MLC MasterKey Super Fundamentals

Fund Snapshot

MLC Horizon 4 - Balanced Portfolio

Fund Overview

About the Fund

The MLC Horizon 4 Balanced Portfolio aims to grow your wealth for a moderate level of expected volatility. The Portfolio is invested with a bias towards growth assets.

The Portfolio is designed to be a complete investment portfolio solution. Its well diversified within asset classes, across asset classes and across investment managers who invest in many companies and securities around the world.

Key Information

APIR Code MLC0746AU

Status Onsale

Product Size as at 31 Jan 2013
$2,282.05M

Commencement Date
4 Dec 2006

Important Announcements

31 Jan 2012
Indicative Investment Fee
The Indicative Investment Fee shown in the Fund Overview is at a point in time and represents an annualised fee. Consequently, the recent changes made to the Investment Fees will not be fully reflected in the Fund Profile Tool until

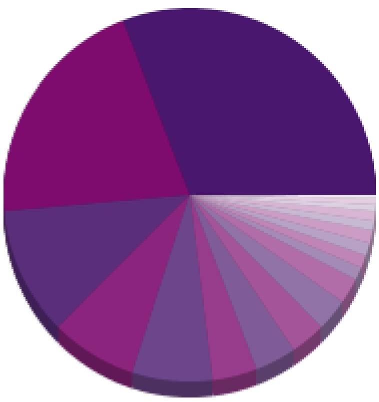
a) the data is refreshed in March 2012 and then

b) subsequent monthly recalculations occur (for the next 12 months).

Fund Breakdown

By Asset Class as at 31 Dec 2012

The information displayed reflects the actual asset allocation based on the holdings within the fund at the effective date.



- Australian Shares 31.0%
- Global Shares (unhedged) 20.6%
- Australian Bonds 11.2%
- Global Private Assets 7.5%
- Australian Inflation-Linked Bonds 6.7%
- Global Property Securities 3.8%
- Long-Term Absolute Return Strategy 3.5%
- Global Multi-Sector Bonds 3.0%
- Global Non-Government Bonds 2.8%
- Global Government Bonds 2.3%
- Other 1.2%
- Global High Yield Bonds 1.2%
- Cash 1.1%
- Multi-Asset Class Real Return Strategies 1.0%
- Defensive Global Shares - Unhedged 1.0%
- Global Bank Loans 0.8%
- Global Absolute Return Bonds 0.7%
- Low Correlation Strategy 0.4%
- Global Mortgages 0.3%

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MLC Horizon 4 - Balanced Portfolio

By Manager as at 31 Dec 2012

Asset Class	Manager	Percentage	Investment Amount
Australian Bonds	Antares	5.7%	$565
	UBS	5.6%	$558
Australian Inflation-Linked Bonds	Antares	6.7%	$672
Australian Shares	Antares	5.5%	$555
	JCP	4.9%	$490
	Northcape	3.1%	$308
	Other	5.5%	$546
	Vanguard	6.7%	$666
	Vinva	5.1%	$513
Cash	Cash	1.1%	$110
Defensive Global Shares - Unhedged	International Value Advisors	1.0%	$97
Global Absolute Return Bonds	Deutsche	0.3%	$29
	Peridiem	0.3%	$28
Global Bank Loans	Shenkman Capital	0.8%	$79
Global Government Bonds	Goldman Sachs	2.3%	$231
Global High Yield Bonds	Oaktree	0.4%	$44
	Peridiem	0.2%	$24
	W.R. Huff	0.5%	$48
Global Mortgages	Stone Tower	0.3%	$35
Global Multi-Sector Bonds	Amundi	0.7%	$68
	Franklin Templeton	0.5%	$47
	PIMCO	1.4%	$143
	Peridiem	0.4%	$36
Global Non-Government Bonds	Rogge	1.4%	$137
	Wellington Management	1.4%	$141
Global Private Assets	MLC Global Private Markets	7.5%	$752
Global Property Securities	LaSalle	1.0%	$102
	Morgan Stanley	1.3%	$135
	Resolution Capital	1.5%	$147
Global Shares (unhedged)	Carnegie Asset Management	2.5%	$255
	Delaware Investment Advisers	2.2%	$221
	Dimensional	2.5%	$245
	Harding Loevner	3.2%	$321
	Mondrian	2.0%	$199
	Other	0.2%	$21
	Sands Capital	2.4%	$242
	Tweedy, Browne	2.4%	$241
	Walter Scott	3.0%	$302
Long-Term Absolute Return Strategy	LTAR Multi-Manager Approach	3.5%	$349
Low Correlation Strategy	Other	0.4%	$44
Multi-Asset Class Real Return Strategies	PYRFORD International LTD	0.5%	$48
	Ruffer	0.5%	$50
Other	Capital International	1.0%	$100
	Other	0.6%	$56
Total		**100.0%**	**$10,000**

