2	Q4	Q3	Q3	Q2
MLC Horizon 3	Q3	Q2	Q3	Q2
MLC Horizon 4	Q2	Q1	Q2	Q1
MLC Horizon 5	Q2	Q2	Q3	Q2
MLC Horizon 6	Q1	Q1	Q1	Q1

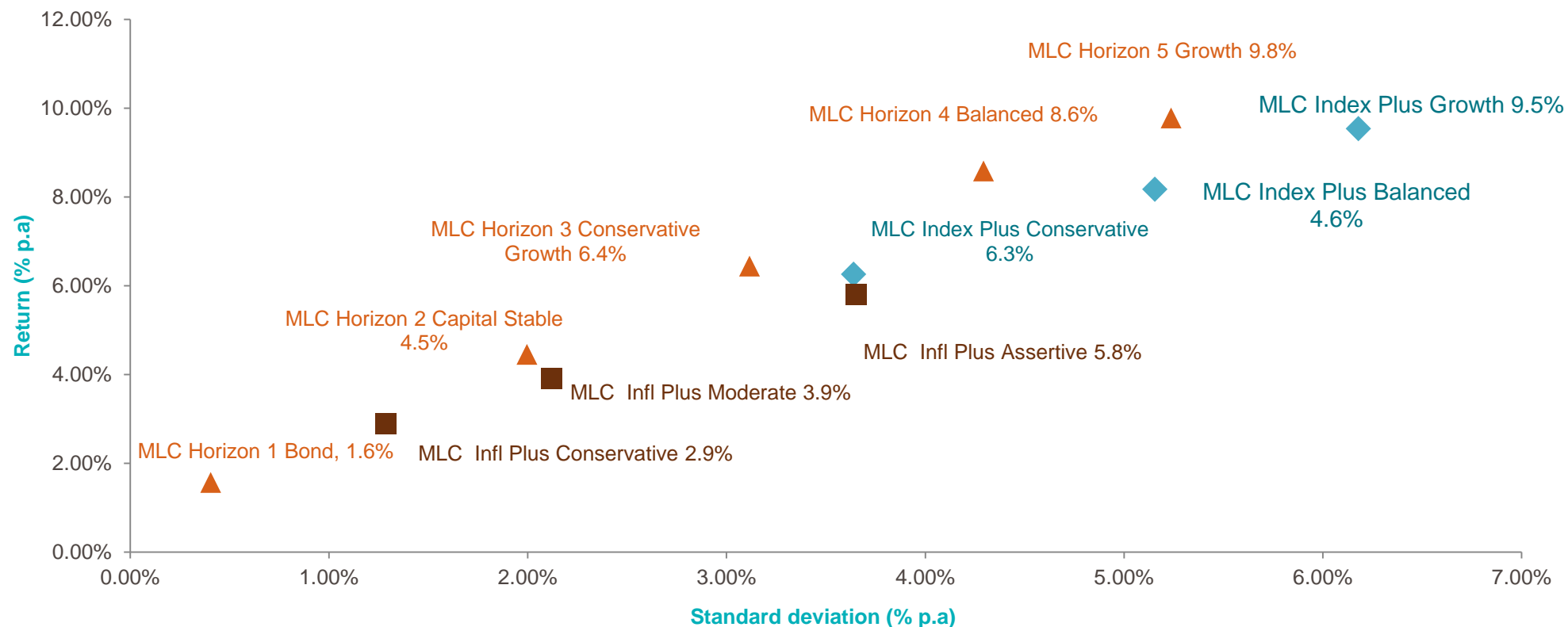
The peer universe is the Morningstar Wholesale universe. MLC Wholesale is disadvantaged in this peer universe because performance is calculated after deducting MLC Wholesale fund's 'headline fee' which is not reduced by the rebate paid to platforms and investors.

Source: Morningstar Direct. Past performance is not indicative of future performance.

