

**MLC Alternative Beta Strategy Trust**  
**(Formerly known as JANA Alternative Beta Strategy Trust)**  
**Financial Report**  
**For the year ended 30 June 2018**

	Page
Contents	
Directors' report	1
Statement of Profit or Loss and Other Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Net Assets Attributable to Unitholders	5
Statement of Cash Flows	6
Notes to the financial statements	7
Directors' declaration	8
Independent Auditor's report	20
	21

## Directors' report

The Directors of MLC Investments Limited, the Trustee of MLC Alternative Beta Strategy Trust (the 'Scheme'), present their report together with the financial report of the Scheme for the year ended 30 June 2018 and the independent audit report thereon.

## Directors of the Trustee

The names of the persons who were Directors of MLC Investments Limited at any time during the financial year were as follows:

Name	Appointment / Resignation Date
J G Duffield	Appointed 24 August 2011
P Gupta	Appointed 1 September 2012
C M Keating	Appointed 5 December 2016
G J Mulcahy	Appointed 7 July 2014
K A Watt	Appointed 5 December 2016

The registered office of MLC Investments Limited is located at Ground Floor, MLC Building, 105-153 Miller Street, North Sydney NSW 2060.

## Principal activities

The Scheme is an unlisted unregistered managed investment scheme domiciled in Australia and is open to wholesale investors only.

The Scheme invests and transacts in a range of hedge funds, alternative strategies, securities, indices, and cash, and may utilise derivatives to achieve its investment strategy in accordance with the provisions of its Constitution.

The Scheme did not have any employees during the year (2017: Nil).

There have been no significant changes to the activities of the Scheme during the year.

The Scheme is a for profit entity for the purpose of preparing financial statements.

## Results and results

The result of the operations of the Scheme is disclosed in the Statement of Profit or Loss and Other Comprehensive Income. The result is affected by the performance of the markets to which the Scheme has exposure.

For details in relation to the Scheme's investment exposure and strategy, information can be obtained from the Information Memorandum ('IM') located on JANA's website at [jana.com.au](http://jana.com.au).

## Distributions

The distributions for the year ended 30 June 2018 were as follows:

	\$'000	c/unit
Class A	7,146	0.45
Class B	106	0.22

## Units on issue

Units on issue as at year end and movements during the year are shown in Statement of Changes in Net Assets Attributable to Unitholders.

The total assets of the Scheme are set out in the Statement of Financial Position. The basis for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

### State of affairs

On 1 August 2017 the Scheme established a new investor class, MLC Alternative Beta Strategy Trust - Class B.

On the 5 May 2016, the Attribution Based Investment Trust ('AMIT') regime, applying to Managed Investment Trusts was enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. With its introduction, the Trustee has amended the Scheme's Constitutions to allow the Scheme to operate as an AMIT. By 29 June 2018, the Trustee has sent notice to unitholders on the Scheme's intention to elect into the AMIT regime for the financial year ended 30 June 2018 (and for subsequent financial years). As of 30 June 2018, the Scheme meets the other conditions to adopt the AMIT tax regime, however, multi-class schemes have units that are equally subordinate but they do not have identical feature, and in accordance with the requirements of AASB 132 *Financial Instruments: Presentation* relating to puttable instruments, the units in the Scheme remain as a financial liability on 30 June 2018.

In the opinion of the Trustee, there were no other significant changes in the state of affairs of the Scheme that occurred during the year.

### Likely developments

The investment strategy of the Scheme will be maintained in accordance with the Scheme's Constitution and investment objectives.

Further information about likely developments in the operations of the Scheme and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Scheme.

### Auditor's independence

The Directors received a declaration of independence from the auditor of the Scheme, a copy of which is attached to the Directors' report on page 4.

### Events subsequent to the balance date

There has not arisen in the interval between the year end and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Trustee, to significantly affect the operations of the Scheme, the result of those operations, or the state of affairs of the Scheme, in future financial years.

### Interests of the Trustee

Units held by MLC Investments Limited and its related parties in the Scheme during the financial year ended 30 June 2018 are detailed in Note 8(g) to the financial statements.

Fees paid to the Trustee during the financial year ended 30 June 2018 are detailed in Note 8(e) to the financial statements.

### Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Indemnities and insurance premiums for Officers or Auditors

#### *Indemnities*

The Scheme has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer of the Trustee or an auditor of the Scheme during the year.

