Multi-asset real return strategy

Investment update to 30 June 2021

The multi-asset real return (MARR) strategy is invested across a range of assets in a manner which seeks returns while managing the risk of negative returns. It doesn't have common restrictions such as asset class limits; instead the manager is unconstrained in their ability to combine individual assets to extract return potential while controlling risk. This can provide a more reliable path of returns and better preserve investors' capital in difficult markets.

Investing in the MARR strategy, rather than just share markets, is expected to help protect our portfolios in challenging economic scenarios (eg in an environment of rising inflation).

The MARR strategy in MLC's Inflation Plus portfolios is managed by Ruffer LLP (Ruffer). MLC Inflation Plus portfolios' allocations to MARR are shown in Table 1. MLC Horizon portfolios inherit exposure to MARR through investments in Inflation Plus, and MLC Index Plus portfolios through the real return strategy (which is managed similarly to Inflation Plus).

Table 1: MLC Inflation Plus portfolios' target allocation to MARR as at 30 June 2021

MLC MasterKey Super & Pension Fundamentals	MARR %	MLC Wholesale	MARR %
MLC Inflation Plus Assertive Portfolio	9.0	MLC Wholesale Inflation Plus Assertive Portfolio	11.0
MLC Inflation Plus Moderate Portfolio	8.0	MLC Wholesale Inflation Plus Moderate Portfolio	10.0
MLC Inflation Plus Conservative Portfolio	5.0	MLC Wholesale Inflation Plus Conservative Portfolio	6.0

Source: MLC Asset Management Services Limited. Based on the portfolios' target allocations.

An explanation of how fees are deducted from returns is in Appendix 1.

Investment objective

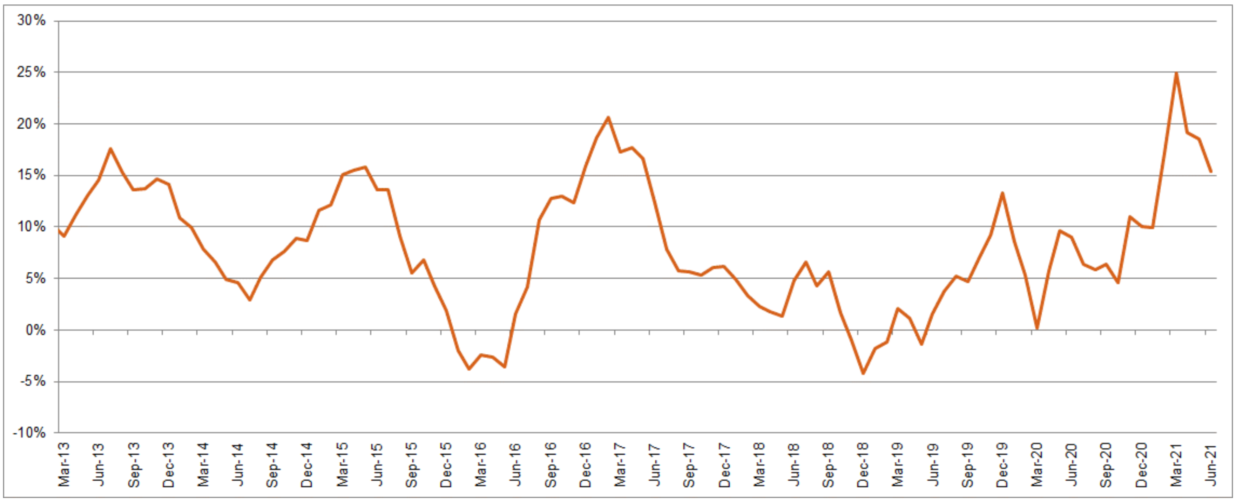
The strategy aims to limit the risk of negative nominal returns in any 12 month period.

About the manager

London based Ruffer was established in 1994. It has managed the MARR strategy for MLC since 2009.

Performance

Chart 1: Performance of MARR (rolling 1 year returns) to 30 June 2021 (before fees and tax)



Source: MLC Asset Management Services Limited. Returns are calculated before deducting fees and tax. Past performance is not a reliable indicator of future performance.

The MARR strategy has worked well for the MLC portfolios as shown in Chart 1 and Table 2. It has made an important contribution to returns in our portfolios and helped to moderate risk.

Table 2: Returns to 30 June 2021 (before fees and tax)

