

MLC Opportunistic Capital Solutions strategy

Investment update to 31 December 2024

The 'MLC Opportunistic Capital Solutions strategy' is managed by the MLC Asset Management (MLCAM) Alternative Strategies Team. It is a tailored investment strategy designed to improve risk-return outcomes at the total diversified portfolio level. The Team has been successfully managing the MLC Opportunistic Capital Solutions strategy ("MOCS") for MLC's diversified funds listed in Table 1 since January 2023 and for MLC's MySuper Growth portfolio and other select superannuation clients of MLC since October 2018.

A distinctive alternative strategy, it is designed to increase the diversity of sources of return and risk in some of our diversified funds. By combining several carefully selected alternative strategies, MOCS aims to provide a pattern of returns that is mostly independent of, or 'uncorrelated' with, share market returns. We expect this will help to smooth out the pattern of returns in these funds.

MLC's diversified funds' target allocations to MOCS are shown in Table 1.¹ The MLC Premium and Value Separately Managed Account (SMA) Model Portfolios also have an indirect allocation through their investments in the MLC Real Return funds.

Table 1: MLC diversified funds with allocations to the MLC Opportunistic Capital Solutions strategy as at 31 December 2024

Fund series	% of portfolio invested in the MLC Opportunistic Capital Solutions strategy
MLC MultiActive	2-3%
MLC Wholesale Horizon [^]	2-4%
MLC Real Return	6%
MLC Wholesale Inflation Plus Conservative Portfolio	7%

Source: MLC Asset Management Services Limited. The allocations shown in Table 1 are based on the fund's target allocations. The amounts allocated to the MLC Opportunistic Capital Solutions strategy differ based on each fund's investment objective and strategy, risk profile and strategic asset allocation (SAA). [^]Excludes MLC Wholesale Horizon 1.

Investment objectives

The MLC Opportunistic Capital Solutions strategy focuses on finding attractive investment opportunities that fall outside the scope of traditional asset classes. This is reflected in its two broad investment objectives:

- **Return:** to provide returns that are different to mainstream asset classes such as shares. The return objective is to generate returns of cash² plus 5% pa, net of investment fees and indirect costs³, over rolling 5 year periods.
- **Risk:** to add diversification to MLC's multi-asset funds. The Alternative Strategies team works in close collaboration with MLC's broader diversified fund portfolio managers to ensure investment characteristics, liquidity, fees etc are optimised within the constraints of the broader fund.

¹ This update is for MLC's diversified investment funds listed in Table 1. Refer to the 'Important Information' section of this report for details about the funds. MLC offers diversified funds in investments, superannuation and pension. While there may be similarities between MLC's diversified funds offered in investments, superannuation and pension, this update is focused on the funds listed in Table 1.

² Cash benchmark is the Bloomberg AusBond Bank Bill Index.

³ An explanation of how fees are deducted from the Strategy's returns is in Appendix 1.

Asset allocation

The MLC Opportunistic Capital Solutions strategy has a deliberately flexible mandate that can invest across multiple asset classes (eg bonds, loans, shares) in both public and private markets.

It is currently focused predominantly on the following niche, idiosyncratic, credit strategies (eg litigation receivables), where it typically acts in a way akin to the senior lender to a capital hungry intermediary secured against attractive uncorrelated collateral:

- Short duration assets (1-4 years): Constrains risk, facilitates redeployment into more attractive opportunities as the cycle and opportunity set evolves.
- Senior, asset backed loans: A typical deal will be senior in the capital structure and backed by assets that are either high quality (eg investment grade accounts receivables), provide a high margin of safety (via a low Loan To Value Ratio (LTV) relative to the estimated liquidation value of the underlying loan's collateral), or are uncorrelated to markets (eg legal finance collateral).
- Less competition in niche areas: Supports attractive risk-return.
- Low correlation: To both listed markets and conventional private credit strategies.

Table 2 broadly categorises the underlying investment types that the MLC Opportunistic Capital Solutions strategy invests into.