Fund Snapshot

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Stock Holdings

Top Stocks for Fund as at 31 Dec 2012

The Top Stocks for Fund have a one month reporting delay.

Stock Description	Industry	Country	Percentage	Investment Amount
BHP BILLITON	Materials	Australia	3.3%	$328
COMMONWEALTH BANK OF AUSTRALIA	Financials	Australia	2.4%	$243
WESTPAC BANKING CORP	Financials	Australia	2.3%	$226
ANZ BANKING GROUP	Financials	Australia	1.8%	$182
NATIONAL AUSTRALIA BANK	Financials	Australia	1.6%	$159
TELSTRA CORP	Telecommunication Services	Australia	1.4%	$138
RIO TINTO	Materials	Australia	1.0%	$96
WESFARMERS	Consumer Staples	Australia	1.0%	$95
CSL	Health Care	Australia	0.9%	$85
WOOLWORTHS LTD	Consumer Staples	Australia	0.8%	$79

Performance

Historical Performance

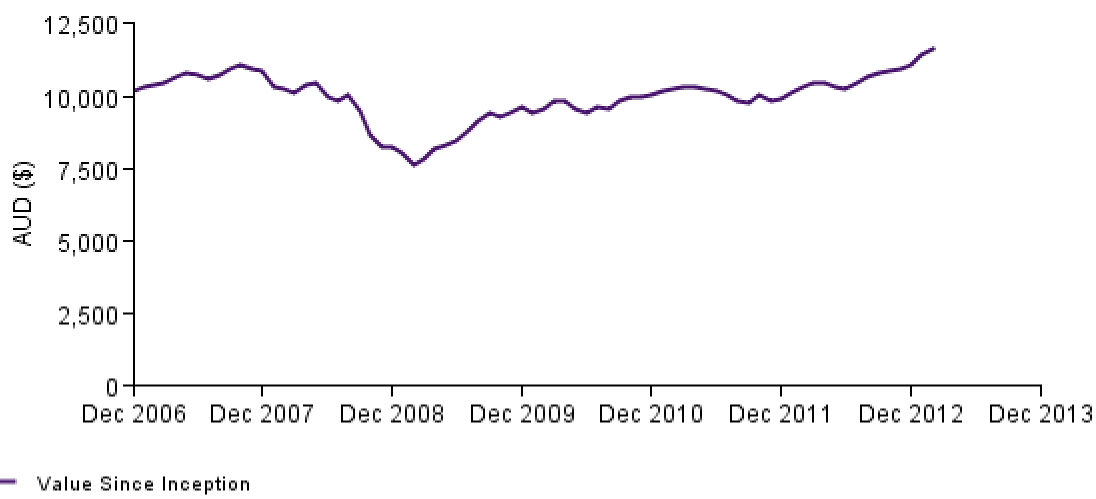
Absolute Fund Returns as at 28 Feb 2013

Returns for periods one year or greater are calculated on an annualised basis. All returns are calculated using end of month redemption prices assuming all distributions are reinvested and are net of management fees which include administration fees, issuer fees and investment fees and prior to tax considerations, and do not allow for initial entry fees.

The returns outlined above represent historical performance only and is not an indication of future performance. The value of an investment may rise or fall with changes in the market. Returns are calculated in accordance with FSC Standard No 6.

	3 month	6 month	1 Year	3 Years	5 Years	10 Years	Since Inception 4 Dec 2006
Fund Performance	6.6%	9.5%	13.1%	6.9%	2.6%	N/A	2.5%

Value Since Inception - MLC MasterKey Super Fundamentals



Fund Snapshot

MLC Horizon 4 - Balanced Portfolio

Commentaries

Fund Commentary

As at 31 January 2013

The portfolio produced a return of 5.6% (before fees and tax) over the quarter to 31 January 2013.

