

Investments in depth

Will my portfolio give me an inflation plus return?

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“History demonstrates that the mix of debt and equities in a portfolio provides an unreliable indicator of exposure to risk. By unshackling managers from the constraints of inflexible asset allocation, a higher reward to risk is achievable.”

Summary¹

This paper examines how well diversified funds meet real, or purchasing power-related, investment objectives. Looking back at the past we can observe periods when returns have both far exceeded expectations and periods when they would have greatly disappointed. History demonstrates that the mix of debt and equities in a portfolio provides an unreliable indicator of exposure to risk. This reflects the reality that the riskiness as well as the return potential of assets changes through time. This implies that a consequence of consistent asset allocation is inconsistent performance.

The importance of the consistency or reliability of the return stream is a fundamental issue for a wide range of investors, from sovereign wealth funds tasked with preserving and enhancing the real value of reserves to individual investors as they approach and move into retirement. The issue is particularly acute where the existing portfolio is large relative to expected new portfolio inflows. For example, at the individual level a younger investor with plenty of time to retirement may perceive a sharp drop in asset prices as an opportunity to contribute funds and acquire additional assets at a lower price. In contrast, in retirement the pension drawdowns can lock in losses, which results in deterioration of lifestyle in retirement and/or reduced longevity of the pension stream. Similarly, a relatively mature sovereign wealth fund is more sensitive to issues of real capital preservation (and by implication matching to real liabilities) than one in the earlier stages of allocation or where liabilities are far in the future.

A limited tolerance for significant drawdowns, coupled with the variable risk exposures of traditional diversified funds, suggest the need for a change to the way in which multi-asset portfolios are managed. An appealing alternative is an ‘objectives based’ approach (see page 10) which seeks to control risk directly, as opposed to via a proxy asset allocation which is presumed to have the required characteristics. A key objective is avoidance of significant negative returns over relevant time frames. The central point here is that by unshackling managers from the constraints of inflexible asset allocation, a higher reward to risk is achievable.

The focus of objectives based funds (called ‘inflation plus’ or ‘real return’) is on total returns and their reliability, rather than returns in excess of the equity-debt benchmark or ranking in a peer survey. This approach is fundamentally different. The objective of generating returns above inflation and avoiding significant drawdowns puts the emphasis on the manager to take responsibility for investment outcomes, rather than relying on investment markets to be well behaved. The manager is mandated to deliver an acceptable outcome regardless of market behaviour. In explaining the benefits of an objectives based investment strategy, we highlight in particular the importance of achieving a return greater than the rate of inflation.

Introduction

Individual investors hope and expect their superannuation will provide for a comfortable retirement. To achieve this, two things in the right combination are required. First, a large enough sum must be saved for long enough, and second, these funds must be invested to generate a return sufficient to ensure their purchasing power supports the required retirement lifestyle. The most common approach to investing retirement savings is via a portfolio with a clearly defined and relatively static mix of growth assets (which consists mainly of listed shares) and debt (cash and fixed interest). Many institutional funds have adopted a similar approach, relying to a greater degree on orderly market outcomes than history suggests is warranted.

¹ Gareth Abley provided many valuable and insightful comments on and suggestions for this paper.

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The equity-debt mix is commonly seen as defining the risk profile of the portfolio and its long-term expected return. The amount of equities in the mix either depends on the investor's tolerance for return volatility, or is aligned to the required return. Either way, once this mix has been selected, the role of the investment manager is to seek to outperform that benchmark strategy through a combination of active management in the various asset classes and, from an asset allocation perspective, to tilt the portfolio in one direction or another.

The high level asset allocation though is typically fairly static, with equity-debt ranges generally limited to +/-10%. These traditional strategies are described to investors in terms of the combination of debt and equity (often, somewhat misleadingly, called 'defensive'² and 'growth'). Having defined portfolios that way, they generally remain 'true to label', which results in the asset mix being constrained. This means that return outcomes are mainly determined by market behaviour, with the intervention of managers being more marginal.

It has of course always been acknowledged that returns from portfolios with a given equity-debt mix would vary through time. It was understood that there would be some significant negatives from time to time, particularly for those with a higher allocation to shares. But there was also a presumption that ultimately sticking with the strategy would, within an acceptable time frame, produce the required result. In recent years, that presumption has increasingly come into question

