

Investment Q&A

Changes to Australian shares strategy in our MLC Inflation Plus portfolios

November 2016

Which funds are affected?

These changes affect the MLC Inflation Plus portfolios.¹

The MLC Horizon portfolios have an indirect allocation to the new strategy through their investment in the MLC Inflation Plus strategies.

What are the changes?

- Adding a defensive Australian shares strategy managed by MLC.
- Reducing the allocations to cash and existing Australian shares managers.

Why is MLC making these changes?

We've developed the defensive Australian shares strategy because we actively manage our portfolios and work constantly to improve them.

The MLC Inflation Plus portfolios target returns above inflation. We aim to achieve this by carefully managing risk, with a particular focus on limiting the risk of significant negative returns.

In the current investment environment, it's challenging to find asset classes that can offer strong potential returns without unacceptably increasing the portfolio's risk of negative returns. Our new strategy aims to increase our exposure to Australian shares – and benefit from the potential returns from this asset class – while carefully controlling the risk of these assets.

How may investors benefit?

We expect the potential benefits of this change to include:

- higher returns above inflation over the long term (due to the increased overall allocation to Australian shares), and
- by investing in the defensive Australian shares strategy rather than our other Australian shares managers we have greater ability to limit potential loss of investors' capital in volatile markets.

What is the new strategy?

The defensive Australian shares strategy is managed by our Capital Markets Research (CMR) team. It's an extension of the team's existing skills and process for managing our multi-asset portfolios.

Our scenarios-based Investment Futures Framework is key to the investment process for our multi-asset portfolios. In an unpredictable and constantly changing world, the Investment Futures Framework helps us continually identify the very wide range of economic and market conditions, or 'scenarios', that could occur.

It then helps us analyse how these scenarios could affect the portfolios. For example, what would happen to your investment if economic growth in China was to slow significantly? Our investment experts use the insights from this analysis to adjust the portfolios. They change the asset allocation to control potential risks and capture return opportunities. This means the portfolios are better positioned for a range of possible future environments.

¹ All funds affected by these changes are listed in the 'Important information' section at the end of this document.



In our new strategy, we apply these scenario insights to our Australian shares exposures. We believe that creating this strong alignment between our asset allocation insights and decisions about Australian shares industry sectors and stocks will help us achieve the above-inflation objectives of our Inflation Plus portfolios.

How will the strategy's returns compare with market returns?

We've been managing and evolving the strategy since 2012. Over that time it has delivered higher returns than the share market when the share market is falling and lower returns when the market is rising. This is the role we expect it to play in the MLC Inflation Plus portfolios.

We also expect the strategy to deliver a smoother, less volatile pattern of returns than the market because the strategy is less exposed to stocks that are likely to suffer large losses. This is because the defensive Australian shares strategy, like the MLC Inflation Plus portfolios, isn't tied to an Australian share market benchmark. So we can reduce or remove exposure to industry sectors in the Australian share market that we think have too much risk.

A good example is the 'Big Four' banks, which make up nearly 30% of the Australian share market. For some time we didn't include banks in the strategy, as we felt their valuations didn't reflect their risks. This is a very different approach to an Australian shares manager whose performance is measured against the share market benchmark – they are often forced to include substantial allocations to banks due to their dominant position in the benchmark, regardless of the manager's view of the risk.

Will fees change?

There are no changes to fees from this strategy change.

How can you find out more?

Please speak to your financial adviser or contact MLC.

The latest manager allocations for your investments are available on the Fund Profile Tool on www.mlc.com.au/fundprofiletool

The [Fund Profile Tool](#) is updated monthly with asset allocations, performance and fund commentary.

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The funds affected by these changes

The following funds are affected by the changes to the Australian share strategy in the MLC Inflation Plus portfolios. These funds are offered through MLC's platforms and MLC Wholesale, in addition to some external platforms.

MLC Inflation Plus Conservative Portfolio	MLC Wholesale Inflation Plus Conservative Portfolio
MLC Inflation Plus Moderate Portfolio	MLC Wholesale Inflation Plus Moderate Portfolio
MLC Inflation Plus Assertive Portfolio	MLC Wholesale Inflation Plus Assertive Portfolio



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