We actively manage our portfolios and work constantly to improve them. In September, we began to introduce a new Low Correlation Strategy in the portfolio. The strategy is a fund of hedge funds managed by MLCs Alternative Strategies Team. There are currently three managers in the strategy: Bridgewater, Nephila and Balestra Capital. In November we increased Bridgewaters allocation in the strategy to take advantage of a limited opportunity to invest in another one of their hedge funds.

In December we announced changes to the managers in our Australian shares strategy. We:

- appointed three new mangers: Alphinity, Antares Equities and Vinva
- retained current managers JCP, Northcape and Vanguard, and
- removed the other current managers of the strategy.

The strategy should make a more consistent contribution to the overall reliability of returns in the portfolio.

Asset class returns

The drivers of returns in each asset class are outlined below:

Fund Snapshot

MLC Horizon 4 - Balanced Portfolio

Asset Class	Target Allocation	Comment
Debt securities	30%	The strategy produced a return of 0.6% (before fees and tax) over the quarter. Bold moves by the policy makers and major central banks provided support for bond markets and underpinned the continuing strong returns in non-government bonds and non-investment grade bonds. Although an agreement reducing overall debt is yet to be reached in the US, stabilising house prices and a boom in low cost energy is having a positive impact on the overall economy. Rising risk appetite may reduce the demand for the safety of bonds. In Australia, data indicated that the economy is losing some growth momentum. In response, the Reserve Bank of Australia cut the official cash rate by a total of 0.5% to 3.0% during the quarter. The strategy outperformed its benchmark by 0.2% over the quarter. Most managers outperformed their market benchmark over the quarter. Key strategies that helped performance were overweight positions in non-government bonds both in Australia and overseas, and in non-investment grade bonds in the US. Australian inflation-linked bonds was the only bond sector to produce a negative return this quarter.
Global shares	22.5%	Investors continued to earn strong returns from global returns during the three months to the end of January. The global shares strategy (unhedged) returned 8.3% (before fees and tax), outperforming the benchmark by 0.5%. The hedged global shares strategy was even stronger because the Australian dollar rose over the quarter. The strategy returned 9.8% (before fees and tax), outperforming its benchmark by 0.1%. Good stock selection within Information Technology was a key driver of performance. Allocation to Utilities and Materials companies also helped. Holdings that contributed to returns during the quarter included Information Technology company Apple, global oil and gas company Exxon Mobil and Dutch electronics components maker ASML Holdings. Underweight exposure to cyclical sectors, such as Financials, detracted from returns to investors. All the managers in the strategy earned positive returns for the quarter. Dimensional and Sands Capital were the standout managers, due both to markets rising on higher growth expectations and good company selection. Mondrian underperformed the market, mainly due to a low allocation to the strong Financial sector and a fall in price of German pharmaceutical company Merck & Co.
Defensive global shares	1%	The defensive global shares strategy, managed by IVA, aims to preserve investors capital over the short term, while producing a return similar to the global share market over the medium term. The manager isnt limited to global shares, but can also invest in cash, bonds and gold. During the quarter ended 31 January 2013, the manager trimmed exposure to high quality companies after price increases, and re-allocated to cash and bonds. This transition increased the cash and bond exposure to approximately 40% of the strategy. The rest is invested in shares. The strategy produced a return of 5.3% (before fees and tax) over the quarter.
Global private assets (hedged)	6%	Global private assets produced a return of 2.3% (before fees and tax) over the quarter to 31 January 2013. This result was driven by investments across all strategies and regions. MLC has recently invested in three funds: • ABRY Senior Equity IV, a fund managed by ABRY Partners • NorthEdge I, a spinout from Lloyds that focuses on opportunities in the north of England, and • RRJ II, which focuses on Asian opportunities. We also made two recent co-investments: in Philadelphia Solutions, which owns a large US East Coast oil refinery, and with KKR Special Situations and Allegro in a portfolio of Australian debt positions. Private assets are unlisted and valuations are usually three to six months behind listed markets. That's why returns from private assets have been much lower than those from the strongly rallying share markets.
Multi-asset real return strategy	1%	The multi-asset real return strategy, managed by Ruffer and Pyrford, doesnt have common restrictions such as asset class limits, enabling the managers to build strategies that are well diversified and can cope with a range of risks. This asset allocation flexibility can provide more reliable returns and better preserve investors capital in difficult markets, an approach that fits well with the objectives of the portfolio. Both managers remain cautious in their outlook and positioning, with Pyrford in particular holding little hope the eurozone will continue in its current form. While Ruffer are also cautious, they are concerned that in time, quantitative easing policies implemented internationally will result in significant inflationary pressure. The strategy produced a return of 5.3% (before fees and tax) over the quarter.