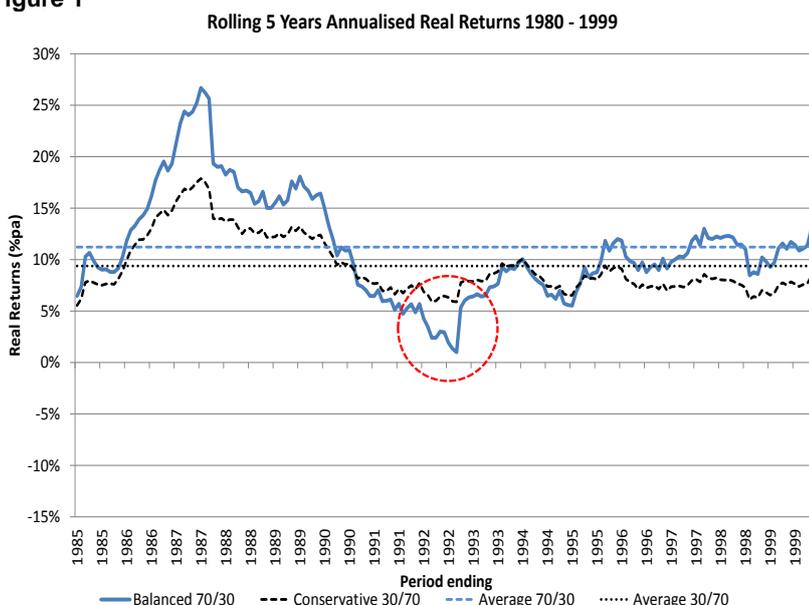
The rise and fall of static asset allocations

After the 1970s there was a two decade period which was extremely favourable for investment markets. There was a rising tide that lifted all boats. The reasons for this lie in both how pessimistic investors were at the end of the 1970s and the lessons that policy makers learned.³ Investors had been traumatised by repeated crises and sharp share price declines; they had become very reluctant to invest in riskier assets. The result was that shares were trading cheaply and, as a consequence, ironically they offered extremely good return potential – and, with much bad news factored in, the remaining downside risk was relatively low.

By the early 1980s investors expected that inflation would remain high and volatile. Policy makers knew they had to change these expectations or inflation would re-emerge. To do that, they kept interest rates high to increase confidence that inflation would be squeezed from the system. This combination of circumstances set up a prolonged period of falling inflation (disinflation) and interest rates, and rising prosperity. It lifted both bond and equity markets. There were hiccups along the way, but all investors had to do was wait and allocations to shares and other risky assets were rewarded with higher returns.

Figure 1 shows rolling 5 year real returns during the 80s and 90s for two portfolios: a typical 'balanced' 70/30 (equity/debt) and a more conservative 'capital stable' 30/70 strategy.⁴ The annualised compound real returns over this period were an extraordinary 11.2% and 9.4% ahead of inflation respectively. Further, there is no five year period in which returns are lower than inflation for either portfolio.

Figure 1



Source: MLC and Global Financial Data.

² There are many anomalies, including the classification of unlisted property and infrastructure as defensive while their listed counterparts are regarded as growth assets.

³ For further discussion on the 1970s and its relevance to today see 'Inflation, uncertainty and portfolio management: protecting the real value of investor's portfolios', Dr Susan Gosling, MLC Investments In depth, May 2014.

⁴ The asset allocations are: for the balanced strategy 32% Australian equities, 32% global equities (of which 24% is unhedged), 6% listed global property, 20% all maturities debt and 10% cash; and for the conservative portfolio 12% Australian equities, 14% global equities (of which 13% is unhedged), 4% listed global property, 30% all maturities debt, 30% short maturities debt and 10% cash.

The lowest rolling monthly five year return for the balanced strategy was 1% over the five years ended September 1992 (circled on Figure 1). Over the same period, in line with its touted defensiveness, the conservative strategy recorded a higher real return of 5.5%, reflecting very strong nominal bond returns. This period spans the economic difficulties of the late 1980s and early 1990s, which includes the early 90s recession in OECD countries and US savings and loans crisis. The precursor to this period was the so-called 'economic miracle' of 1983 to 1989, during which the US economy grew rapidly, buoyed by government spending and rising consumer confidence. But vulnerabilities meant that the miracle was partly illusory. Rising public sector deficits, bankruptcies in the savings and loans market, and worries about the return of inflation (in part a consequence of higher oil prices at the commencement of the Gulf War) prompted the Fed to raise rates. The financial contagion which ensued affected the Anglo world most, although Japan has never entirely recovered from its recession. For other developed countries growth and disinflation resumed, as did attractive positive returns, though at a lower level than during the economic miracle.

There was little during this disinflationary era that active asset allocators were able to add beyond the tough (arguably impossible, on a consistent basis) task of timing the mostly benign cycle, and they had much to lose by being too defensive. Not surprisingly, confidence in active asset allocation withered and it went out of fashion. Strategic (which meant static) asset allocation became the conventional wisdom. This era persisted for so long that it came to be regarded as normal. The lessons from earlier more difficult times were either forgotten or regarded as irrelevant.

