

**MLC Alternative Beta Strategy Trust
Financial Report
For the year ended 30 June 2019**

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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 2019 and the independent audit report thereon.

Directors of the Trustee

The names of the persons who were Directors of MLC Investments Limited during or since the year ended 30 June 2019 are 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 (2018: 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.

Result and review of operations

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.

Distributions

The distributions for the year ended 30 June 2019 were as follows:

	\$'000	c/unit
Class A	27,367	1.65
Class B	302	1.20

Units on issue

Units on issue as at year end and movements during the year are shown in the 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

The Trustee's ultimate parent entity National Australia Bank Limited announced on 3 May 2018 its intention to exit the Advice, Platform & Superannuation and Asset Management Business, currently operating under MLC and other related brands. The transaction is expected to be completed in 2020 subject to certain conditions and regulatory approvals; with the ultimate parent entity expected to change when the exit process is complete. In the opinion of the Directors this transaction does not impact on the Trustee's ability to perform its duties.

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 end unless otherwise disclosed.

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.

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 results 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 2019 are detailed in Note 8(g) to the financial statements.

Fees paid to the Trustee during the financial year ended 30 June 2019 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

Indemnification

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 year ended 30 June 2019. 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 have not been included as such disclosure is prohibited under the terms of the contracts.

Rounding

The Scheme meets the criteria set out in the *Corporations Instrument 2016/191* issued by the Australian Securities and Investments Commission, and in accordance with that Corporations Instrument, amounts in the financial report and the Directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

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

Director: CLAIRE KEATING

Signature: 

Dated at Sydney this 28th day of November 2019

MLC Alternative Beta Strategy Trust
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Notes	2019	2018
		\$'000	\$'000
Investment income			
Interest income	2	4,053	4,974
Changes in the fair value of financial assets and liabilities at fair value through profit or loss		9,190	(37,199)
Swap loss		<u>(272)</u>	<u>(135)</u>
Total investment income/(loss)		<u>12,971</u>	<u>(32,360)</u>
Expenses			
Management fees	8(e)	2,473	2,144
Investment management fees		1,792	1,168
Transaction costs		4	8
Legal and professional fees		<u>24</u>	<u>1</u>
Total operating expenses		<u>4,293</u>	<u>3,321</u>
Net operating income/(loss)		<u>8,678</u>	<u>(35,681)</u>
Financing costs			
Distributions	1(o),4	<u>27,669</u>	<u>7,252</u>
Net profit/(loss)		<u>(18,991)</u>	<u>(42,933)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Change in net assets attributable to unitholders		<u>(18,991)</u>	<u>(42,933)</u>

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 2019

	Notes	2019 \$'000	2018 \$'000
Assets			
Cash and cash equivalents	10(b)	39,089	400,591
Receivables	6	10,434	527
Financial assets at fair value through profit or loss	5	<u>1,632,857</u>	<u>1,248,981</u>
Total assets		<u>1,682,380</u>	<u>1,650,099</u>
Liabilities			
Payables	7	109	199
Financial liabilities at fair value through profit or loss		641	543
Distribution payable	4	<u>27,669</u>	<u>7,252</u>
Total liabilities excluding net assets attributable to unitholders		<u>28,419</u>	<u>7,994</u>
Net assets attributable to unitholders - liability		<u>1,653,961</u>	<u>1,642,105</u>

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 2019

	Class A		Class B	
	\$'000	Number of Units No. '000	\$'000	Number of Units No. '000
Net assets attributable to unitholders				
Total liability at 30 June 2017	869,721	860,114	-	-
Applications	767,577	744,567	47,740	47,594
Change in net assets attributable to unitholders	<u>(41,692)</u>	<u>-</u>	<u>(1,241)</u>	<u>-</u>
Total liability at 30 June 2018	1,595,606	1,604,681	46,499	47,594
Applications	54,906	55,495	127	130
Redemptions	(2,548)	(2,577)	(21,638)	(22,541)
Change in net assets attributable to unitholders	<u>(18,373)</u>	<u>-</u>	<u>(618)</u>	<u>-</u>
Total liability at 30 June 2019	<u>1,629,591</u>	<u>1,657,599</u>	<u>24,370</u>	<u>25,183</u>