#### *Insurance premiums*

During the year, the ultimate parent company of the Trustee, National Australia Bank Limited, has paid, or agreed to pay, premiums in respect of its officers for liability, legal expenses, insurance contracts, and premiums in respect of such insurance contracts, for the financial period ended 30 June 2018. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been the officers of the Trustee.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

**Rounding**

Amounts in the financial report and the Directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

**Comparative information**

The comparative information encompasses the period from 31 August 2016 to 30 June 2017.

Signed in accordance with a resolution of the Directors of MLC Investments Limited:

Director: CLAIRE KEATING

Signature: 

Dated at Sydney this 6th day of December 2018

**MLC Alternative Beta Strategy Trust**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 30 June 2018**

		For the period 31 August 2016 to 30 June	
	Notes	2018 \$'000	2017 \$'000
<b>Investment income</b>			
Interest income	2	4,974	2,986
Changes in the fair value of financial assets and liabilities at fair value through profit or loss	11	(37,199)	13,011
Swap loss		(135)	-
<b>Total investment (loss)/income</b>		<b>(32,360)</b>	<b>15,997</b>
<b>Expenses</b>			
Management fees		2,144	1,072
Investment management fees		1,168	458
Transaction costs		8	12
Other expenses		1	4
<b>Total operating expenses</b>		<b>3,321</b>	<b>1,546</b>
<b>Net operating (loss)/income</b>		<b>(35,681)</b>	<b>14,451</b>
<b>Financing costs</b>			
Distributions	4	7,252	7,330
<b>Net (loss)/profit</b>		<b>(42,933)</b>	<b>7,121</b>
Other comprehensive income		-	-
<b>Change in net assets attributable to unitholders</b>		<b>(42,933)</b>	<b>7,121</b>

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

**MLC Alternative Beta Strategy Trust**  
**Statement of Financial Position**  
**As at 30 June 2018**

	<b>Notes</b>	<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
Cash and cash equivalents	10(b)	<b>400,591</b>	21,849
Receivables	6	<b>527</b>	580
Financial assets designated at fair value through profit or loss	5	<b>1,248,981</b>	854,620
Financial assets held for trading	9(c)	<u>-</u>	<u>201</u>
<b>Total assets</b>		<b><u>1,650,099</u></b>	<b><u>877,250</u></b>
<b>Liabilities</b>			
Payables	7	<b>199</b>	199
Financial liabilities held for trading	9(c)	<b>543</b>	-
Distribution payable	4	<u>7,252</u>	<u>7,330</u>
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b><u>7,994</u></b>	<b><u>7,529</u></b>
<b>Net assets attributable to unitholders - Liability</b>		<b><u>1,642,105</u></b>	<b><u>869,721</u></b>

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

**MLC Alternative Beta Strategy Trust**  
**Statement of Changes in Net Assets Attributable to Unitholders**  
**For the year ended 30 June 2018**

---

	Class A		Class B	
	\$'000	Number of Units No. '000	\$'000	Number of Units No. '000
<b>Net assets attributable to unitholders</b>				
<b>Balance at 30 June 2016</b>	-	-	-	-
Applications	862,600	860,114	-	-
Change in net assets attributable to unitholders	<u>7,121</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at 30 June 2017</b>	869,721	860,114	-	-
Applications	<b>767,577</b>	<b>744,567</b>	<b>47,740</b>	<b>47,594</b>
Change in net assets attributable to unitholders	<u>(41,692)</u>	<u>-</u>	<u>(1,241)</u>	<u>-</u>
<b>Balance at 30 June 2018</b>	<b><u>1,595,606</u></b>	<b><u>1,604,681</u></b>	<b><u>46,499</u></b>	<b><u>47,594</u></b>

The above Statement of Changes in Net Assets Attributable to Unitholders is to be read in conjunction with the accompanying notes.



**MLC Alternative Beta Strategy Trust**  
**Statement of Cash Flows**  
**For the year ended 30 June 2018**

		For the period 31 August 2016 to 30 June	
	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Interest received		4,892	2,406
Management fees paid		(2,144)	(1,072)
Investment management fees paid		(1,168)	(259)
Interest paid		-	(1)
Transaction costs paid		(8)	(12)
Payment of other expenses		(1)	(3)
<b>Net cash provided by operating activities</b>	10(a)	<b>1,571</b>	1,059
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		1,231,252	997,293
Purchases of investments		(1,662,103)	(1,839,103)
<b>Net cash used in investing activities</b>		<b>(430,851)</b>	(841,810)
<b>Cash flows from financing activities</b>			
Applications received		807,987	862,600
<b>Net cash provided by financing activities</b>		<b>807,987</b>	862,600
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year.		21,849	-
Effect of exchange rate changes on the balances of foreign currencies		35	-
<b>Cash and cash equivalents at the end of the year</b>	10(b)	<b>400,591</b>	21,849

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report of the Scheme for the financial year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors of the Trustee on 6 September 2018.

