

MLC Wholesale Inflation Plus - Assertive Portfolio

Monthly Report - October 2018

Data updated to 31 October 2018

ARSN: 117 295 315 APIR code: MLC0667AU ASX mFund code: MLC03

Fund details

Inception date	5 December 2005	Buy/sell spread	0.10%/0.05%
Minimum initial investment	\$20,000	Management fee	1.10%
Distribution frequency	30 June each year	Estimated indirect costs	0.12%

Performance

Period ended	1 month %	3 months %	1 year %	3 years %pa	5 years %pa	7 years %pa	10 years %pa	Since inception on 5 Dec 2005 %pa
Net¹	-3.0	-1.5	2.6	3.4	6.6	8.9	8.9	5.9
Gross²	-2.2	-0.5	4.1	4.9	8.0	10.4	10.3	7.5
CPI³	0.1	0.4	1.8	1.7	1.7	1.9	2.1	2.4

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.

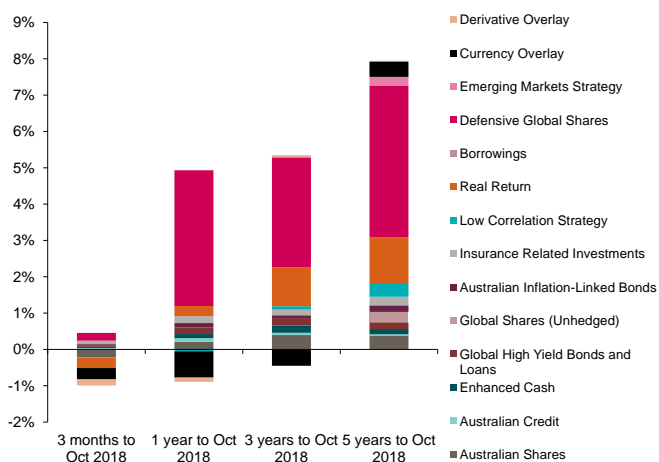
¹Net returns are calculated after deducting management fees and assume reinvestment of all distributions.

²Gross returns are provided as the portfolio's stated objective is to outperform before fees are deducted.

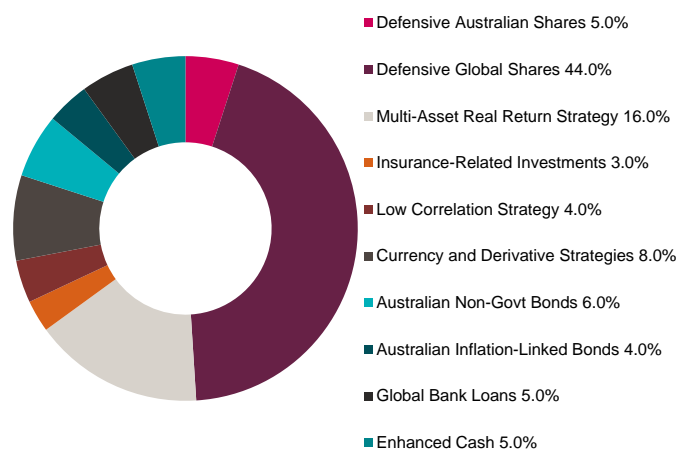
³The measure of inflation is the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics. A proxy CPI value has been calculated for the most recent quarter as the official number was not available at the time of publication.

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).



Asset allocation



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

Performance relative to its objective

The portfolio's objective:

Aims to deliver a return of 6% pa above inflation, before fees, over 7 year periods by limiting the risk of negative returns over this time frame.

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 7 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.

The portfolio has achieved its objective over the 7 years to 31 October 2018, producing a positive return of 10.4% pa (before fees), which was 8.5% above inflation. We've defensively positioned the portfolio to control exposure to risk as outlined below.

Portfolio positioning

Markets recovered strongly after February's falls and they've fallen again in October. There are a number of factors causing the recent volatility, including:

- concern that markets will suffer from central banks tightening financial conditions
- uncertainty on the outlook for global economic growth created by President Trump's trade war, and
- credit growth is also showing signs of weakness.

When we look back over longer periods we can observe strong return environments are followed by periods of market falls. Due to our defensive positioning of the portfolio, it's during these periods of market weakness that we'd expect the portfolio to deliver robust returns relative to a traditionally managed diversified portfolio.

Just because share markets have been weakened recently doesn't mean a scenario of interest rates staying 'lower for longer' and share markets rising strongly might not persist for a long time yet. That is a possibility, but it's only one scenario we need to take into account. The challenge is to work out what the right trade-off is between reducing the risk of a portfolio generating capital losses and harvesting returns now.

A fundamental question underlying all this is whether interest rates (and bond yields) will remain permanently lower, or at least where they are, for a lot longer. We can't know when a major change will

occur. But we do know that the return consequences are potentially dramatic and can't be ignored when making decisions about where to invest the portfolio.

Regime changes are a dangerous moment for markets for this is precisely when yesterday ceases to be a good predictor of tomorrow. The profound complication of regime change for investors is that the moment of change is only ever clear in hindsight. This, in turn, means that we can never be sure of what the current regime is, let alone the regime that will exist in the future.

Perceptions that the current 'lower for longer' regime for interest rates and bond yields, needs to be challenged. Indeed the sharp rise in bond yields in February was a clear warning to investors that a bear market in bonds has a far-reaching negative impact on other asset valuations.

Ultimately there is only one future that will play out. After the event, this will seem inevitable. But in reality there are many futures or alternative histories that could have occurred. This is the inconvenient reality that we must pay attention to. Predictions are seductive and cast an impression of wisdom. But predictions are dangerous when prior beliefs turn out to be founded on limited insight.

We believe that long-term client outcomes are best served when our investment decisions closely align what we actually know and what we believe we know. This means there will be times when our positioning seems to run counter to what might seem obvious. We may appear to give up returns because we're not heavily invested in high risk assets when they're rising strongly. However, we firmly believe that avoiding fads and maintaining risk discipline is the best way to achieve reliable long-term outcomes for our clients.

Further information

Additional information on performance, asset allocations and portfolio positioning is available on our Fund Profile Tool at www.mlcinvestmenttrust.com.au

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