Table 2: MLC Opportunistic Capital Solutions strategy example investment types (as at 31 December 2024)

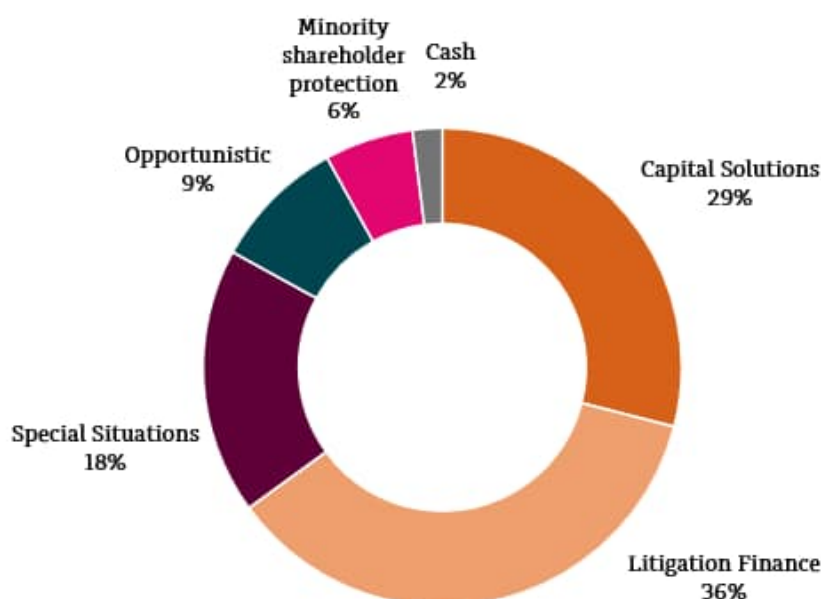
Investment type	Example investments	Strategy target allocation range	Number of underlying managers
Capital solutions	Loan to stressed borrower secured against investment grade corporate receivables	10-50%	4
Special situations	Bridge loan to real estate developer post planning approval	10-50%	3
Legal finance	Financing attorney fees due from an agreed legal settlement	10-50%	3
Opportunistic	Stake in a private reinsurer with unique asset management edge bought at a discount to book value	0-25%	2 managers, 3 direct investments
Minority shareholder protection	Pursuing legal action for fair value following 'squeeze out' of minority shareholders in a merger transaction	0-10%	2

The Alternative Strategies Team applies an open architecture approach which combines best of breed specialist managers with carefully selected co-investments and direct investments:

- Diversified, global portfolio of 15 niche fund and separately managed investment mandates with managers, each with distinctive return drivers.
- Co-investments facilitate additional portfolio flexibility, reduced costs and enhanced net returns. 40+ co-investments executed on to date.
- Selective direct investments when asymmetric opportunities present within the team's perceived circle of competence.

As at end December 2024, MOCS invested with 15 different specialist managers, in 23 co-investments and two direct investments. Each chosen because their returns are largely unconnected both with one another and share markets. We have grouped the managers' strategies into the categories in Chart 1.

Chart 1: Underlying Investment Types of the MLC Opportunistic Capital Solutions strategy (based on actual asset allocation at 31 December 2024)



Source: MLC Asset Management Services Limited. Figures have been rounded to the nearest percent.

Notes: We haven't provided our manager names because some contracts we have with managers prevent us from disclosing information on them.

Current strategy positioning

We continue to find the current market conditions advantageous for our capital solutions focused strategies. The combination of persistently high cash rates and a general scarcity of capital has resulted in increased portfolio activity and co-investment opportunities. This often comes with higher underwritten return profiles and improved collateral coverage compared to previous years.

During the quarter, several underlying investments were partially or fully exited, freeing up additional capacity for redeployment into the attractive opportunities we foresee ahead, with several new investments also funded in the final quarter. Across the year, we had 5 new manager relationships, 12 new co-investments, 12 full/partial realisations and redeemed out of two hedge fund strategies.

Our two largest return contributions by underlying manager during the quarter were a Legal Finance Manager and a Real Estate Debt manager. The legal finance manager is a private investment manager dedicated to legal assets where MOCS has both fund and co-investment exposure. Gains on our co-investment portfolio were derived by the realisations of loans under warehouse facility that we engaged in with the manager. The real estate debt manager is one through which we co-invested in a series of senior loan notes against a portfolio of distressed office real estate in the US. We invested in early Feb and during Q4, the investment had a sizeable valuation upgrade due to a faster path of asset realisation. We continue to monitor CRE trends and further investments with them as they look to take advantage of valuation mispricing across the industry.

The other significant contributor to returns during the quarter was one of our direct investment holdings, where we own a strategic shareholding. The company attracted a \$250m strategic investment from a PE firm which was approved by shareholders in December which resulted in shares appreciating approximately +30% during the quarter. The investment will allow the capitalisation of a new life insurance vehicle which will have ~90% of its investable assets managed by one of our credit GPs, which will provide long-term, strategic and economic alignment between all parties.

Across our broader portfolio, we continue to see a number of attractive opportunities in our current investment pipeline and expect to deploy additional capital to several co-investments in the near term.