The fund changed its name on 8 March 2018 from JANA Alternative Beta Strategy Trust to MLC Alternative Beta Strategy Trust.

On 5 May 2016, the Attribution Managed Investment Trust ('AMIT') regime, applying to Managed Investment Trusts was enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. With its introduction, the Trustee has amended the Scheme's Constitution to allow the Scheme to operate as an AMIT. By 29 June 2018, the Trustee has sent notice to unitholders on the Scheme's intention to elect into the AMIT regime for the financial year ended 30 June 2018 (and for subsequent financial years). As of 30 June 2018, the Scheme meets the other conditions to adopt the AMIT tax regime, however, multi-class schemes have units that are equally subordinate but they do not have identical features, and in accordance with the requirements of AASB 132 - Financial Instruments: Presentation relating to puttable instruments, the units in the Scheme remain as a financial liability on 30 June 2018.

### (a) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ('IASB').

### (b) Basis of preparation

The Scheme's financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on the basis of historical costs, except for financial assets and financial liabilities designated at fair value through profit or loss and held for trading, that have been measured at fair value.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are designated current assets and liabilities, as they are expected to be recovered or settled within twelve months. Financial assets and liabilities designated at fair value through profit or loss and net assets attributable to unitholders are expected to be settled upon contractual requirements.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

The financial statements are presented in Australian Dollars, and all values are rounded to the nearest thousand dollars except where otherwise indicated.

### (c) Basis of consolidation

The Scheme is an investment entity under the definition in AASB 10 *Consolidated Financial Statements* and, as such, does not consolidate any entities subject to its control. Instead, interests in controlled entities are classified at fair value through profit or loss, and measured at fair value. The Scheme does not hold a controlling interest in any of its underlying investments and therefore is not required to provide additional disclosures.

### (d) Unit prices

The unit price for the units of the Scheme is calculated as at the last day of the month for applications and the last day of a relevant quarter for redemptions or any other day deemed appropriate by the Trustee.

### (e) Terms and conditions on units

Each unit issued confers upon the unitholders of the Scheme an equal interest in the Scheme, and is of equal value within the same class. A unit does not confer any interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution, including the right to:

- (i) have their units redeemed;
- (ii) accumulate income, which is reflected in the unit price;
- (iii) attend and vote at meetings of unitholders; and
- (iv) participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to any unit of the Scheme are identical in all respects.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Financial assets and liabilities designated at fair value through profit or loss**

The Scheme has classified all of its investments as designated at fair value through profit or loss except for derivatives which are held for trading for investment and/or risk management purposes. Securities designated at fair value through profit or loss are initially recognised at fair value.

Investments are valued at their fair value as at reporting date. Gains and losses arising from changes in the fair value of the financial assets designated at fair value through profit or loss are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

**(g) Financial assets and liabilities held for trading**

Derivative financial instruments are categorised for accounting purposes as held for trading, as the Scheme does not designate any derivatives as hedges in a hedging relationship. Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value with movements taken to the Statement of Profit or Loss and Other Comprehensive Income. Fair values are obtained from quoted market prices in active markets and valuation techniques, including discounted cash flow models and option pricing models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial assets and liabilities held for trading are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

*Future Contracts*

Futures contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price established on an organised market. The futures contracts are collateralised by cash and cash equivalents or by other assets ('initial margin'). Subsequent payments, known as 'variation margin', are made or received by the Scheme each day, depending on the daily fluctuations in the fair value of the underlying security. The futures contracts are marked to market daily.

*Credit Default Swaps*

A credit default swap is a financial agreement between two parties which allows the transfer of third party credit risk. The buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security. A credit default swap is considered insurance against non-payment.

**(h) Fair value measurement**

All assets and liabilities measured at fair value in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety as detailed below:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

**(i) Significant accounting judgements, estimates, or assumptions**

The Scheme may make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements.

*Estimates and assumptions*

Estimates are continually evaluated and based on historical experience, available information and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Fair value of financial assets and liabilities designated at fair value through profit or loss*

Fair value is the price that would be received from disposing of an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Scheme measures investments in financial assets and financial liabilities designated at fair value through profit or loss. Management applies judgement in selecting valuation techniques where there is no market price available for an instrument. Further details on the determination of fair values of financial instruments are set out in Note 9(g).

