

## News Release

Thursday, 9 August 2007

### **MLC adds Insurance Related Investments and Pure Alpha to its Long Term Absolute Return strategy**

MLC today announced two new investments for its Long Term Absolute Return\* (LTAR) strategy with the inclusion of Insurance Related Investments\*\* and a Pure Alpha Strategy.

The Insurance Related Investments (IRIs) will be managed by Nephila Capital and the Pure Alpha Strategy will be managed by Bridgewater Associates.

MLC Chief Investment Officer, Chris Condon, said Insurance Related Investments provide an excellent source of diversification because their risk drivers are independent of those associated with other asset classes.

“One of the key financial risks in any diversified fund is a stock market crash. One of the attractive qualities of Insurance Related Investments is that equity market downturns do not cause earthquakes or hurricanes, giving these investments significant portfolio diversification characteristics,” Mr Condon said.

“Nephila Capital has been managing IRIs for institutional investors since 1998 making it one of the most experienced investment firms in this area of insurance securitisations and we are extremely pleased to be able to add them to the LTAR offer.”

Mr Condon said the inclusion of the Bridgewater Pure Alpha strategy aims to enhance the real return characteristics of the overall LTAR strategy by exploiting manager skill.

“The Bridgewater Pure Alpha strategy is explicitly built to exploit many different opportunities identified by the manager, but without persistent exposures to any individual market. By design, it is a pure expression of the manager’s skill,” Mr Condon said.

“As a result, the Pure Alpha strategy returns should, over time, be uncorrelated with traditional equity and bond market returns, providing an incremental source of long-term positive real return in the LTAR strategy.”

Mr Condon said that both the Insurance Related Investments and Pure Alpha changes are great examples of LTAR's investment strategy.

“Both of these investments require a long term investment perspective that is fearlessly independent of traditional approaches. More importantly, these investments are uncorrelated to other sources of return currently accessed and thus reduce the overall risk of the portfolio.

“In fact, the reduction in risk is more than what is required for the portfolio’s 20 year objective. We have therefore increased the level of gearing to improve overall expected returns without materially impacting overall risk.”

Launched in 2005, MLC's LTAR strategy is a multi-manager, multi-asset class portfolio specifically designed to deliver net real returns to investors over 20 year periods.

The LTAR strategy aims to create wealth over the longer term using three key principles:

- By applying unconventional investment strategies – with its long-term time horizon LTAR is able to access a wider range of assets and investment strategies, rather than relying on returns from equities;
- By using gearing to set the portfolio's overall risk level to that appropriate for a 20 year timeframe, and thus increasing potential returns; and
- By applying a strategic overlay to manage risk and opportunity – the fund's long term focus enables it to be positioned for the risks and opportunities identified over a 5-8 year timeframe. MLC will alter the fund's exposure to markets in response to long-run cycles rather than responding to short term noise in the market.

"The LTAR strategy is for investors who want to take a genuinely long term investment approach, focus on real after tax returns, diversify across a wider range of asset classes and, most importantly, are prepared to be different," said Mr Condon.

"In recent years Australian investors have benefited from a very strong bull market which has delivered double digit returns in all traditional asset classes. These high returns are not likely to be sustained indefinitely and LTAR has been designed to deliver robust returns in a less buoyant market."

"LTAR offers investors a truly long term approach to investing, something that we believe is largely missing from the range of investment products available in Australia."

\* The IRI changes are only being made in superannuation and pension investments, not in the investment made through the MLC Investment Trust LTAR Portfolio. The product details for an investment in the MLC Investment Trust LTAR Portfolio are contained in the Product Disclosure Statement for that product.

\*\* **Insurance Related Investments** are any investment, exposure or investment strategy where returns are primarily derived from accepting insurance risk. The sellers of these investments are typically reinsurance companies seeking to diversify their risk exposures by accessing deep capital markets. Investors are rewarded for accepting this insurance risk through high prospective yields. The realised return on investment will be this high yield less any insurance payouts associated with insured events such as hurricanes or earthquakes.

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