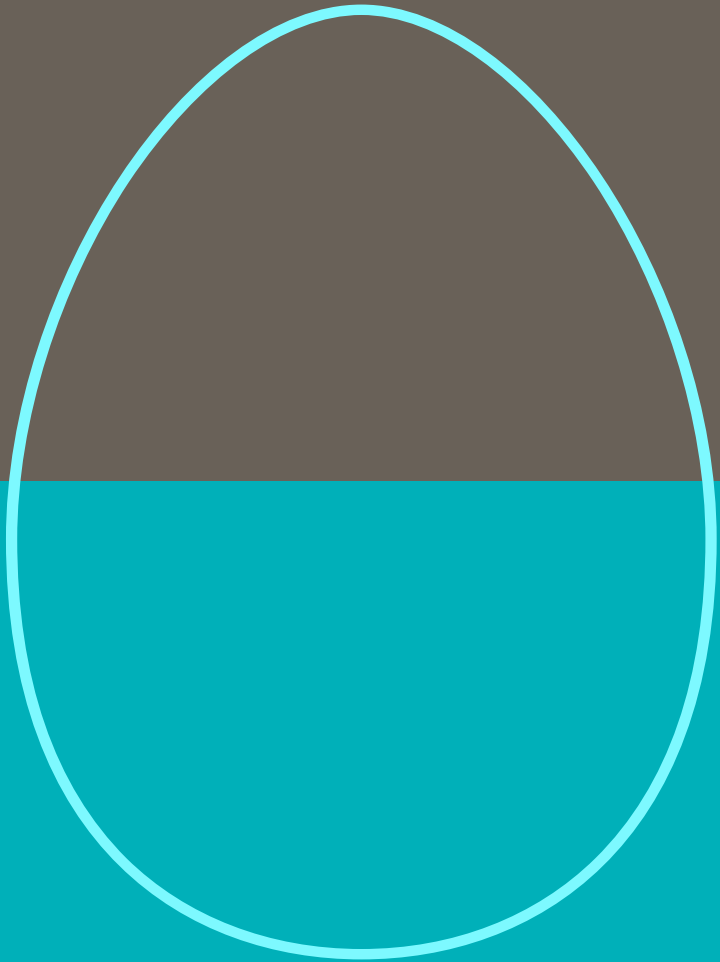
Consider the risks – MLC Index Plus has almost twice the volatility of MLC Inflation Plus



3 year returns (net of fees and tax) to 30 June 2019



Source: NAB Asset Management, based on MLC MasterKey Super Fundamentals returns (calculated after deducting fees and taxes). Past performance is not a reliable indicator of future performance.



Where to find client tools

Ongoing support



Performance overview for MLC funds

Presentation of fund performance, updated quarterly.



Fund performance commentaries

Client report on fund performance for the quarter and year, updated monthly available on Fund Profile Tool.



Portfolio positioning and scenario insights for advisers

Quarterly update on our investment positions, detailed report for financial advisers.



Monthly reports

Summary of the fund's performance, positioning, asset allocation and fees for clients.



Client updates and investment insights

Insights and commentary for clients on economic and market developments. Available as articles, videos, infographics and Q&As.



Adviser updates and investment insights

Detailed analysis and resources on economic and market developments.



Manager insights

Highlights of MLC's investment managers' insights on markets and their positions, updated quarterly.