Note: As our investment managers are constantly reviewing and making changes to their holdings, these investments may no longer be included in the fund.

Performance

Returns are net of indirect costs associated with underlying investments in MOCS, and gross of other fees and costs.

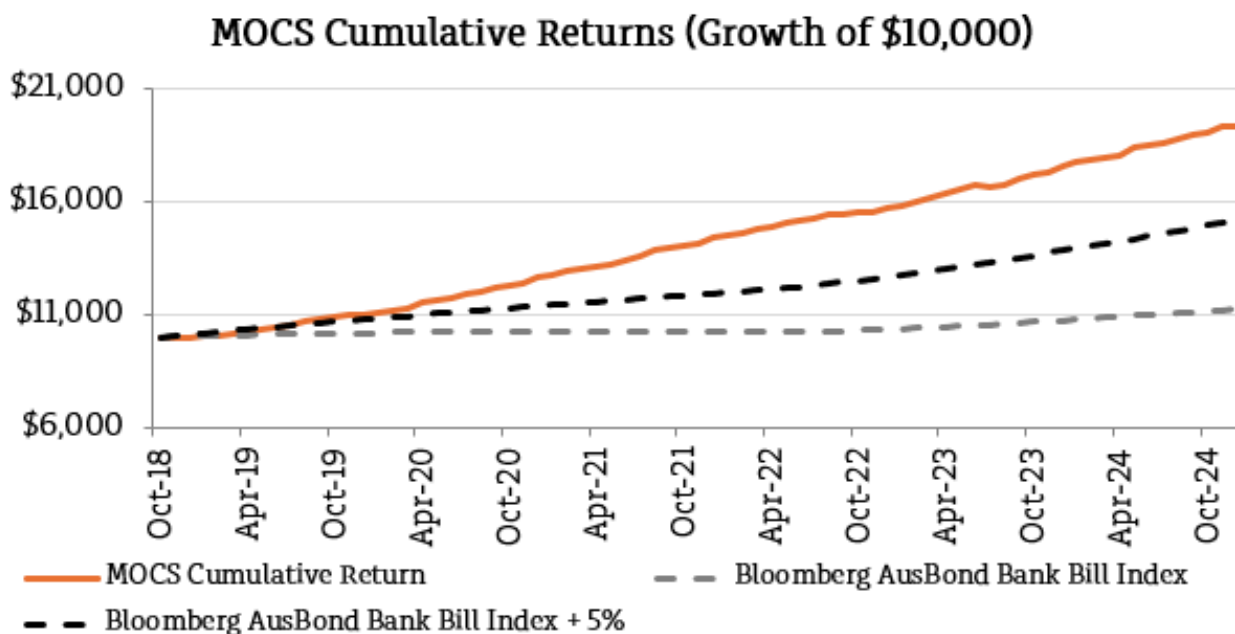
The MLC Opportunistic Capital Solutions strategy achieved a return of 9.7% over the calendar year to December 2024 for the MLC diversified funds listed in Table 1. Since inception in January 2023, it has achieved a return of 9.9% pa to 31 December 2024 for these funds. This return has primarily been driven by the strong performance of the special situations and capital solutions managers. The performance of cash plus 5% pa from January 2023 to 31 December 2024 was 9.9% pa.

Chart 2 and Table 3 below refer to performance of the MLC Opportunistic Capital Solutions strategy within the MLC MySuper Growth Portfolio. The MOCS strategy within the MLC MySuper Growth Portfolio is MLC's longest running version of MOCS, running since October 2018. Chart 2 demonstrates the success of the strategy, highlighting the longer-term track record of the MLCAM Alternative Strategies Team in running an opportunistic capital solutions strategy.

Chart 2 also shows how MOCS has provided relatively smooth returns, by generating flat or mostly positive returns during those periods of weakness in share markets, including the uncertainties created by COVID-19 and the prominent risks during 2022 of high inflation, rising interest rates and the conflict in Ukraine.

Note: The MOCS strategies within the MySuper Growth Portfolio and the MLC diversified funds, whilst very similar, are not the same. Holdings between the two have been between 95-98% common since the launch of the MLC diversified funds strategy in 2023.

Chart 2: MOCS returns relative to objective (net of indirect costs associated with the underlying investments of the strategy and gross of all other fees and costs)



Source: MLC Asset Management Services Limited. Returns are net of indirect costs associated with the underlying investments of MOCS and gross of all other fees and costs (refer to Appendix 1). 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.