*Fair value of financial assets and liabilities held for trading*

The Scheme has assessed the impact of credit value adjustment to its derivative positions to comply with the requirements of AASB 13 *Fair Value Measurement*, and concluded that there are no adjustments to the valuation of derivatives.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Significant accounting judgements, estimates, or assumptions (continued)**

*Judgements*

The Scheme meets the definition of an investment entity within AASB 10 *Consolidated Financial Statements* and therefore is required to measure its interest in controlled entities at fair value through profit or loss. The criteria which define an investment entity are as follows:

- (a) An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- (b) An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- (c) An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

**(j) Cash and cash equivalents**

Cash and cash equivalents in the Statement of Financial Position comprise of cash at bank, term deposits and futures margin.

**(k) Receivables**

Receivables may include amounts for interest, distributions, outstanding settlements and other income and are measured initially at fair value plus transaction costs. Amounts are generally received within 12 months of being recorded as receivable.

**(l) Payables**

Payables include outstanding settlements and accrued expenses owing by the Scheme which are unpaid as at balance date. They are measured initially at fair value plus transaction costs.

**(m) Foreign currency transactions**

Transactions during the year denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and monetary items held, together with any accrued income, are translated at the exchange rate prevailing at year end.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the Statement of Profit or Loss and Other Comprehensive Income as part of the 'Changes in the fair value of financial assets and liabilities at fair value through profit or loss'.

**(n) Income and expenses**

Revenue is brought to account on an accrual basis except where otherwise stated.

Distribution income from unlisted investment schemes is recognised on the date the trust units are quoted ex distribution. Income from unlisted partnerships and unlisted equities are recognised when distributions or dividends are declared.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the year).

Expenses are brought to account on an accrual basis.

The Trustee is entitled to receive management fees for the provision of management services to the Scheme. The Trustee is entitled to be reimbursed, under the Scheme's Constitution, for certain expenses incurred in administering the Scheme. The fees paid/payable to the Trustee are shown in Note 8(e).

Investment management fees also include fees paid to underlying investment management for managing the investments of the Scheme and are recognised on an accruals basis.

Other expenses include government duties and bank interest expense.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Taxation**

The Scheme has elected to have the new taxation regime (AMIT) for the taxation of managed investment schemes apply for the 2018 tax year and later years of income. The Scheme is not subject to income tax as the taxable income (including assessable realised net capital gains) is fully attributed to the unitholders each year. Unitholders are taxed on the income attributed to them.

The unit price is based upon fair values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed.

Net realised capital losses are not distributed to unitholders, but are retained to be offset against any future realised capital gains. Where realised assessable capital gains exceed realised capital losses, the excess is distributed to unitholders as assessable income for taxation purposes.

**(p) Distributions to unitholders**

The income of the Scheme is accumulated and reinvested or paid to unitholders on an annual basis effective the last day of June. It may also be calculated on other dates as determined by the Trustee. All income distributions are reinvested.

Distributable income does not include unrealised gains and losses arising on movements in the fair value of investments; as such, unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised.

Distributions are expressed as cents per unit for the distribution period.

**(q) Goods and services tax**

Investment management fees and other expenses are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office ('ATO') as a reduced input tax credit ('RITC').

Creditors and accruals are stated with the amounts of GST included.

The net amount of GST recoverable from the ATO is included in payables in the Statement of Financial Position.

**(r) Derecognition of financial instruments**

The derecognition of financial instruments takes place when the Scheme no longer controls the contractual rights of a financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

**(s) Capital management**

The Trustee manages its net assets attributable to unitholders as capital. As of 30 June 2018, the Scheme meets the conditions required to adopt the AMIT tax regime, however, multi-class schemes have units that are equally subordinate but they do not have identical features, therefore the units in the Scheme are classified as a financial liability on 30 June 2018 in accordance with the requirements of AASB 132 *Financial Instruments: Presentation* relating to puttable instruments.

The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Trustee monitors the level of daily applications and redemptions relative to the liquid assets in the Scheme.

In order to maintain or adjust the capital structure, the Trustee may return capital to unitholders. The Scheme does not have any externally imposed capital requirements.

**(t) Net assets attributable to unitholders**

Units are redeemable at the unitholders' option and do not require mandatory cash distributions as a result of entering the AMIT regime. As the Scheme is multi-class the units are equally subordinate however, they do not have identical features and the units therefore continue to be classified as a liability in accordance with the requirements of AASB 132 *Financial Instruments: Presentation* relating to puttable instruments.