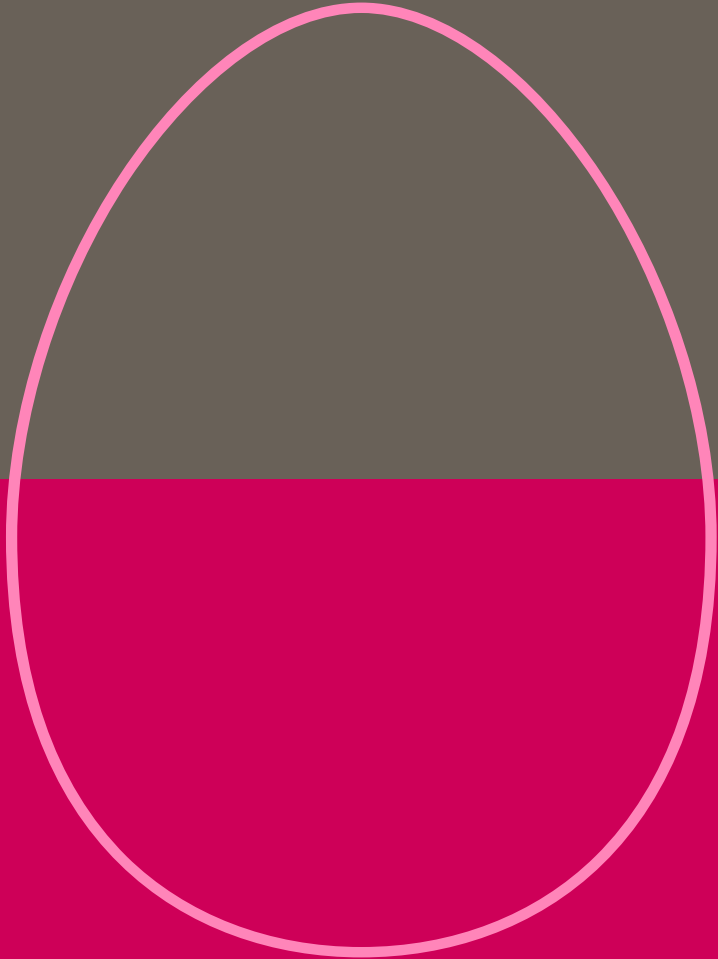


Alternatives and other strategy commentaries

Client reports on performance and positioning of underlying investment strategies; updated quarterly



Appendix



MLC Wholesale Inflation Plus Conservative Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	3.5%
Defensive global shares	11.0%
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Enhanced cash	27.5%
Multi-asset real return strategy	7.0%
Low correlation strategy	6.0%

Source: NAB Asset Management Services Limited

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
- **Foreign currency exposure** for diversification as global shares and the AUD tend to move in the same direction. Exposures continue to be reduced as the AUD:USD has declined under 70 cents. The exposure is also partially protected (using options) from a significant rise in the AUD
- **High exposure to non-benchmark aware strategies** (eg real return strategies) to assist in achieving the portfolio's real return objective by limiting the risk of negative returns
- **Defensive orientation of shares exposures** skews the pattern of returns from shares – participation in rising markets is reduced in favour of lower risk of negative returns. Defensive global shares is under review due to its disappointing returns
- **Interest rate risk limited** through no direct allocation to long-maturity traditional bonds
- **Tailored short-maturity Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
- **Global short-maturity credit strategy** introduced to add diversity and return enhancement with an acceptable level of risk
- **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

MLC Wholesale Inflation Plus Assertive Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	7.0%
Defensive global shares	44.0%
Derivatives strategies	10.0%
Australian non-government bonds (short maturities)	2.5%
Australian inflation-linked bonds (short maturities)	6.0%
Global short-maturity credit strategy	3.0%
Global bank loans	3.0%
Enhanced cash	2.5%
Multi-asset real return strategy	15.0%
Low correlation strategy	4.0%
Insurance-related investments	3.0%

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
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Source: NAB Asset Management Services Limited

MasterKey Super Fundamentals - Inflation Plus Conservative Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	3.5%
Defensive global shares	10.0%
Private assets	2.0%
Derivatives strategies	2.5%
Australian non-government bonds (short maturities)	29.5%
Australian inflation-linked bonds (short maturities)	8.0%
Global short-maturity credit strategy	3.0%
Global bank loans	2.0%
Enhanced cash	27.5%
Multi-asset real return strategy	6.0%
Low correlation strategy	6.0%

Source: NAB Asset Management Services Limited

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
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- **Tailored short-maturity Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
- **Global short-maturity credit strategy** introduced to add diversity and return enhancement with an acceptable level of risk
- **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

MasterKey Super Fundamentals - Inflation Plus Moderate Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	5.8%
Defensive global shares	19.0%
Private assets	4.0%
Derivatives strategies	6.0%
Australian non-government bonds (short maturities)	23.0%
Australian inflation-linked bonds (short maturities)	7.0%
Global short-maturity credit strategy	3.0%
Global bank loans	2.0%
Enhanced cash	13.7%
Multi-asset real return strategy	10.0%
Low correlation strategy	5.0%
Insurance-related investments	1.5%