There were other sound and logical arguments for providing investors with relatively static asset allocations. For example, it gave investors a high level of certainty about the asset mix in their portfolio. It also reduced the risks of asset allocators making short-term 'market calls', which could increase risk or reduce returns. Such asset allocation adjustments are a concern where investment decision making rests (as is common) on the shaky foundation of predicting the one future that is going to unfold. The unreliability of forecasts presents a particularly acute problem for asset allocators as there are relatively few asset classes, with the primary 'bet' being debt versus equities, and limited opportunity to hedge against the risk of being wrong. In contrast, stock selectors face a more tractable problem: hundreds of stocks available and opportunities to hedge active positions. Given a high level of confidence that markets would deliver, it did not make sense to allow asset allocators to seek to add extra value.

This ideal disinflationary era ended in the way that the most positive periods tend to do, with a classic asset price bubble, in this case focused on technology stocks and the emergence of the internet. The tech bubble and bust foreshadowed more than just another boom-bust event. It marked the end of the era of disinflation and heralded more difficult economic and investment times ahead. As this realisation has progressively dawned, lessons that were previously lost are being re-learned. Most importantly, there is now a better understanding that returns cannot be guaranteed even over long periods, and that a static asset allocation will provide an uncertain and volatile exposure to the risk of negative real returns.

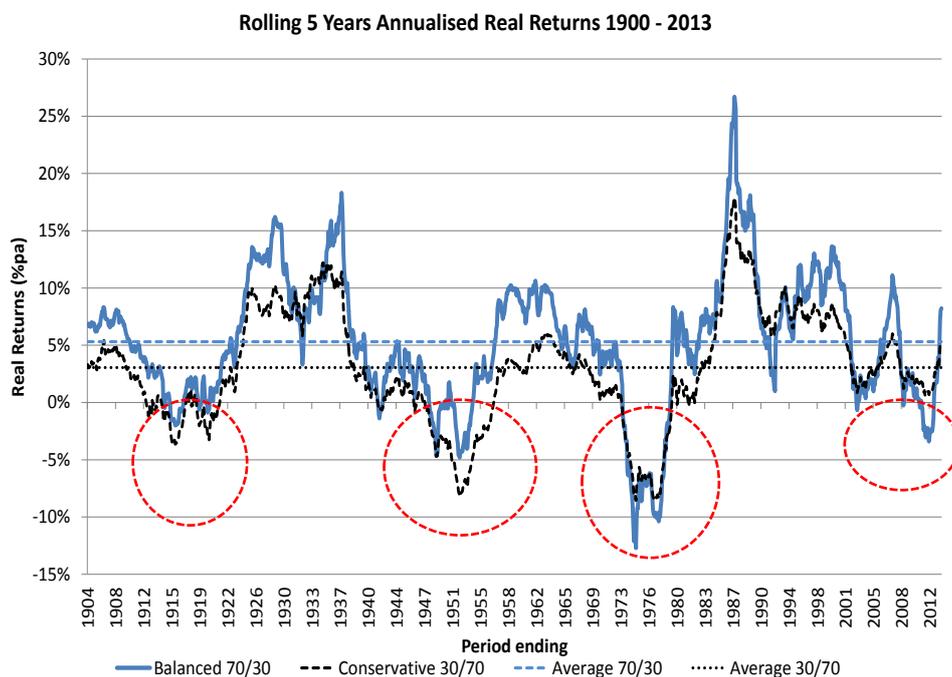
Reliable responses to this challenge must take into account the understanding that the future is inherently uncertain. To avoid the hubris involved in predicting the future, a new dimension is required which adapts portfolios in a risk-focused way, based on all the available information regarding current valuations and future possibilities.

Historical perspective

Figure 2 on the next page extends the historical analysis to include financial market history since 1900. It should be noted that this is a history for Australian diversified funds – there are alternative histories for other portfolios and other domiciles. These alternatives provide stark examples of when nominal bonds as the traditional diversifier of equity risk have and have not been protective. Most notably, a German investing in the 1920s would have experienced the Weimar hyperinflation and financial collapse which wiped out entirely the value of government bonds, while in Japan during bursting of the stock market bubble in the early 1990s government bonds were hugely protective as deflation emerged. In all cases, the fundamental lesson is that a fixed asset allocation provides an uncertain risk exposure.

The expanded Australian history includes a far wider range economic and investment environments, and hence provides a less skewed perspective on the reliability of traditional static equity-debt mix investment strategies. The annualised compound real returns over this period were a more modest 5.4% and 3.2% ahead of inflation for the balanced and conservative strategies respectively. This longer period includes a number of more challenging investment environments, notably the global depression era and the 1970s stagflation. As a consequence, there were five year periods in which returns fell below inflation for both strategies – these are circled in Figure 2.