Table 3 shows the five worst performing share market months and the relative performance of MOCS. This relative outperformance is partly driven by the less liquid nature of many of the underlying strategies which access private market investment opportunities, but the overall intent of MOCS is to identify attractive, idiosyncratic, non-correlated sources of investment return.

Table 3: MLC Opportunistic Capital Solutions strategy - monthly performance in five worst share market months

Month	Shares performance (%) [*]	MLC Opportunistic Capital Solutions strategy performance (%)	MLC Opportunistic Capital Solutions strategy outperformance (%)
Mar-20	-13.50	0.97	14.47
Sep-22	-8.96	0.33	9.29
Feb-20	-7.87	0.99	8.86
Jun-22	-7.71	1.23	8.94
Dec-18	-7.46	-0.48	6.98

^{*} Shares benchmark comprises of 50% S&P/ASX200 Total Return Index and 50% MSCI All Country World Index (A\$ hedged).

Source: MLC Asset Management Services Limited. Returns are net of indirect costs associated with the underlying investments of MOCS and gross of all other fees and costs (refer to Appendix 1). Past performance is not a reliable indicator of future performance.

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

The MLC Opportunistic Capital Solutions strategy is one of a number of different strategies that form part of MLC's diversified funds. As such, the strategy only makes up a small component of the Management Fees and Costs that are charged to members when they invest in one of the diversified funds. When publishing the performance of the MOCS in this document, we have used figures that are gross of the Management Fees and Costs, with the exception of the Indirect Costs associated with the underlying investments of MOCS. This is to ensure the performance shown isn't impacted by the total fees that are charged for all of the strategies within the diversified funds. The Indirect Costs taken out of the performance shown in this report are incurred when the strategy invests in external funds. They aren't additional fees retained by MLC.

The asset allocation to MOCS is relatively small compared to the total assets of the relevant diversified funds and are set to serve the investment objectives of the funds. The returns shown in this report demonstrate the past performance of MOCS over periods of time in history. These historical returns shouldn't be relied upon as any indication of the future and ongoing performance of MOCS held by the MLC diversified funds or any other funds.

Important information

Unless otherwise specified, the information in this communication has been prepared based on data as at 31 December 2024.

The information in this communication is prepared for licensed Financial Advisers or qualified Wholesale Clients in Australia and not any other persons. By receiving this information, you agree not to distribute the information without our prior written consent.

This communication is provided by IOOF Investment Services Ltd, ABN 80 007 350 405, AFSL 230703 (IISL) as Responsible Entity of the MLC MultiActive (except for MLC MultiActive High Growth and MLC MultiActive Geared), and MLC MultiSeries; MLC Investments Limited (ABN 30 002 641 661, AFSL 230705) (MLCI), as Responsible Entity of the MLC MultiActive High Growth, MLC MultiActive Geared, MLC Wholesale Inflation Plus Conservative Portfolio, MLC Wholesale Horizon and MLC Real Return funds; and any information in the communication on the MLC Managed Accounts Strategies are provided by MLC Asset Management Pty Limited (MLCAM) (ABN 44 106 427 472, AFSL 308953)

IISL, MLCI and MLCAM are part of the Insignia Financial Group of companies (comprising Insignia Financial Ltd ABN 49 100 103 722 and its related bodies corporate) ('Insignia Financial Group', 'MLC' or 'us').

The capital value, payment of income and performance of any financial product referred to in this communication are not guaranteed. An investment in any financial product referred to in this communication is subject to investment risk, including possible delays in repayment of capital and loss of income and principal invested. No member of the Insignia Financial Group guarantees or otherwise accepts any liability in respect of any financial product referred to in this communication.

This communication may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs. You should obtain a Product Disclosure Statement (PDS) relating to the financial products mentioned in this communication issued by us, and consider it before making any decision about the product. Target Market Determinations (TMDs) for relevant products are also required to be made available and considered by distributors. A copy of the PDS (or other disclosure documents) and TMD are available upon request by phoning the MLC call centre on 132 652 or on our website at mlc.com.au and ioof.com.au

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. The performance returns in this communication are reported before deducting management fees and taxes unless otherwise stated. Actual returns may vary from any target return described in this communication and there is a risk that the investment may achieve lower than expected returns. Any projection or other forward-looking statement ('Projection') in this document is provided for information purposes only. No representation is made as to the accuracy of any such Projection or that it will be met. Actual events may vary materially.

This communication is directed to and prepared for Australian residents only. Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made as at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

The investment managers / investments are current as at the date this communication was prepared and are subject to change.

The fund referred to herein is not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such fund.