Emerging markets strategy	1%	The emerging markets strategy, managed by Capital International, is a flexible multi-asset strategy in which the strategys manager can invest in bonds and shares. The strategy isnt limited to emerging market securities; it can also invest in companies that have significant exposure to emerging economies. The aim of the strategy is to produce attractive returns while limiting the volatility of those returns. Over the quarter to 31 January 2013, the strategy's exposure to shares increased to 50% (from 42% at the start of the quarter), with fixed income reducing to 45% (from 54%) and cash at 5%. Among share investments, the strategy continues to favour commodity and infrastructure-related stocks in China. Technology firms also feature prominently, as do selected banks that Capital International views as being well positioned to grow in underpenetrated markets. In fixed income, the strategy is focussing on local currency bonds, emphasising markets with healthy longer-term economic growth prospects, such as Turkey and Poland. While the manager believes inflation in the developing world should remain subdued on the whole, several markets remain vulnerable to inflationary pressures, especially in Latin America. The portfolio continues to emphasise inflation-linked bonds in several markets. The strategy produced a return of 5.9% (before fees and tax) over the quarter.
Australian shares	31%	The Australian share market continued to deliver pleasing returns in the quarter to 31 January. Over the quarter, the Australian shares strategy returned 9.0% (before fees and tax), which was in-line with the market benchmark. Holdings that contributed to returns this quarter included News Corporation, Rio Tinto, Downer EDI and Fairfax Media. The main sector positions in the strategy at the end of the quarter included underweight Financials, Consumer Staples, Materials and Utilities and overweight Consumer Discretionary, Energy and Information Technology.
Global property securities (hedged)	4%	The global property securities strategy produced a hedged return of 10.4% (before fees and tax) in the quarter to 31 January. This was 0.4% above the 10.0% return of the strategys market benchmark. Real estate investment trust (REIT) markets performed well in the quarter. Japans market surged upwards as investors favored property developers in response to the new Prime Ministers commitment to stimulate the economy through spending and monetary expansion. All other REIT market returns were positive, but considerably below Japans. Strong returns reflect the gradual recovery in property market conditions since the global financial crisis. The funds managers have observed that the operating environment for real estate remains positive in most markets.
Long-Term Absolute Return Strategy	3%	The strategy returned 5.6% (before fees and tax) in the quarter to 31 January. LTAR has significant exposure to non-traditional investments and strategies. These strategies help diversify the portfolio, providing a return stream that is expected to have low correlation with returns from core asset classes and a focus on absolute returns. This quarter, all the non-traditional strategies in the portfolio and the traditional asset classes delivered positive absolute returns. Key contributors to performance this quarter were: • global and Australian shares: returns from these share strategies ranged from 6.5% to 9.0% for the quarter (before fees and tax) • the emerging markets strategy, which returned 5.9% (before fees and tax), and • the multi-asset real return strategy, which returned 5.3% (before fees and tax).
Low Correlation Strategy	0.5%	The Low Correlation Strategy is a fund of hedge funds aiming to deliver returns that are mostly independent of share market performance. The managers in this strategy may invest outside traditional asset classes, and will manage their investments using an unconventional absolute return approach. Over the quarter, the strategy produced a positive return of 1.5% (before fees and tax). The strategys correlation with share markets continued to be low, and underlying strategies remained uncorrelated to one another.

Note:
- Please refer to the Market commentary for an overview of what happened in domestic and global markets over the quarter.
- Fund commentary for this fund will be updated two to three weeks after the end of the month

Market Commentary

As at 31 January 2013

Share market investors continued to enjoy very strong returns during the last three months. Australian shares have outperformed global markets in the quarter and over the 12 months. Fixed income investors have enjoyed solid performance over the past few years as lower bond yields have boosted returns. However, those returns have moderated more recently, as bond yields rose from their historic lows of 2012.