The units can be put back to the Scheme at any time for cash based on the redemption price. The fair value of redeemable units is measured at the amount that is payable (based on the redemption unit price) at the end of the financial year, if unitholders exercised their right to put the units back to the Scheme.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Application of accounting standards**

**Australian Accounting Standards issued but not yet effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the annual reporting period ended 30 June 2018. The impact of these standards and interpretations has been assessed, to the extent applicable to the Scheme and are discussed below.

***AASB 9 Financial Instruments***

This standard makes changes to the way financial assets are classified for the purpose of determining their measurement basis. AASB 9 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Scheme from 1 July 2018. The Scheme does not intend to early adopt AASB 9 as permitted by the standard. The application of the standard is not expected to change the measurement basis of any of the Scheme's current financial instruments.

***AASB 15 Revenue from Contracts with Customers***

This standard requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. AASB 15 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Scheme from 1 July 2018. The Scheme does not intend to early adopt AASB 15 as permitted by the standard. The application of the standard is still being assessed, but it is expected that it will have no significant changes to the Scheme's current financial instruments.

**NOTE 2 - INTEREST INCOME**

	For the period 31 August 2016 to 30 June	
	2018	2017
	\$'000	\$'000
Cash and deposits	871	142
Deposit held with brokers for margin	10	10
Interest bearing securities	<u>4,093</u>	<u>2,834</u>
	<u>4,974</u>	<u>2,986</u>

**NOTE 3 - AUDITOR'S REMUNERATION**

	For the period 31 August 2016 to 30 June	
	2018	2017
	\$	\$
<b>Total amount paid or due and payable to Ernst &amp; Young:</b>		
Audit of financial reports	7,000	7,000
Other assurance engagements	<u>2,374</u>	<u>4,106</u>
	<u>9,374</u>	<u>11,106</u>

Auditor's remuneration for the Scheme has been paid by the Trustee. Other assurance engagements consist of compliance plan audit and specified procedures performed on the direct investments of the Scheme.

**NOTE 4 - DISTRIBUTIONS**

Distributions payable during the reporting period by the Scheme were as follows:

	Class A		Class B	
	\$'000	c/unit	\$'000	c/unit
<b>2018</b>				
June - payable	<u>7,146</u>	<u>0.45</u>	<u>106</u>	<u>0.22</u>
	<u>7,146</u>	<u>0.45</u>	<u>106</u>	<u>0.22</u>
<b>2017</b>				
June - payable	<u>7,330</u>	<u>0.85</u>	-	-
	<u>7,330</u>	<u>0.85</u>	-	-

**NOTE 5 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2018 \$'000	2017 \$'000
Unlisted investment funds	999,379	477,833
Fixed interest bonds	35,727	40,949
Floating rate notes	48,053	51,982
Mortgage backed securities	14,658	19,392
Discount securities	139,481	264,464
Asset backed securities	11,683	-
<b>Total financial assets designated at fair value through profit or loss</b>	<b>1,248,981</b>	<b>854,620</b>

**NOTE 6 - RECEIVABLES**

	2018 \$'000	2017 \$'000
Interest receivable	527	580
	<u>527</u>	<u>580</u>

**NOTE 7 - PAYABLES**

	2018 \$'000	2017 \$'000
Investment management fees payable - external fund managers	199	199
	<u>199</u>	<u>199</u>

**NOTE 8 - RELATED PARTIES**

**(a) Trustee**

The Trustee of the Scheme is MLC Investments Limited ABN 30 002 641 661, whose immediate holding company is National Wealth Management Services Limited ABN 97 071 514 264 and ultimate parent company is National Australia Bank Limited ABN 12 004 044 937.

The Trustee is incorporated and domiciled in Australia.

**(b) Key Management Personnel**

**Directors**

The names of the persons who were Directors of MLC Investments Limited at any time during the financial year were as follows:

Name	Appointment / Resignation Date
J G Duffield	Appointed 24 August 2011
P Gupta	Appointed 1 September 2012
C M Keating	Appointed 5 December 2016
G J Mulcahy	Appointed 7 July 2014
K A Watt	Appointed 5 December 2016

In addition to the Directors noted above, the Trustee provides Key Management Personnel services to the Scheme.

Key Management Personnel are paid by a related party of the Trustee. Payments made from the Scheme to the Trustee do not include any amounts directly attributable to key management personnel remuneration.

