



MLC Wholesale Diversified Debt Fund MLC Wholesale Horizon 1 Bond Portfolio

Quarterly update for advisers

30 June 2021

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MLC's fixed income funds – investment profile



	MLC Wholesale Horizon 1 Bond Portfolio	MLC Wholesale Diversified Debt Fund
Role in a portfolio	Capital preservation	Diversification vs growth assets
Return expectation	Outperform cash	Outperform global bond market
Investment horizon	2 years	3-5 years
Reference benchmark	30% Bloomberg AusBond Bank Bill Index 42% Bloomberg AusBond Composite 0-3 Yr Index 28% Barclays Capital Global Aggregate Index 1-3 yrs (hedged into AUD)	50% Bloomberg AusBond Composite 0+ Yr Index 50% Barclays Capital Global Aggregate Bond Index (hedged into AUD)
Risk	Short duration bond market volatility (circa 1-2% pa) Very low probability of a negative annual return (<5%) 100% hedged into AUD	Bond market volatility (circa 3-4%pa) Low probability of a negative annual return (<10%) 99% hedged to AUD Tracking error (1-2%)
Management costs	0.55% pa	0.60% pa Class A (all investors other than MLC MasterKey Investment Service) 1.37% pa Class B (MLC MasterKey Investment Service)
Fixed income strategy changed	March 2010	March 2010
APIR code	MLC0669AU	MLC0839AU

Designed to be 100% of the defensive component of a client's portfolio.

MLC has a fixed income fund that may meet client needs



1 Diversification vs growth assets

For investors building a portfolio consisting of both growth and defensive assets.

2 Capital preservation

For investors seeking a low chance of negative returns over a reasonably short time horizon and higher returns than cash.

3 Liquidity

For investors wanting their defensive assets to be accessible without significant redemption costs.

Investment manager line-up

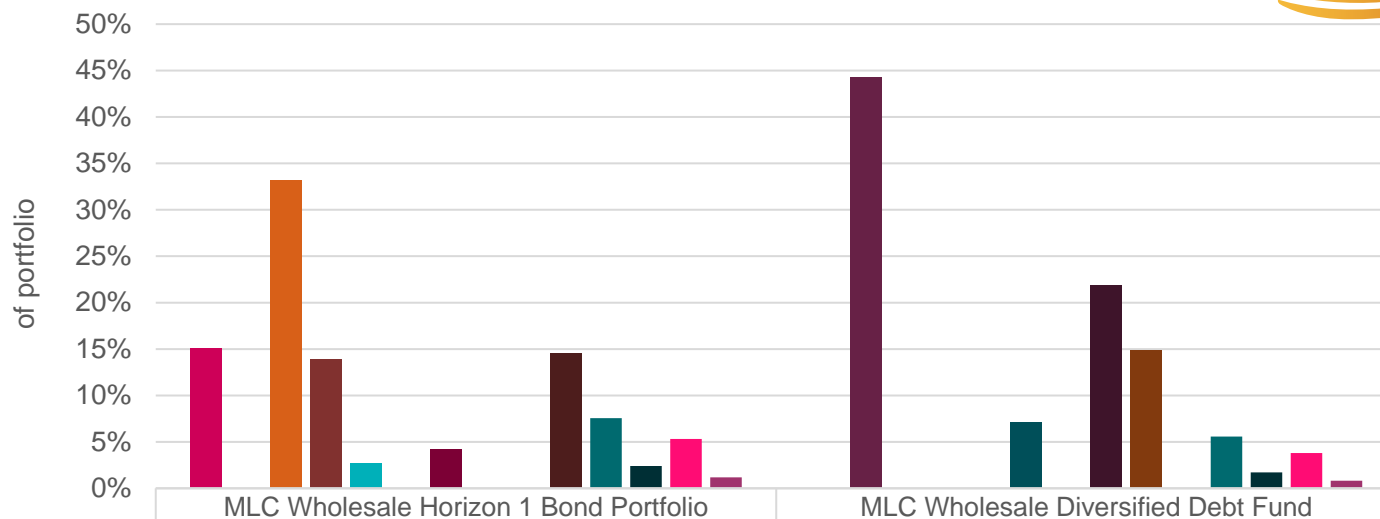


Sectors	Managers	Location	Appointed
Enhanced cash	Antares Fixed Income	Sydney, Australia	2007
Australian bonds	Antares Fixed Income UBS	Sydney, Australia Sydney, Australia	1991 1985
Global absolute return bonds #	Ardea Investment Management	Sydney, Australia	2021
Global government bonds	Insight	London, UK	2018
Global non-government bonds	Loomis, Sayles & Company Wellington Management	Boston, USA Boston, USA	2014 2010
Global multi-sector bonds	Amundi PIMCO	London, UK Newport Beach, USA	2010 1997
Global high-yield bonds and loans	Muzinich Loomis, Sayles & Company Shenkman Capital Oaktree Capital	New York, USA Boston, USA New York, USA Los Angeles, USA	2017 2015 2010 2019
Securitized debt	TCW Asset Management	Los Angeles, USA	2020

As at 30 June 2021.

