MLC Wholesale Inflation Plus - Moderate Portfolio

September 2019

Data updated to 30 September 2019

ARSN: 165 016 151 APIR code: MLC0920AU ASX mFund code: MLC02

Fund details

Inception date	1 October 2013	**Buy/sell spread**	0.05%/0.05%
Minimum initial investment	$20,000	**Management fee**	0.85%
Distribution frequency	the last Sunday of December and 30 June each year	**Estimated indirect costs**	0.16%

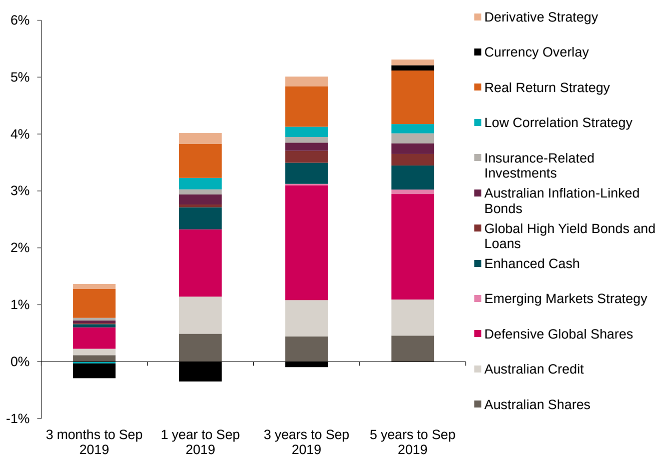
Performance

Period ended	1 month %	3 months %	1 year %	3 years %pa	5 years %pa	Since inception on 1 Oct 2013 %pa
Net[1]	0.4	0.9	2.6	4.0	4.4	5.0
CPI[3]	0.2	0.6	1.8	1.8	1.7	1.8

Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target described in this document.
[1]Net returns are calculated after deducting management fees and assume reinvestment of all distributions.
[3]The measure of inflation is the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics. A proxy CPI value has been calculated for the most recent quarter as the official number was not available at the time of publication.

Contributors to returns

How much each asset class contributed to the portfolio's return is shown below. Returns for periods longer than one year are annualised (% pa).



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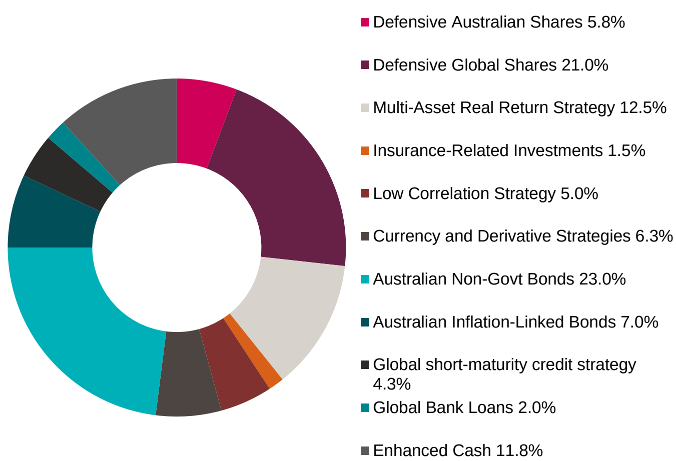
The returns shown in the graph are before deducting management fees.

Asset allocation



Performance relative to its objective

The portfolio's objective:

The portfolio's objective is to deliver a return of 3.5% pa above inflation (after management costs) over 5 year periods. Generating returns above inflation requires the portfolio to invest at least partly in risk assets such as shares. As a result there will be times when the portfolio doesn't deliver its return objective, and the portfolio may fall in value. However, we aim for the portfolio to have less than a 15% chance of a negative return over a 5 year period. To control the risk of negative returns we flexibly adjust the portfolio's asset allocation, investing in a combination of assets that provide an attractive potential return for the risk taken.

Over the 5 years to 30 September 2019 the portfolio has underperformed its objective due to our defensive positioning, producing a return of 4.4% pa (after management costs) which was 2.8% above inflation. We've defensively positioned the portfolio to control exposure to risk as outlined below.

Portfolio positioning

We have believed for some time that, where possible, it's appropriate to defensively position the portfolio. Given the unpredictable investment environment, risk management remains uppermost in our mind.

Our defensive positioning has been achieved in a number of ways, including:

• **Exposure to cash.** Cash provides a robust defensive allocation in an environment where most asset classes are expensive relative to their risks. Cash also provides optionality to swiftly adjust exposures to other asset classes. However, lower cash rates erode the positive aspects of this exposure and we've therefore reduced allocations

• **Foreign currency exposure** for diversification as global shares and the AUD tend to move in the same direction. Exposures continue to be reduced as the AUD:USD has declined under 70 cents. The exposure is also partially protected (using options) from a significant rise in the AUD

• **High exposure to non-benchmark aware strategies** (eg real return strategies) to assist in achieving the portfolio's real return objective by limiting the risk of negative returns

• **Defensive orientation of shares** exposures skews the pattern of returns from shares – participation in rising markets is reduced in favour of lower risk of negative returns

• **Interest rate risk limited** through no direct allocation to long-maturity traditional bonds

• **Tailored short-maturity Australian inflation-linked bonds** exposure to protect against rising inflation and interest rate risk

• **Global short-maturity credit strategy** introduced to add diversity and return enhancement with an acceptable level of risk

• **Derivatives strategies** provide flexibility to efficiently manage both specific risk (eg options to protect against large rises in the AUD:USD) and broad exposures (eg access to emerging markets shares through futures). Through our investments in derivatives we're able to tailor attractive exposures, and reduce (or hedge out) unattractive exposures

Over the last 3 months we've made the following changes to the portfolio:

· Increased exposure to gold as it helps protect the portfolio against a range of shocks and inflationary scenarios. We have exposure to gold through futures.

· Risks in the high yield bank loan market have become too concentrated so we've replaced with a more diversified exposure of floating rate high yield bonds and loans. We also appointed Oaktree Capital Management, L.P. (Oaktree) to manage part of our global high yield bonds and loans allocation. Oaktree's portfolio gives us access to a greater diversity of investments (eg countries and securities). This will help improve the return potential of our fixed income strategies without a material change to their risk profile. Prior to Oaktree's appointment, our high yield strategies were concentrated mainly in high yield loans in the United States.

· The change in central bank rhetoric and negative real cash rates has led to an improvement in the return potential for global credit so we've further increased exposure to the global short maturity credit strategy.

Further information

Additional information on performance, asset allocations and portfolio positioning is available on our **Fund Profile Tool** at **mlcam.com.au/MLCWholesale**