**NOTE 8 - RELATED PARTIES (continued)**

**(c) Other related party transactions with the Scheme**

From time to time, the Directors of MLC Investments Limited or their Director related entities may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors.

**(d) Amounts payable to the Trustee**

There are no amounts payable to MLC Investments Limited by the Scheme at balance sheet date (2017:Nil).

**(e) Management fees**

The management fees payable to the Trustee have been calculated in accordance with the Scheme's Constitution. Total fees paid and payable are as follows:

	2018	For the period 31 August 2016 to 30 June 2017
	\$	\$
Management fees	2,143,914	1,072,180

**(f) Related party investments**

The Scheme did not hold any shares in National Australia Bank Limited or units in other managed investment schemes operated by the Trustee or its related parties at year end.

Cash and cash equivalents in the Statement of Financial Position for the Scheme, except for futures margin, are held with the National Australia Bank Limited.

NAB Asset Servicing is the custodian for the directly held investments of the Scheme.

**(g) Unitholder investing activities**

Details of holdings in the Scheme by MLC Investments Limited and its related parties or other schemes managed by MLC Investments Limited and its related parties are set out below. Fair value of investment amounts are based on latest available valuation as at year end.

	Number of units held No.	Interest held in the Scheme %	Fair value of investments \$	Distributions paid/payable \$
<b>2018</b>				
MLC Super Fund	1,604,680,830	97.17	1,595,704,861	7,146,462
JANA Investment Trust	25,103,820	1.49	24,474,247	55,757
<b>2017</b>				
MLC Super Fund	860,113,587	100.00	869,720,651	7,329,935

**NOTE 9 - FINANCIAL RISK MANAGEMENT**

**(a) Financial Risk Management Objectives, Policies and Processes**

The Scheme's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk, equity and other price risk), liquidity and cash flow risk. The Scheme's overall risk management programme is aligned to the investment strategy of the Scheme as detailed in its Constitution and IM. It focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance. The Trustee monitors the risk management framework, which is performed internally and reported on a quarterly basis. The Scheme may use derivative financial instruments to moderate certain risk exposures.



**NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit Risk**

The Scheme takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The Scheme has significant concentrations of exposure to counterparties from its investments in interest-bearing securities as at 30 June 2018. The significant exposures are held with authorised deposit-taking institutions. There is no exposure to an individual counterparty in excess of 4% of the net assets attributable to unitholders at 30 June 2018.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Scheme restricts its exposure to credit losses on trading derivative instruments by entering into master netting arrangements with counterparties (approved brokers). The credit risk associated with contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, there is the opportunity to settle outstanding amounts on a net basis.

The Scheme minimises its exposure to credit risk on cash equivalents by only holding instruments with top-tier financial institutions. In accordance with the Scheme's mandates, the Scheme's credit positions are monitored on a daily basis, and the Trustee reviews this on a quarterly basis, including the credit worthiness of each counterparty (e.g. custodian etc.). Credit quality of debt instruments is managed using Standard & Poor's rating categories, in accordance with the investment mandates of the Scheme.

The tables below show the credit quality by class of asset for debt instruments held in the Statement of Financial Position as at 30 June 2018 and 30 June 2017.

**2018**

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Not Rated \$'000	Total \$'000
Fixed interest bonds	25,094	6,205	-	4,428	35,727
Floating rate notes	34,944	13,109	-	-	48,053
Mortgage backed securities	14,658	-	-	-	14,658
Discount securities	-	125,549	-	13,932	139,481
Asset backed securities	7,447	4,236	-	-	11,683
<b>Total</b>	<b>82,143</b>	<b>149,099</b>	<b>-</b>	<b>18,360</b>	<b>249,602</b>

**2017**

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Caa1 to Caa3 \$'000	Total \$'000
Fixed interest bonds	19,503	16,951	-	4,495	40,949
Floating rate notes	38,840	8,119	5,023	-	51,982
Mortgage backed securities	19,392	-	-	-	19,392
Discount securities	-	250,521	-	13,943	264,464
<b>Total</b>	<b>77,735</b>	<b>275,591</b>	<b>5,023</b>	<b>18,438</b>	<b>376,787</b>

**NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)**

**(c) Financial Assets and Liabilities Held for Trading**

Financial assets and financial liabilities are presented on a gross basis in the Statement of Financial Position as there is not an enforceable legal right to offset the recognised amounts. In the normal course of business, the Scheme also enters into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as default on contracts.