We've appointed Ardea as a global absolute return manager, and removed BNP Paribas and Insight. Ardea employs a relative value approach which identifies whether a bond is mispriced compared to other securities with similar risk characteristics. Given Ardea's focus on 'risk balance' and preserving the defensive characteristics of fixed income, this should provide clients with more consistent outperformance potential than the previous manager mix. [Read more.](#)

Tailored allocations to fixed income sectors



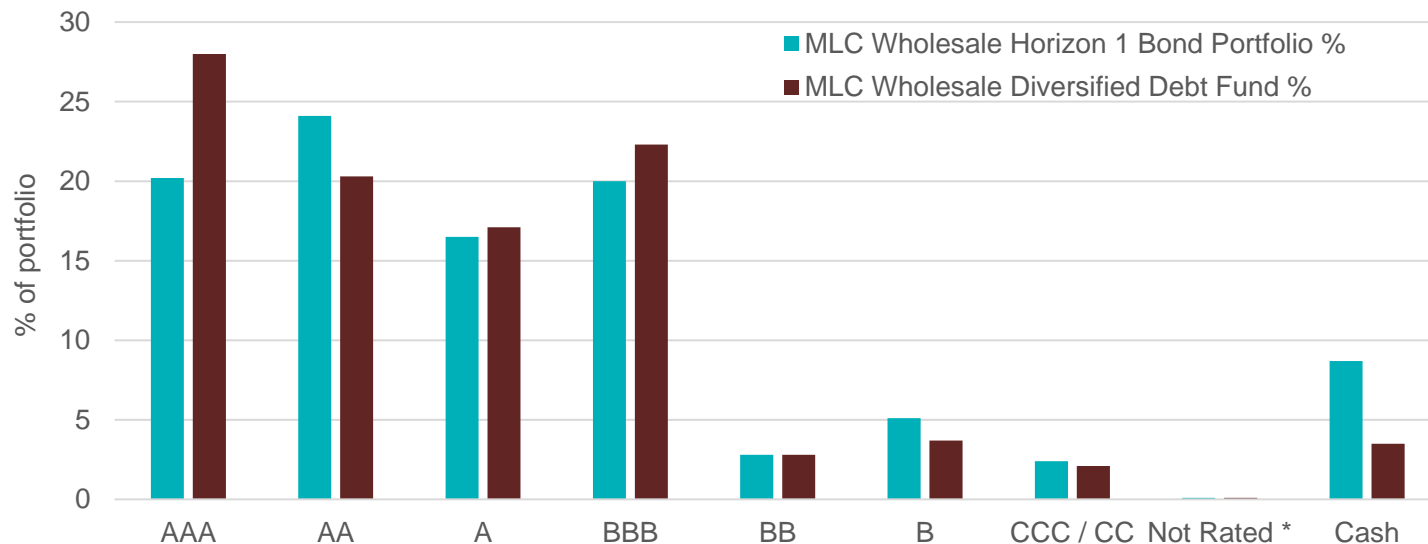
	MLC Wholesale Horizon 1 Bond Portfolio	MLC Wholesale Diversified Debt Fund
■ Domestic Credit Trust	15%	0%
■ Domestic Nominal (AM)	0%	44%
■ Domestic Nominal (SM)	33%	0%
■ Domestic Enhanced Cash	14%	0%
■ Global Absolute Return	3%	0%
■ Global Government (AM)	0%	7%
■ Global Government (SM)	4%	0%
■ Global Multi-Sector	0%	22%
■ Global Non-Government (AM)	0%	15%
■ Global Non-Government (SM)	15%	0%
■ Securitised Debt	8%	6%
■ US Bank Loans	2%	2%
■ US High Yield	5%	4%
■ Other	1%	1%

As at 30 June 2021.

Source: MLC Asset Management Services Limited. Figures are rounded to the nearest whole number.

This material is not for circulation to retail investors.