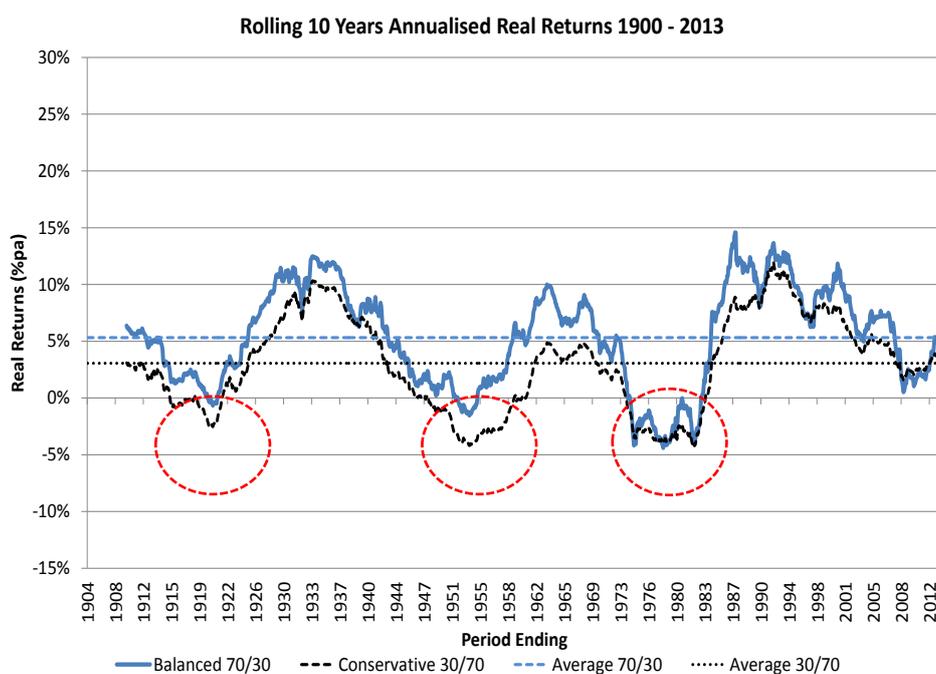
Figure 2



Source: MLC and Global Financial Data.

To further determine how potentially damaging these episodes of negative returns were, the time horizon is extended from 5 to 10 years in Figure 3. There remain periods of negative real returns. Furthermore, we find periods in which returns are below inflation and the return for the conservative strategy is below that of the balanced strategy. This is contrary to the perceived greater resilience of a higher debt, lower equity allocation.

Figure 3



Source: MLC and Global Financial Data.

The vulnerability of high debt allocations

Risk and return metrics for the balanced and conservative funds are shown in Table 1. The probability of negative average annual real returns over rolling five year periods (using monthly rolls) is 15.3% for the balanced strategy, but higher for the conservative strategy at 22.2%. Over rolling 10 year periods, the frequency of negative real returns drops to 12.5% for the balanced fund, but (perversely) rises to 27.2% for the conservative (reflecting the sometime coalescence of adverse scenarios over this longer period – i.e. one bad scenario sometimes runs into another).

The conservative fund has both a higher frequency of negative real returns and a lower worst case return versus the balanced fund. These observations are contrary to commonly held expectations. They also highlight the risks of ‘being born at the wrong time’.

Table 1: Historical return and risk (1900-2013)					
Balanced portfolio real returns					
	1 Year	3 Year	5 Year	10 Year	20 Year
Median	6.3%	4.8%	5.3%	5.6%	5.0%
Minimum	-38.8%	-18.0%	-12.7%	-4.4%	0.4%
Maximum	50.6%	32.0%	26.7%	14.6%	10.9%
Conservative portfolio real returns					
	1 Year	3 Year	5 Year	10 Year	20 Year
Median	3.4%	2.8%	2.7%	3.0%	2.6%
Minimum	-25.5%	-12.8%	-8.5%	-4.2%	-1.5%
Maximum	34.3%	20.6%	17.9%	12.0%	8.6%
Probability of negative real return					
	1 Year	3 Year	5 Year	10 Year	20 Year
Balanced portfolio	28.4%	21.5%	15.3%	12.5%	0.0%
Conservative portfolio	29.0%	26.3%	22.2%	27.2%	16.1%
Standard deviation					
	1 Year	3 Year	5 Year	10 Year	20 Year
Balanced portfolio	11.3%	7.2%	5.8%	4.3%	2.6%
Conservative portfolio	7.6%	5.6%	4.9%	4.2%	2.9%
'Standard' risk measure (average number of negative real returns in 20 years, periods to end June)					
	1 Year	3 Year	5 Year	10 Year	20 Year
Balanced portfolio	5.5	5.0	3.2	2.5	0.0
Conservative portfolio	5.8	5.5	5.0	4.6	2.8