Source: NAB Asset Management Services Limited

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
- **Foreign currency exposure** for diversification as global shares and the AUD tend to move in the same direction. Exposures continue to be reduced as the AUD:USD has declined under 70 cents. The exposure is also partially protected (using options) from a significant rise in the AUD
- **High exposure to non-benchmark aware strategies** (eg real return strategies) to assist in achieving the portfolio's real return objective by limiting the risk of negative returns
- **Defensive orientation of shares exposures** skews the pattern of returns from shares – participation in rising markets is reduced in favour of lower risk of negative returns. Defensive global shares is under review due to its disappointing returns
- **Interest rate risk limited** through no direct allocation to long-maturity traditional bonds
- **Tailored short-maturity Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
- **Global short-maturity credit strategy** introduced to add diversity and return enhancement with an acceptable level of risk
- **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

MasterKey Super Fundamentals - Inflation Plus Assertive Portfolio



TARGET ASSET ALLOCATION AT 30 JUNE 2019

Defensive Australian shares	7.0%
Defensive global shares	37.5%
Private assets	7.0%
Derivatives strategies	9.0%
Australian non-government bonds (short maturities)	5.0%
Australian inflation-linked bonds (short maturities)	6.0%
Global short-maturity credit strategy	3.0%
Global bank loans	3.0%
Enhanced cash	2.5%
Multi-asset real return strategy	13.0%
Low correlation strategy	4.0%
Insurance-related investments	3.0%

Source: NAB Asset Management Services Limited

Positioning the portfolio to control risk while seeking returns through:

- **Declining exposure to cash** provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations
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- **Tailored short-maturity Australian inflation-linked bonds exposure** to protect against rising inflation and interest rate risk
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- **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

MLC Wholesale Horizon 3 Conservative Growth



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	18.0%	18.5%	-0.5%
Global shares (unhedged)	16.5%	15.5%	+1.0%
Global shares (hedged)	5.0%	6.0%	-1.0%
Global property securities	3.0%	3.0%	0.0%
Fixed income (all maturities)	8.0%	13.0%	-5.0%
Fixed income (short maturities)	20.5%	15.0%	+5.5%
Australian inflation-linked bonds (short maturities)	6.5%	11.0%	-1.5%
Australian inflation-linked bonds (government)	3.0%		
High yield bonds and loans	1.5%	1.5%	0.0%
Enhanced cash	4.5%	3.5%	+1.0%
Real return strategies (Inflation Plus)	10.5%	10.0%	+0.5%
Low correlation strategy	3.0%	3.0%	0.0%

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** While the potential for further falls in bonds yields is less than the potential for yields to rise, this position has been challenged this year and underweights have been moderated. We're continuing to review and positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small underweight position

MLC Wholesale Horizon 5 Growth Portfolio



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	31.5%	32.0%	-0.5%
Global shares (unhedged)	25.0%	26.0%	-1.0%
Global shares (hedged)	10.5%	9.5%	+1.0%
Global property securities	4.0%	4.0%	0.0%
Fixed income (all maturities)	4.0%	5.5%	-1.5%
Australian inflation-linked bonds (short maturities)	4.0%	8.0%	-2.0%
Australian inflation-linked bonds (government)	2.0%		
High yield bonds and loans	2.0%	2.0%	0.0%
Enhanced cash	2.0%	0.0%	+2.0%
Real return strategies (Inflation Plus)	12.0%	10.0%	+2.0%
Low correlation strategy	3.0%	3.0%	0.0%

Source: NAB Asset Management Services Limited

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** The potential for further falls in bonds yields is less than the potential for yields to rise. This position has been challenged this year and underweights have been moderated. We're continuing to review and may trim the underweight further if foreign currency exposures are reduced - positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies** (across the whole portfolio) for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small position to reduce home bias of the portfolio