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Periods to end January 2013	3 mths	1yr	2yr	3yr	5yr	10yr
Cash	0.8	3.8	4.4	4.5	4.9	5.4
Australian bonds	0.0	7.3	8.9	7.8	8.0	6.3
Global investment grade bonds (hedged)	0.8	7.9	9.9	9.2	8.9	7.9
A-REITs	6.0	31.7	15.6	11.9	-4.7	2.9
Global REITs (hedged)	10.0	28.1	15.3	20.5	4.3	na
Australian shares	9.0	20.1	6.2	6.9	1.6	9.8
Global shares (hedged)	9.7	19.5	9.2	12.8	3.7	10.4
Global shares (unhedged)	7.8	17.7	3.5	4.7	-1.1	3.3
Emerging markets equities (unhedged)	7.1	10.0	-1.7	1.9	-0.8	10.5

Sources: Datastream, MLC Investment Management

Benchmark data include UBS Bank Bill Index (Cash), UBS Composite Index (Aust bonds) Barclays Global Aggregate hedged to A$ (Global bonds), S&P/ASX200 A-REIT Accumulation Index (A-REITs), MLC Global property strategy benchmark hedged to A$ (Global REITs), S&P/ASX200 Accumulation index (Aust shares, MLC global equity strategy benchmark (MSCI All Country Indices hedged and unhedged in A$) and MSCI Emerging Markets Index in A$ (Emerging Markets).

Listed real estate assets have enjoyed extraordinary gains over the past year. The higher yields that were offered on these securities proved extremely attractive to investors. However, the longer term returns from these assets are still disappointing, which reflects their extremely poor performance during the worst of the global financial crisis.

Over recent months, unhedged global share returns have again lagged those of hedged global shares. The strength of the Australian dollar in the last few years has resulted in hedged global shares outperforming unhedged global shares over all the time periods shown in the table. However, the difference in returns has narrowed, as the Australian dollars gains against the major currencies have abated.

Efforts by the worlds major central banks in particular, the US Federal Reserve, the European Central Bank and the Bank of Japan to inject liquidity into financial markets are having an ongoing and positive impact on market sentiment. In addition, world share prices have climbed and key surveys and other forward-looking economic data suggest the world economy is continuing to improve. That improvement has been seen in all major regions of the world including, perhaps surprisingly, the eurozone. Despite this improvement, much of the eurozone remains in recession. Economic conditions on the European periphery are still catastrophic.

The US has largely avoided the much-feared fiscal cliff, the automatic and massive tightening of fiscal policy that was due to take effect at the start of the year. The US private sector seemed to be gaining some momentum ahead of the fiscal cliff, despite an unexpected defence-led decline in overall US GDP in the final quarter of 2012. However, US budget developments remain a source of uncertainty for the US economic outlook. Planned spending cuts that are due to take effect over the coming months could also reduce US economic growth.

The improvement in the major economies does augur well for the prospects of the trade-dependent economies in the emerging world. In China, leading indicators are improving and the economy appears to be accelerating. A better global economy should support exports and domestic demand should respond to policy initiatives.

Stronger share markets and an improvement in global growth are welcome. Still, global growth continues to be hampered by high levels of private sector debt in a range of countries, and policy makers inability or unwillingness to stimulate growth (particularly, but far from exclusively, in Europe). Austerity measures in much of the eurozone and the UK designed to rein in fiscal deficits and stabilise public debt have achieved neither aim: tighter fiscal policy has tended to worsen economic conditions and further undermine public finances.

Australias economy slowed over the course of 2012, but still posted an internationally respectable 3.1% growth in output for the year to September. However, the boost to Australias national income from the boom in our terms of trade ended in 2012. While still historically high, Australias terms of trade has fallen by around 14% from its recent peak as prices for our key resource exports have declined. These declines, and the uncertain global environment, meant capital spending plans were wound back, particularly in the mining industry.

Concerns over Australias growth prospects and the uncertain global environment prompted the Reserve Bank of Australia (RBA) to reduce official interest rates on four occasions during the year, taking the cash rate to its global financial crisis low of 3%. Late in 2012, Treasurer Wayne Swan announced that the government was no longer committed to achieving a surplus in the current fiscal year. A surplus would have required further fiscal tightening, which could adversely affect growth in an already uncertain economic environment.

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MLC Horizon 4 - Balanced Portfolio

More recently, Australias economic data have tended to fall short of market expectations, adding to concerns about the durability of Australias growth. December quarter inflation data were also below forecasts, which may provide further scope for the RBA to reduce interest rates from their already extremely low levels.