**Offsetting financial assets and financial liabilities**

	2018			2017		
	Amounts not offset		Net amount	Amounts not offset		Net amount
	Other financial instruments	Cash collateral		Other financial instruments	Cash collateral	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Futures contracts	-	-	-	201	2,568	2,769
Closing balance	-	-	-	201	2,568	2,769
<b>Financial liabilities</b>						
Futures contracts	(114)	1,631	1,517	-	-	-
Credit default swaps	(429)	-	(429)	-	-	-
Closing balance	(543)	1,631	1,088	-	-	-

**(d) Market Risk**

*(i) Currency Risk*

Currency risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate due to changes in foreign exchange rates.

The Scheme is exposed to foreign currency risk as a result of investments in financial instruments denominated in foreign currencies. The Scheme may enter into foreign currency contracts designed to either hedge some or all of this exposure, or alternatively increase exposure to preferred foreign currencies.

The Scheme has substantially hedged its foreign currency exposures of investments not denominated in Australian dollar. The Scheme will still have indirect currency exposure as the unlisted investment funds may employ currency management strategies of their own assets.

There was no direct significant currency risk in the Scheme as at 30 June 2018.

*(ii) Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Scheme's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on their financial position and cash flows.

The Scheme is exposed to varying levels of interest rate risk as a result of differences in its investment strategies. The risk focused investment process actively assesses the level of interest rate risk and seeks to manage the interest rate exposure accordingly.

Changes in interest rates as disclosed in this note are based on an analysis of the yearly change in relevant market indices over the last 10 years. These represent what is considered to be a reasonably possible change rather than extreme fluctuations that may occur from time to time. As such, actual future market movement may differ.

**NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)**

**(d) Market Risk (continued)**

*(ii) Interest Rate Risk (continued)*

The following tables demonstrate the sensitivity of the Scheme's financial assets designated as held at fair value through profit or loss contained in the Statement of Financial Position to a reasonably possible change in interest rates on discount securities, floating rate notes, mortgage backed securities and bond futures.

	2018				2017			
	Change in interest rate (basis points)		Effect on net profit attributable to unitholders \$'000		Change in interest rate (basis points)		Effect on net profit attributable to unitholders \$	
	+	-	+	-	+	-	+	-
Fixed interest bonds	100	(100)	(734)	734	100	(100)	(903)	903
Floating rate notes	100	(100)	(37)	38	100	(100)	(47)	47
Mortgage backed securities	100	(100)	(4)	7	100	(100)	(9)	13
Discount securities	100	(100)	(234)	234	100	(100)	(558)	558
Bond futures	100	(100)	1,143	(1,144)	100	(100)	961	(962)
Asset backed securities	100	(100)	(9)	10	-	-	-	-
Credit default swaps	100	(100)	(10)	10	-	-	-	-

*(iii) Equity and Other Price Risk*

Equity and other price risk is the risk that the fair value of equities and unit prices decrease as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market.

To mitigate the impact of equity and other price risk the investment process ensures there is diversification of equity exposures within the Scheme. The IM monitors equity and other price risk for both the unlisted investment funds and the Scheme.

Changes in price as disclosed in this note are based on an analysis of the historical monthly price movements of the unlisted equity investments held by the Scheme at financial reporting date. These represent what is considered to be a reasonably possible change rather than extreme fluctuations that may occur from time to time. As such, actual future market movement may differ.

The effect on the Statement of Profit or Loss and Other Comprehensive Income due to reasonably possible changes in market prices, with all other variables held constant is indicated in the following table:

Category	2018				2017			
	Change in price		Effect on net profit attributable to unitholders \$'000		Change in price		Effect on net profit attributable to unitholders \$'000	
	+	-	+	-	+	-	+	-
Unlisted investment funds	5 %	-6 %	49,376	(59,800)	3 %	-2 %	13,330	(7,690)
Total			49,376	(59,800)			13,330	(7,690)

**(e) Liquidity and Cash Flow Risk**

Net assets attributable to unitholders are repayable subject to conditions as stated in the IM. Under the IM, the Trustee may, from time to time, reject applications (in whole or in part), impose conditions or restrictions on redemptions, or invest in cash in accordance with the Scheme's investment strategies and with the conditions surrounding its investments. In addition, the Scheme's policy is to maintain sufficient cash and cash equivalents to meet normal operating requirements.

In accordance with the Scheme's policies, the Scheme's cash flows are managed by the Investment Manager, JANA Corporate Investment Services Limited.

The Scheme's liabilities are expected to be settled within less than one month, except for underlying investment management performance fees which are settled annually.

**NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)**

**(f) Derivatives**

The Scheme's derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments

As at 30 June 2018, the overall direct market exposures were as follows:

	30 June 2018		30 June 2017	
	Contract/Notional amount	Fair value	Contract/Notional amount	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>Derivative instruments held for trading</b>				
- Futures contracts	41,083	(114)	34,813	201
- Credit default swaps	25,716	(429)	-	-
<b>Total</b>	<b>66,799</b>	<b>(543)</b>	<b>34,813</b>	<b>201</b>

**(g) Fair value of Financial Instruments**

The Scheme's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table details how the fair values of these financial assets and financial liabilities are determined in particular, other than Level 1 the use of observable and unobservable inputs are applied.

Financial assets/(financial liabilities)	Fair Value Hierarchy	Valuation Techniques
Unlisted investment funds	2	Valued at redemption price as established by the fund manager of the underlying fund.
Interest bearing securities	2	Valued by the sourcing appropriate yield curves based on credit rating, security type and term to maturity.

Financial Instruments	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Unlisted investment funds	-	999,379	-	-	477,833	-
Fixed interest bonds	-	35,727	-	-	40,949	-
Floating rate notes	-	48,053	-	3,017	48,965	-
Mortgage backed securities	-	14,658	-	-	19,392	-
Discount securities	-	139,481	-	-	264,464	-
Bond futures	(114)	-	-	201	-	-
Asset backed securities	-	11,683	-	-	-	-
Credit default swaps	-	(429)	-	-	-	-
<b>Total</b>	<b>(114)</b>	<b>1,248,552</b>	<b>-</b>	<b>3,218</b>	<b>851,603</b>	<b>-</b>

There have been no movements into or out of Level 2 and Level 3 for the year ended 30 June 2018 and 30 June 2017.

**NOTE 10 - NOTES TO THE STATEMENT OF CASH FLOWS**

	2018 \$'000	For the period 31 August 2016 to 30 June 2017 \$'000
<b>(a) Reconciliation of operating profit to net cash flows from operating activities</b>		
Net operating (loss)/profit	(35,681)	14,451
Changes in the fair value of financial assets and liabilities at fair value through profit or loss	37,199	(13,011)
<i>Changes in the assets and liabilities during the year:</i>		
Decrease/(increase) in interest receivables	53	(580)
Increase in investment management fees payable	-	199
<b>Net cash provided by operating activities</b>	<b>1,571</b>	<b>1,059</b>

**(b) Cash and Cash equivalents**

For the purposes of the Statement of Cash Flows, cash includes cash at bank, term deposit and futures margin. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	363,960	19,281
Term deposits	35,000	-
Futures margin	1,631	2,568
	<b>400,591</b>	<b>21,849</b>

**NOTE 11 - CHANGES IN THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	For the reporting period ended	
	2018 \$'000	For the period 31 August 2016 to 30 June 2017 \$'000
Net changes in the fair value of financial assets and liabilities through profit or loss:		
Held for trading	267	163
Designated at fair value through profit or loss	(37,466)	12,848
	<b>(37,199)</b>	<b>13,011</b>

**NOTE 12 - EVENTS OCCURRING AFTER THE BALANCE DATE**

There has not arisen in the interval between the year end and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Trustee, to significantly affect the operations of the Scheme, the result of those operations, or the state of affairs of the Scheme, in future financial years.

**NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES**

The Scheme has no known commitments or contingent liabilities as at 30 June 2018 and 30 June 2017.

## Directors' declaration

In the opinion of the Directors of MLC Investments Limited, the Trustee of the Scheme:

The financial statements and notes set out on pages 4 to 19 are prepared in accordance with the requirements under the Scheme's Constitution, including:

- (a) giving a true and fair view of the financial position as at 30 June 2018 and its performance for the reporting period ended on that date;
- (b) complying with Australian Accounting Standards;
- (c) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

This declaration is made in accordance with a resolution of the Directors.

Director: CLARE KEATING

Signature: 

Dated at Sydney this 6th day of December 2018

## Independent Auditor's Report to the Unitholders of MLC Alternative Beta Strategy Trust

### Opinion

We have audited the financial report of MLC Alternative Beta Strategy Trust, (the 'Scheme'), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statement, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Scheme as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Scheme in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

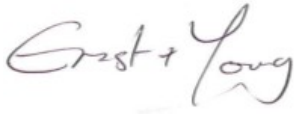
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young



Darren Handley-Greaves  
Partner  
Sydney  
6 December 2018