Fixed income allocations by credit quality



	MLC Wholesale Horizon 1 Bond Portfolio %	MLC Wholesale Diversified Debt Fund %
AAA	20.2	28.0
AA	24.1	20.3
A	16.5	17.1
BBB	20.0	22.3
BB	2.8	2.8
B	5.1	3.7
CCC / CC	2.4	2.1
Not Rated *	0.1	0.1
Cash at bank	8.7	3.5

* Not Rated category is predominantly synthetic cash, plus securities that have been classified NR by Standard & Poor's.

As at 30 June 2021.

Source: MLC Asset Management Services Limited. Figures are rounded to one decimal place.

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Portfolio sector allocation

As at 30 June 2021



Portfolio sector allocation	MLC Wholesale Horizon 1 Bond Portfolio		MLC Wholesale Diversified Debt Fund	
	%	Contribution to duration (yrs)	%	Contribution to duration (yrs)
Government	7.7	0.22	23.6	2.09
Non-government investment grade	81.0	0.61	64.4	3.32
<i>Corporate</i>	<i>57.7</i>	<i>-0.15</i>	<i>39.3</i>	<i>1.99</i>
<i>Government related</i>	<i>13.7</i>	<i>0.65</i>	<i>15.5</i>	<i>1.13</i>
<i>Securitised</i>	<i>9.5</i>	<i>0.11</i>	<i>9.6</i>	<i>0.20</i>
High yield	10.2	0.13	8.4	0.15
<i>Bonds</i>	<i>0.0</i>	<i>0.00</i>	<i>0.0</i>	<i>0.00</i>
<i>Loans</i>	<i>10.2</i>	<i>0.13</i>	<i>8.4</i>	<i>0.15</i>
Emerging markets	1.1	0.04	3.6	0.39
Total	100.0	1.00	100.0	5.95

Source: MLC Asset Management Services Limited. Portfolio sector allocation percentages are rounded to one decimal place and duration contributions are rounded to two decimal places.

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Portfolio characteristics and country allocation

As at 30 June 2021



	MLC Wholesale Horizon 1 Bond Portfolio	MLC Wholesale Diversified Debt Fund
Duration (years)	1.00	5.95
Active duration	-0.26	-0.87
Credit allocation – investment grade	90%	92%
Credit allocation – non-investment grade	10%	8%
Average credit quality	A+	A+
Yield to maturity pa (before fees)	1.52%	1.81%
FX carry pa (before fees)	0.01%	0.03%
Total carry pa (YTM + FX carry, before fees)	1.53%	1.84%

Definitions

Duration	Duration is a measure of how sensitive the price of a fixed income security (or a portfolio of securities) is to a change in interest rates. The longer the time to maturity, the higher a fixed rate bond's duration. So a fixed income portfolio with a higher proportion invested in long bonds (eg 5 to 10 year maturities) has higher duration risk and more potential to underperform as interest rates rise.
Active duration	The difference between the benchmark's duration and the portfolio's duration. Lengthening and shortening duration is one investment technique used by active fixed income managers with the aim of outperforming the portfolio's benchmark.
Yield to maturity	The annual return an investor would receive if the portfolio's current securities are held until maturity. It includes all the interest payments received during the life of the portfolio and any gain or loss of capital on maturity.
FX carry	The increment to portfolio returns attributable to hedging foreign currency to the AUD.
Total carry	The income paid annually, expressed as a percentage of the portfolio's current value.

Source: MLC Asset Management Services Limited. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market.

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Portfolio country allocation

As at 30 June 2021



Portfolio country allocation	MLC Wholesale Horizon 1 Bond Portfolio		MLC Wholesale Diversified Debt Fund	
	%	Contribution to duration (yrs)	%	Contribution to duration (yrs)
Australia	48.2	0.31	37.0	2.38
US	27.8	0.37	31.7	1.50
Canada	1.1	0.02	1.2	0.13
Core eurozone	6.1	0.13	7.1	0.37
Peripheral eurozone	1.2	0.03	4.5	0.35
Other Europe	1.6	0.04	2.6	0.10
UK	2.0	0.01	3.8	0.18
Japan	2.4	0.03	4.9	0.50
Emerging markets	1.1	0.04	3.6	0.39
Asia (ex Japan and Emerging Asia)	0.5	0.00	0.5	0.03
Other	-0.7	0.00	-0.5	0.02
Cash and cash equivalents	8.7	0.02	3.5	0.01
Total	100.0	1.00	100.0	5.95

Source: MLC Asset Management Services Limited. Portfolio country allocation percentages are rounded to one decimal place and duration contributions are rounded to two decimal places.