Source: MLC and Global Financial Data

This observed vulnerability of the conservative strategy requires explanation. Periods in which, contrary to common expectations, the higher debt allocation leads to lower returns includes 10 year periods ending in the late 1940s to mid 1950s. In the United States in 1945, price controls in place during war time were removed. Not surprisingly, prices which had been held artificially low jumped briefly, taking the US inflation rate to 18% in 1946. In the early 50s inflation increased again, in part due to the commencement of the Korean War after North Korea unexpectedly attacked the south. As in previous wars, there was rising inflation across the developed world. In the US, price controls were rapidly re-introduced, which were effective in halting the inflation.⁵ However, in Australia inflation persisted, with an average annual rate over 13% during the 7 years to 1952.

Unanticipated rises in inflation result in higher bond yields, and this causes capital losses for bond holders. These capital losses, coupled with a high rate of inflation, mean that strategies with high allocations to long nominal bonds generate returns well behind the inflation rate. In other words, the real purchasing power of these portfolios declines. The implication of higher actual and expected inflation for share prices depends on economic growth. During the first half of the 1950s the US experienced strong growth, and with the Korean War came a boom which supported Australia's growth in the early 50s as the US stockpiled wool for uniforms and blankets. Strong growth provided share prices with an offset to the risks of higher inflation. As a consequence, while

⁵ For further information on this period, and other historical episodes, refer to 'The Great Wave: Price Revolution and the Rhythm of History', David Hackett Fischer, Oxford University Press, 1996.

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the returns of the balanced strategy did dip below inflation, it significantly outperformed the strategy commonly presumed to be more defensive.

This period contrasts with the 1970s' repeated inflation shocks and policy confusion, which derailed growth. The consequence was both bond and equity markets delivered significant negative after-inflation returns. The transition to higher inflation is unambiguously bad for nominal bonds. Higher interest rates that come with higher inflation and uncertainty about the path of inflation (and its impact on earnings and liabilities) are undoubtedly negatives for share prices, but these negatives can be offset to an extent by higher growth. The implication is that during inflationary growth transitions, strategies with higher allocations to long duration debt may experience negative real returns which are lower than the return to strategies with lower debt and higher equity allocations. **This serves to illustrate that the equity-debt mix is an unreliable indicator of the risk exposure of a portfolio.**

Real return reliability and static asset allocation

As shown above in Table 1, the balanced portfolio's median annualised after-inflation return across the 10 year overlapping periods is 5.6%, with a range from -4.4% (mid 1978 end point) to 14.6% (end year). For the conservative strategy, the median annualised after-inflation return across the 10 year overlapping periods is 3.0%, with a range from -4.2% (September 1953 end point) to 12.0% (with a September 1992 end point). Both the volatility of short-term returns and the persistence of rolling negative real returns can permanently erode retirees' sustainable real income streams. This exposes retirement lifestyle to luck, which is obviously unsatisfactory.

To provide deeper understanding of the reliability of achieving particular real return objectives, Table 2 shows the frequency with which return hurdles are not met over different time frames. On a calendar year basis, there has been a likelihood of around 50% (depending on the rolling period) of a return of inflation plus 5% for a balanced strategy or inflation plus 3% for a conservative strategy. Again, the greater vulnerability of the conservative fund to negative returns can also be observed. This highlights the risks of accumulation investors being too sensitive to higher levels of shorter-term volatility, particularly if the investment time horizon is in fact much longer – standard deviation is, anyway, limited in its ability to describe risk. In the accumulation phase, market declines can offer the opportunity to allocate to the portfolio at lower prices, and so from that perspective can be regarded as beneficial as long as there is sufficient time for a market recovery before drawdown commences.

Table 2: Frequency of returns below hurdle rates (calendar years 1900-2013)