MasterKey Super Fundamentals – MLC Horizon 3 Conservative Growth



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	18.0%	18.5%	-0.5%
Global shares (unhedged)	16.5%	15.5%	+1.0%
Global shares (hedged)	1.0%	2.0%	-1.0%
Global property securities	3.0%	3.0%	0.0%
Private equity	4.0%	4.0%	0.0%
Fixed income (all maturities)	8.0%	13.0%	-5.0%
Fixed income (short maturities)	20.5%	15.0%	+5.5%
Australian inflation-linked bonds (short maturities)	6.5%	11.0%	-1.5%
Australian inflation-linked bonds (government)	2.0%		
Australian inflation-linked bonds (credit)	1.0%		
High yield bonds and loans	1.5%	1.5%	0.0%
Enhanced cash	4.5%	3.5%	+1.0%
Real return strategies (Inflation Plus)	10.5%	10.0%	+0.5%

Source: NAB Asset Management Services Limited

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** The potential for further falls in bonds yields is less than the potential for yields to rise. This position has been challenged this year and underweights have been moderated. We're continuing to review and may trim the underweight further if foreign currency exposures are reduced - positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small position to reduce home bias of the portfolio

MasterKey Super Fundamentals – MLC Horizon 4 Balanced Portfolio



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	27.5%	28.0%	-0.5%
Global shares (unhedged)	20.5%	20.0%	+0.5%
Global shares (hedged)	1.5%	2.0%	-0.5%
Global property securities	4.0%	4.0%	0.0%
Private equity	6.0%	6.0%	0.0%
Fixed income (all maturities)	10.0%	16.0%	-6.0%
Fixed income (short maturities)	3.0%	0.0%	+3.0%
Australian inflation-linked bonds (short maturities)	8.0%	8.0%	0.0%
High yield bonds and loans	2.0%	2.0%	0.0%
Enhanced cash	3.0%	1.0%	+2.0%
Real return strategies (Inflation Plus)	11.5%	10.0%	+1.5%
Low correlation strategy	3.0%	3.0%	0.0%

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** While the potential for further falls in bonds yields is less than the potential for yields to rise, this position has been challenged this year and underweights have been moderated. We're continuing to review and positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small underweight position

MasterKey Super Fundamentals – MLC Horizon 5 Growth Portfolio



ASSET ALLOCATION AT 30 JUNE 2019	CURRENT	BENCHMARK	ACTIVE
Australian shares	31.5%	32.0%	-0.5%
Global shares (unhedged)	25.0%	26.0%	-1.0%
Global shares (hedged)	4.5%	3.5%	+1.0%
Global property securities	4.0%	4.0%	0.0%
Private equity	6.0%	6.0%	0.0%
Fixed income (all maturities)	4.0%	5.5%	-1.5%
Australian inflation-linked bonds (short maturities)	4.0%	8.0%	-2.0%
Australian inflation-linked bonds (government)	2.0%		
High yield bonds and loans	2.0%	2.0%	0.0%
Enhanced cash	2.0%	0.0%	+2.0%
Real return strategies (Inflation Plus)	12.0%	10.0%	+2.0%
Low correlation strategy	3.0%	3.0%	0.0%

Defensive positioning relative to benchmark while maintaining adequate participation in share market upside:

- **Underweight interest rate risk.** While the potential for further falls in bonds yields is less than the potential for yields to rise, this position has been challenged this year and underweights have been moderated. We're continuing to review and positions may be re-set if yields move lower
- **Overweight to real return strategies (ie Inflation Plus)** is in part a response to low return potential for risks of investing in fixed income assets. The defensiveness of Inflation Plus has enabled the portfolio to maintain shares at around benchmark weight. We're reviewing the 'optimal' level of defensiveness in the current environment
- **Modest overweight foreign currencies (across the whole portfolio)** for diversification as global share markets and the AUD tend to move in the same direction. Not hedging some overseas assets can help insulate the portfolio from losses if share markets fall. This overweight has added value and we have recently reduced exposures. The latest step was taken in July when the AUD:USD dropped to around 68 cents
- **Short-maturities Australian inflation-linked bonds** exposure to protect against rising inflation through less interest rate risk
- **Underweight to Australian shares.** This is a small underweight position