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MLC Wholesale Horizon 1 Bond Portfolio performance

As at 30 June 2021



	1 year	3 years pa	5 years pa
MLC Wholesale Horizon 1 Bond Portfolio (before fees)	2.22%	2.17%	2.37%
Benchmark*	0.42%	1.71%	1.76%
Excess returns v Benchmark	1.79%	0.46%	0.60%
Cash^	0.06%	0.96%	1.29%
Excess returns v Cash	2.16%	1.21%	1.07%
MLC Wholesale Horizon 1 Bond Portfolio (net of fees)#	1.78%	1.59%	1.80%

Source: MLC Asset Management Services Limited. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market. Figures are rounded to two decimal places.

* 30% Bloomberg AusBond Bank Bill Index, 42% Bloomberg AusBond Composite 0-3 Yr Index, 28% Barclays Capital Global Aggregate Index 1-3 Yrs (hedged into AUD)

^ Bloomberg AusBond Bank Bill Index

The MLC Wholesale Horizon 1 Bond Portfolio management cost changed to 0.55% pa from 0.88% pa on 1 November 2014

MLC Wholesale Horizon 1 Bond portfolio

Performance attribution



1 Manager excess returns over the past year have been very strong, driven by the recovery in markets after March 2020. The portfolio is also outperforming over the longer term.

2 The allocation to global absolute return bonds out of short duration investment grade government bonds contributed positively to performance over the last 12 months, while the allocation to domestic short duration credit has also been positive over the last year and the longer term.

3 With the strong recovery in credit assets, the allocation to non-investment grade bonds has contributed strongly positively to performance over the last 12 months. Over the longer term the performance contribution is also positive, and looking forward, we expect non-investment grade bonds to outperform investment grade bond markets.

MLC Wholesale Diversified Debt Fund performance

As at 30 June 2021



	1 year	3 years pa	5 years pa
MLC Wholesale Diversified Debt Fund Class A (before fees)	1.58%	4.42%	3.61%
Benchmark*	-0.49%	4.14%	3.04%
Excess returns v benchmark	2.06%	0.28%	0.56%
Cash^	0.06%	0.96%	1.29%
Excess returns v Cash	1.52%	3.46%	2.31%
MLC Wholesale Diversified Debt Fund Class A (net of fees)#	1.01%	3.72%	2.95%

Source: MLC Asset Management Services Limited. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market. Figures are rounded to two decimal places.

* 50% Bloomberg AusBond Composite 0+Yr Index; 50% Barclays Capital Global Aggregate Bond Index (hedged into AUD)

^ Bloomberg AusBond Bank Bill Index

The MLC Wholesale Diversified Debt Fund Class A management cost is 0.60% pa

MLC Wholesale Diversified Debt Fund

Performance attribution



1

Manager excess return in aggregate over the last 12 months has been strongly positive, with PIMCO, Amundi and Antares all performing particularly well.

Within non-investment grade bonds, performance has also been healthy, as managers have managed to keep pace with an extremely strong recovery while maintaining a defensive bias.

2

The overweight to investment grade credit out of global government bonds has had a strongly positive impact, with credit assets well supported over the past year. Although government bond yields have risen somewhat over the quarter, they remain somewhat unattractive relative to credit, where fundamentals are strong and underpinned by the post-COVID recovery in economic growth.

3

The allocation to non-investment grade bonds was also a positive contributor over the last 12 months, as the market has managed to avoid many of the defaults expected when COVID-19 initially hit.

The overweight to non-investment grade bonds has also been a positive for performance over longer time periods, even as long duration investment grade bonds have performed strongly.

On a forward-looking basis, we expect non-investment grade bonds to outperform long duration investment grade bond markets.



MLC Wholesale Horizon 1 Bond Portfolio

- Underweight interest rate exposure (short duration)
- Overweight duration in the US
- Underweight duration in the core eurozone and Australia
- Overweight credit exposure (long spread duration)
- Overweight non-investment grade bonds and securitized debt
- Underweight cash

MLC Wholesale Diversified Debt Fund

- Underweight interest rate exposure (short duration)
- Underweight duration in Australia, core eurozone and Japan
- Overweight duration in the US, peripheral Europe and selected emerging markets
- Overweight credit exposure (long spread duration)
- Overweight non-investment grade bonds and securitized debt
- Overweight CAD, NOK and MXN
- Underweight USD, CHF, EUR and TWD

As at 30 June 2021. Source: MLC Asset Management Services Limited.