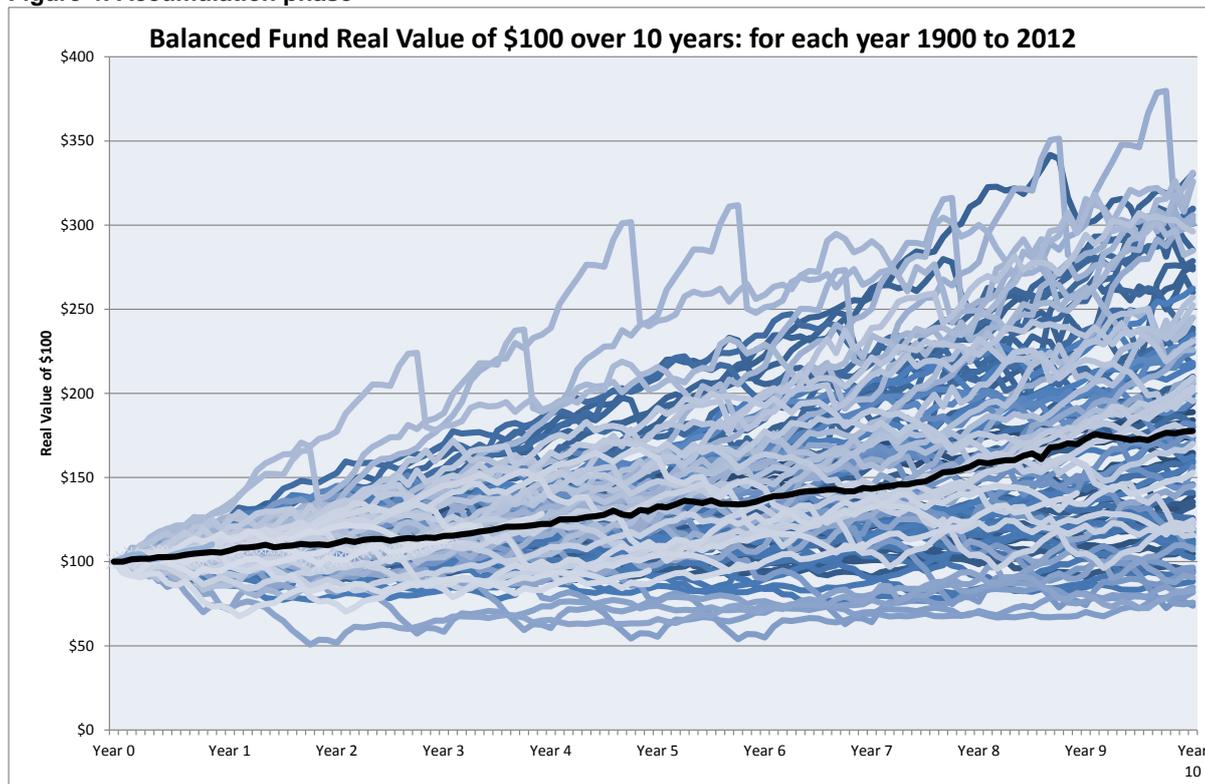
Balanced fund				
Real return hurdle	Time return is below the hurdle:			
	3 year	5 year	10year	20year
0%	16%	13%	13%	0%
1%	26%	18%	17%	1%
2%	29%	23%	28%	11%
3%	37%	32%	34%	20%
4%	42%	38%	38%	37%
5%	52%	45%	46%	51%
6%	56%	51%	53%	65%
Conservative fund				
Real return hurdle	Time return is below the hurdle:			
	3 year	5 year	10year	20year
0%	26%	20%	28%	16%
1%	32%	31%	33%	32%
2%	44%	43%	39%	47%
3%	51%	52%	49%	57%
4%	58%	60%	61%	63%
5%	63%	65%	67%	67%
6%	73%	71%	73%	78%

Source: MLC and Global Financial Data

Reliability of returns and real income streams

Figure 4 shows the real value of a portfolio with an initial investment of \$100 over a 10 year period. Each line on the chart represents a different starting year from 1900 onwards for the balanced portfolio. The thick black line shows the median outcome; the individual paths are distributed around it. The most positive paths had starting points that were, as might be expected, the early 80s. The most negative starting years were in the early 70s.

