

# Investor Q&A

## Brexit Fallout

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### Why does BREXIT affect Australia?

While the volatility of investment markets has been high for the past year, “Brexit” has heightened the volatility because it has increased the complexity and uncertainty facing global markets. We expect market and currency volatility to be high over the coming days, weeks and possibly months.

Assuming it goes ahead, there will be winners and losers from the Brexit and the market will take time to understand the true impact.

While there may be no direct impact on Australia's economy from Britain's decision, regrettably this is a negative shock to the economic and market environment which has the potential to spread across Europe and impact global confidence and growth.

### What is MLC doing?

We, and our investment managers, are closely monitoring the evolving situation, assessing evolving risks and building understanding of the potential scenarios (good and bad) which may play out.

The scenario played out across the world on Friday is aligned with our **Extended Risk Aversion** scenario. While this is a negative scenario, our portfolios had a defensive position well before the Brexit vote. While we may not be able to avoid negative returns, particularly over short periods of time, the following positions should be helping reduce the impact of market weakness:

- Higher allocations to cash than normal, from both our asset allocation decisions and some of our investment managers not being fully invested because they have been unable to find attractive assets.
- MLC Inflation Plus portfolios have relatively low allocations to shares, while MLC Horizon portfolios have reduced allocations over the past year.
- Key elements of the MLC Inflation Plus portfolios, notably the low correlation and multi-asset real return strategies have fared particularly well; our defensive global shares allocation has also increased portfolio robustness. MLC Horizon portfolios' higher allocations to the real return strategies (ie Inflation Plus strategies) in turn provided them greater robustness.
- Increased exposure to the Australian dollar (AUD) since the beginning of 2016. However our remaining foreign currency exposures, which are defensive in many risky scenarios, are not so in the current scenario. Notably the AUD is exhibiting some renewed safe haven characteristics.

### **Does MLC hold any investments in Europe?**

Yes, most of the global equities strategies are overweight UK and Europe and underweight North America and Japan. Most of our UK and European holdings are of large multinational firms that get most of their revenue from outside these two areas. Overall we are comfortable with our managers stock selection, but currency movements may adversely impact portfolio returns.

### **Did MLC anticipate the recent volatility?**

We have been cautious for some time because central bank policies rather than economics have been the main driver of market returns for some time. As a result, the potential reward for taking on risk has been unattractive and the global environment has been particularly uncertain. Our focus has been on managing risk and searching for ways to help insulate client portfolios from significant negative returns. As a result, our multi-asset portfolios have been "defensively" positioned by including strategies that aim to maximise diversification and control and reducing exposure to shares.

### **Where to from here?**

We will continue to make sure our multi-asset portfolios are appropriately positioned to respond to the uncertainties that remain in global markets.

While we are comfortable with the performance of our portfolios over longer periods, we are not complacent about the future challenges. After this British referendum there is greater complexity, uncertainty and risk. The important thing is not to predict what will happen but to understand the consequences of what could unfold. If we do that thoroughly we are then in a position to understand how to best build protection into our portfolios against the key risks.

We will maintain our risk discipline even if this requires some patience before return expectations are met.

### **I'm retired or close to retirement, what should I do?**

While history has shown us the share market does bounce back, it's not always easy to ignore what's happening to your investments when there is so much negative news and markets are volatile. If possible, you should continue to focus on how you are progressing towards your longer-term goals. However, if the recent market volatility has unsettled you to the point where you would prefer to reduce your exposure to riskier assets or protect some or all of your capital, there are some solutions available. For example, the MLC Inflation Plus portfolios have a strong focus on risk management and are designed to limit significant negative returns. Our range of MLC Horizon portfolios are designed to meet a broad spectrum of risk appetites. And, we also offer strategies that aim to protect capital and income.

### Should I be moving my investments to cash?

Throughout history there have been numerous examples of share market downturns which have prompted investors into making hasty decisions.

If you're thinking about moving some of your investments into lower risk investments like cash, you should be aware that should the share market recover, only the portion of your portfolio that remains invested in growth assets like shares, will benefit.

### Are there still investment opportunities now?

For investors with a medium to longer term investment horizon, these volatile conditions most certainly provide attractive investment opportunities as prices can be lower than before.

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