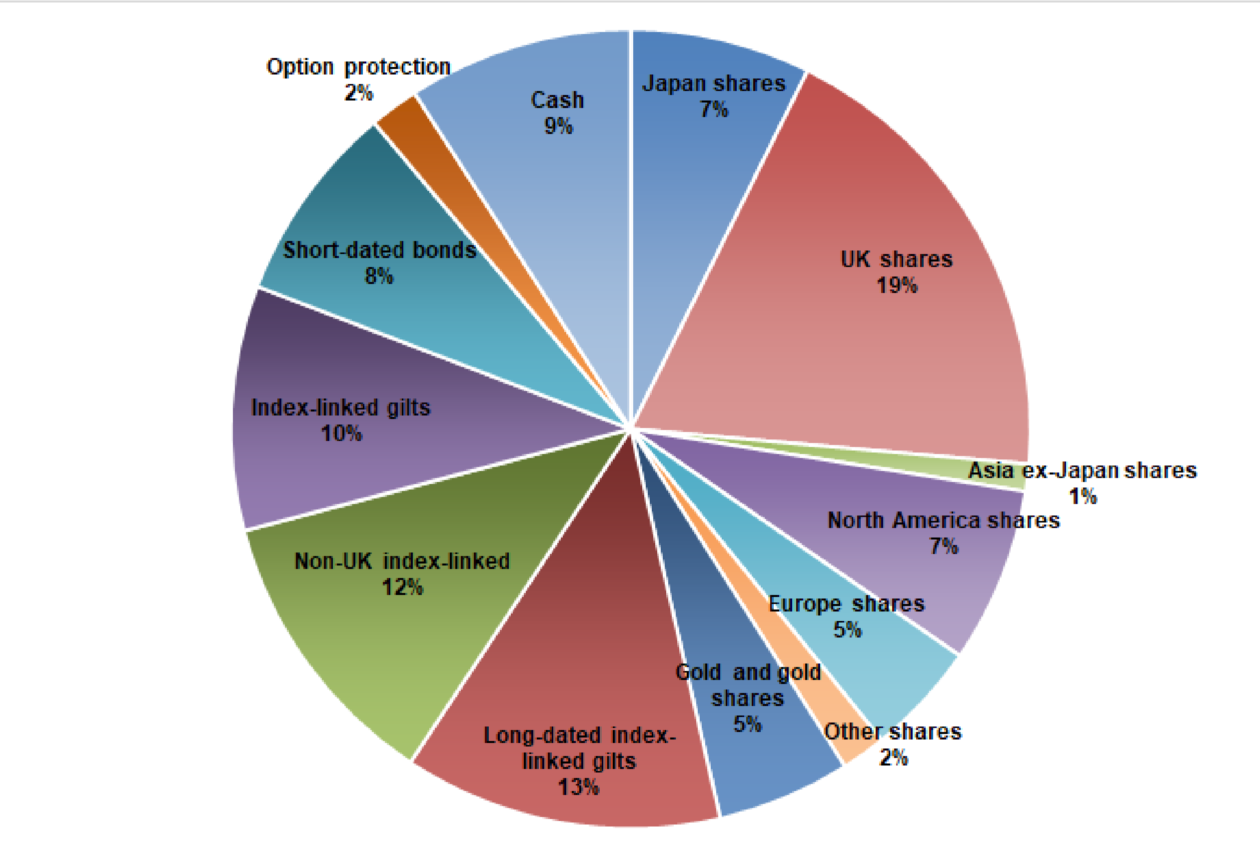
	3 mths %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa
MARR strategy	2.3	15.4	12.1	8.5	8.5	8.2

Source: MLC Asset Management Services Limited. Returns are calculated before deducting fees and tax. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Figures are rounded to one decimal place.

Notes: From 1 September 2015 the strategy was fully managed by Ruffer. Prior to this, the strategy was managed by Ruffer and Pyrford International Ltd.

Asset allocation

Chart 2: Asset allocation at 30 June 2021



Source: Ruffer.

Current portfolio commentary and positioning

Returns are before fees and tax

Ruffer, in their quarterly report to 30 June 2021, provided the following commentary which you may find interesting:

"The strategy was up for the fifth quarter in a row. Shares exposure and inflation-linked bonds generated positive returns while the portfolio protections were a small drag on performance. Global stock markets experienced another strong quarter, driven by record levels of liquidity, but a cautious shares weighting and some giveback of previous gains from interest rate options offset some of the gains from our shares selection. We feel a contained shares weight is warranted given the growing concerns over the latest

COVID-19 variants and flows into shares running at a pace that, if maintained for the year, could see share funds take in more money in 2021 than in the previous 20 years combined.

The quarter also saw a subtle shift in market dynamics following the June meeting of the US Federal Reserve (Fed). Although the Fed fully acknowledged the recent surge in inflation, the fact that long bond yields actually fell after the meeting suggests that markets have completely bought into the view that these inflationary pressures are merely transitory. We are far from convinced, but declining long bond yields put the brakes on the strategy's cyclical and financial shares whilst a rising US dollar negatively impacted our gold holdings.

Factors that helped performance:

- **UK shares.** For most of the quarter UK value and cyclical stocks built on the gains from the previous quarter. A late reversal of the rotation into value took some of the gloss off these performances, but BT (+25%), Lloyds Bank (+11%) and GlaxoSmithKline (+11%) still showed healthy rises.
- **Inflation linked bonds.** Bond yields fell back and bond prices rallied as the Fed's acknowledgement of current inflation pressures was taken as proof that everything was under control. This was partially offset by a fall in future inflation expectations even as inflation prints hit new highs.

Factors that hurt performance:

- **Interest rate protection.** After shielding the strategy from the impact of rising bond yields in the previous quarter, interest rate options gave back some of the gains that had powered quarter 1's performance."

Table 3: Summary performance attribution for the quarter

Five largest positive contributions	%	Five largest negative contributions	%
UK shares	+1.2	Option protection	-1.4
Inflation-linked bonds	+0.8	eHealth	-0.1
Gold and gold shares	+0.4	Volkswagen	-0.1
Ambev	+0.3	Rohm	-0.1
Alexion Pharmaceuticals	+0.3	NEC	-0.1

Source: Ruffer.

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

As MLC Horizon, Index Plus, and Inflation Plus portfolios invest in the MARR strategy and a range of other asset classes and strategies, only some of the fees disclosed in the Product Disclosure Statements (PDSs) relate directly to the management of the MARR strategy. Therefore, the MARR strategy's performance is reported before deducting most of the fees and taxes disclosed in the PDSs.