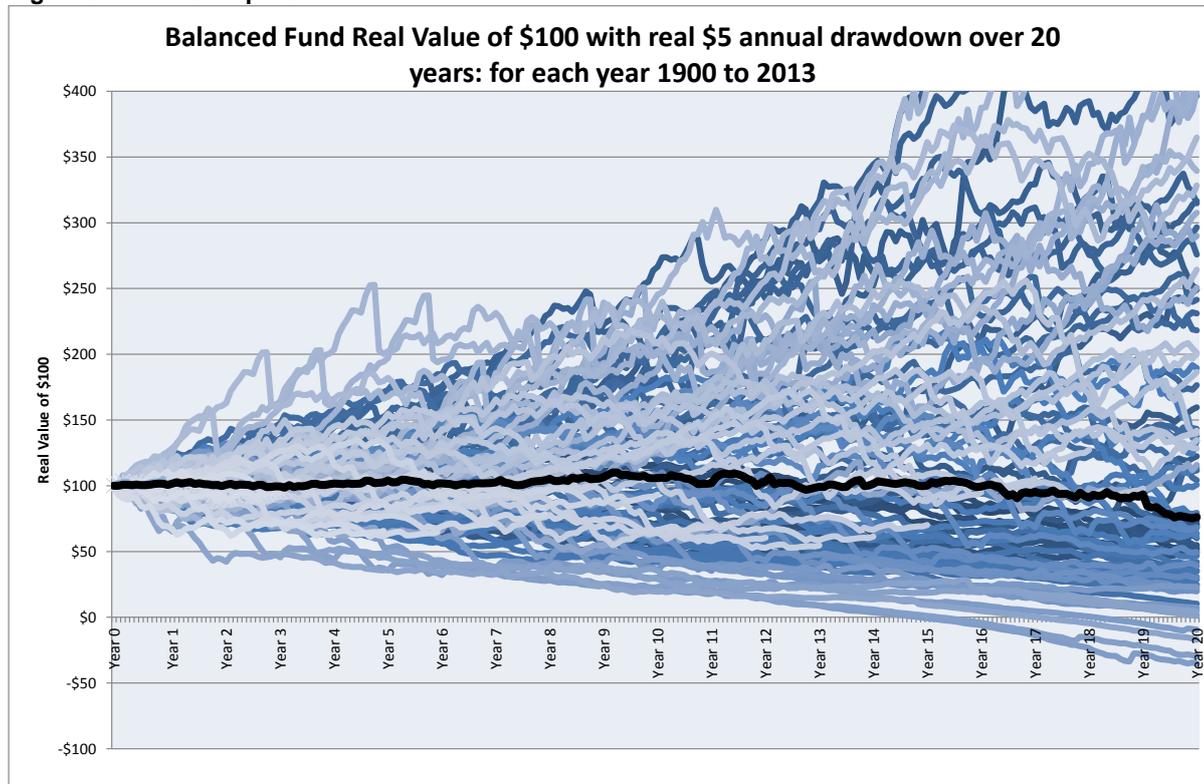
Figure 4: Accumulation phase



Source: MLC and Global Financial Data.

This figure illustrates that there are both lucky and unlucky periods over which to invest. The fickle nature of return streams is most problematic when there are drawdowns from the portfolio. Figure 5 (on the next page) has a simple drawdown example in which 5% of the real value of the initial portfolio is withdrawn every year. Each line on the chart represents a different starting point and path of the real value of the portfolio over the subsequent 20 years.

Figure 5: Drawdown phase



Source: MLC and Global Financial Data.

Starting points which proved to be exceptionally fortuitous cluster around either 1920 or 1980. In each case, the exceptionally strong returns in the first part of the period more than offset the impact of subsequent negative returns. The worst case outcomes are centred around 1970. Returns lagged inflation to such an extent during the 70s that the real value of the portfolio dropped to a level which, almost regardless of subsequent returns, was inadequate to support the income stream for an extended period. During these periods, the real value of retirees' savings was decimated.

Rationale and implications

The primary determinants of market returns are the macro-dynamic drivers (principally economic growth and inflation) and changes in investors' expectations and tolerance for risk (or changes in risk perception). Different starting points can prove to be lucky or unlucky, and to an extent this is predictable.

The future depends on where you start from, the path that's taken, and the ultimate destination. From any starting point, a sequence of both positive and negative scenarios should be expected over the subsequent decades. There is information in starting valuations which indicates whether returns are likely to be relatively high or relatively low. It was no coincidence that share market returns were strong in the years following the 1970s, or that they were low after price-earnings ratios reached uncharted territory at the height of the tech bubble in 1999.

But the starting point is not everything; there can be important developments along the path which offset or reinforce either a positive or negative set of starting conditions. History suggests that is unusual for either highly positive or highly negative scenarios to persist for more than 10 years. A starting point of unusual pessimism (optimism) provides the most reliable circumstances to produce unusually positive (negative) returns.



The review of past returns has suggested the following:

- Static asset allocations do not provide a static exposure to risk or a static long-term expected return.
- Standard deviation is a summary statistic which provides inadequate information about the nature of risks faced.
- Over a series of decades investors should expect a sequence of both positive and negative scenarios.
- Starting point conditions provide information about the propensity for a relatively positive or negative initial scenario.
- Portfolios are most vulnerable to prolonged and significant negative real returns that occur after the majority of contributions to the fund have been made and before most drawdowns have been paid.
- Portfolios with higher long nominal debt allocations may not be more defensive, most particularly if inflation rises.

It is important to note that the risks of high exposures to nominal debt can be mitigated by reducing the duration in line with the allocation. This is the approach taken by MLC in its Horizon portfolios: the higher the allocation to debt, the lower its duration. This approach increases the portfolios' defensive characteristics in inflationary scenarios. Traditional diversified funds are also seeing increasing 'alternatives' exposures. To the extent that the return streams they provide do indeed turn out to be diversifying, a higher reward for risk is achievable, though this depends upon the extent to which these strategies are simply derivatives of already existing exposures.

Regardless, there are significant investment challenges from funds with relatively static asset allocations, particularly in the transition to a higher inflation scenario. When inflation increases suddenly or is volatile, policy makers may unwittingly set the cash rate below the inflation rate, which undermines what for many investors is a traditional safe haven. The difficulty in knowing what the inflation rate was until sometime after the event was a feature of the 1970s. And today the deliberate manipulation of cash rates and bond yields exacerbates these risks. It is by no means clear that, even in the absence of confusion, key central banks would seek to maintain a positive real cash rate in the face of higher inflation.

Relatively static allocations limit the manager's scope for controlling absolute risk during these and other adverse periods. Potential risks are magnified when a highly positive scenario has been factored into starting valuations, which inevitably heightens numerous potential risks. In the accumulation phase these are not critical issues, but they become so in the drawdown environment.

Looking forward

In many cases, the asset allocations of traditional funds are now being more actively managed and active decisions are playing a more pivotal role. However, traditional diversified funds have been sold on the basis of particular asset mixes, and managers are tasked primarily with achieving benchmark outperformance. While some flexibility can be introduced, they must remain 'true to label'. The extent to which this matters depends on the extent to which we now face relatively high or low risk in future as compared to history. If, having weathered the financial crisis, the scene is set for another highly positive period, then perhaps the time for worrying about this issue is in the past. Unfortunately, it is difficult to argue that this is the case.

Prospective returns are influenced by what happens relative to what has been priced into markets. Today, policymakers are forcing investors to take risk by making safe assets less safe (in particular, by reducing the cash rate below the expected inflation rate). This makes the current investment environment extremely challenging. It creates unfamiliar risks. Most importantly, it means that if unacceptable negative returns are to be avoided, investment strategies need to take into account the extent and sources of risk and how these are changing through time. It is inadequate to measure risk in a single number such as a standard deviation (or worse, the so-called 'standard risk measure'). Risk management for retirees should be concerned with the avoidance of significant negative returns. Negative returns arise as a consequence of real economic events and changes in investors' attitudes to risk and understanding of what the future might hold. To control for the risk of unacceptable negative returns, we need to consider the things that could go wrong well in advance of those events looking likely. In other words, the time to worry about what a higher inflation scenario could look like and consider how best to control for inflation risk is now.

In summary, there are clear risks and uncertainties regarding the evolution of the macro environment, and these risks are heightened by the very benign view priced into share markets and other risk assets, which leaves the market more vulnerable should a less than ideal scenario eventuate.

Objective-based investing

A believer in efficient markets may be content to assume that prospective returns are the same whatever the starting point - providing the basis for static strategic asset allocation. This is an extreme and no longer widely held view. Casual observation of asset price behaviour reveals clear periods in which asset prices exhibit both prolonged mean aversion (the tech bubble is a prime example) as well as mean reversion (as in the ultimate tech bubble bust or the 2008 crisis). This reality implies that a static neutral or benchmark asset allocation cannot be relied upon to reliably achieve absolute (as opposed to benchmark relative) investment objectives. To increase the reliability with which above inflation returns are generated, the investment strategy design must take into account the particular uncertainties that exist looking forward from each particular point in time. This implies the need for a very flexible asset allocation, unencumbered by the notion of equity-debt constraints.

This is true from all starting points and most particularly looking forward from today. A benign view of the future has been fully factored into the market pricing of securities, whether they be equities, bonds or commodities. This presents potentially asymmetric risks for asset markets. If, as we assume, the extent of negative returns matters to investors, it is necessary to consider the ways in which they might arise. The only reliable way to do this is to take into account the different futures that could unfold rather than seeking to forecast the one future that will occur. Only once in possession of detailed information about what could go wrong and what this could mean for markets is the portfolio manager equipped to ensure that exposure to negative outcomes is controlled. This approach takes into account that there are always risks and that a choice has to be made in positioning a portfolio about the extent to which these risks are controlled for – inevitably, risk control reduces return in more positive scenarios.

A new generation of objective-based diversified funds, called 'inflation plus' or 'real return' portfolios, are attracting increasing interest. These funds have been unshackled from the constraints that apply to traditional diversified funds. The most important difference lies in the move from relative to total (after-inflation) return objectives. While traditional funds can take into account the sources of forward-looking risk, generally the focus is on outperforming a benchmark or achieving a ranking in peer tables. The inflation plus funds' focus is on after-inflation returns and the reliability of those returns. The differences in objectives result in differences in investment strategy: traditional funds have relatively fixed asset allocations defined around debt-equity mixes, while inflation plus funds have very flexible asset allocations which move dynamically through time as prospective risk and reward fluctuate. In effect, investors in traditional funds have placed a lot of faith in markets rewarding risk, while inflation plus investors are relying to a much greater extent on their investment managers. The increased interest in the inflation plus funds is not simply a fad; it reflects a fundamental evolution in understanding of market behaviour and of the investment environment.

Important information

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