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 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Interest received		3,874	4,892
Management fees paid		(2,473)	(2,144)
Investment management fees paid		(1,882)	(1,168)
Transaction costs paid		(4)	(8)
Other expense paid		<u>(24)</u>	<u>(1)</u>
Net cash provided by/(used in) operating activities	10(a)	<u>(509)</u>	<u>1,571</u>
Cash flows from investing activities			
Proceeds from sale of investments		896,750	1,231,252
Purchases of investments		<u>(1,281,377)</u>	<u>(1,662,103)</u>
Net cash provided by/(used in) investing activities		<u>(384,627)</u>	<u>(430,851)</u>
Cash flows from financing activities			
Applications received		47,781	807,987
Redemptions paid		<u>(24,186)</u>	<u>-</u>
Net cash provided by/(used in) financing activities		<u>23,595</u>	<u>807,987</u>
Net increase/(decrease) in cash and cash equivalents		(361,541)	378,707
Cash and cash equivalents at the beginning of the financial year		400,591	21,849
Effect of exchange rate changes on the balances of foreign currencies		<u>39</u>	<u>35</u>
Cash and cash equivalents at the end of the financial year	10(b)	<u>39,089</u>	<u>400,591</u>

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 2019 was authorised for issue in accordance with a resolution of the Directors of the Trustee on 28 November 2019.

(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 year end financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the AASB. The assets and liabilities are measured at fair value basis, except otherwise stated

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are designated as current assets and liabilities as they are expected to be recovered or settled within twelve months. Financial assets and liabilities 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. 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.

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

The Scheme has classified all of its investments as at fair value through profit or loss including derivatives which are held for risk management purposes.

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 and liabilities at fair value through profit or loss are included in the Statement of Profit or Loss and Other Comprehensive Income in the year in which they arise.

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value with movements taken to the Statements 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 options pricing models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets and liabilities 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.

Futures 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. 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.

(g) Fair value measurement

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.

(h) 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 at fair value through profit or loss

Fair value is the price that would be received from disposing 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 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).

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

Judgements

The Scheme meets the definition of an investment entity under AASB 10 *Consolidated Financial Statements* and therefore is required to measure its interests 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.

(i) Cash and cash equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Receivables

Receivables may include amounts for interest, distributions, outstanding settlements and other income and are measured initially at fair value plus transaction costs. The impact of expected credit losses on financial assets measured at amortised cost is insignificant. Amounts are generally received within 12 months of being recorded as receivable.

(k) 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.

(l) 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 the 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'.

(m) Income and expenses

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

Distribution income from unlisted managed 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 initial fair value (if the investment was acquired during the year).

Expenses are brought to account on an accrual basis.

The Trustee is entitled to receive a fee, calculated in accordance with the Scheme's Constitution, 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 amount reimbursed has been calculated in accordance with the Scheme's Constitution. 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 also include government duties and bank interest expense. Auditor's remuneration has not been charged against the Scheme's income as this cost is borne by the Trustee.

(n) Taxation

The Scheme 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 will be distributed and attributed to unitholders as assessable income for taxation purposes.

(o) 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 attributed to unitholders as assessable income or distributed until realised.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) 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.

(r) Capital management

The Trustee manages its net assets attributable to unitholders as capital. As at 30 June 2018, the Scheme met the conditions required to adopt the AMIT tax regime, however, multi-class scheme has 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 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.

(s) Net assets attributable to unitholders

Units are redeemable at the unitholders' option. As the Scheme is multi-class, the units are equally subordinate but 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 redemption 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.

(t) Application of accounting standards

Changes in Accounting Policy

The Scheme has adopted all mandatory standards and amendments for the financial year beginning 1 July 2018. Adoption of these standards and amendments has not had any material effect on the financial position or performance of the Scheme.

AASB 9 Financial Instruments

AASB 9 contains new requirements for classification, measurement, and derecognition of financial assets and liabilities replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. The Scheme's financial assets and financial liabilities that are measured at fair value through profit or loss continue to be classified and measured at fair value through profit or loss. The Scheme's receivables continue to be classified at amortised cost. Furthermore the Scheme does not apply hedge accounting. The adoption of AASB 9 has not had a significant impact on the Scheme's financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 makes significant changes to revenue recognition and adds some additional disclosures, replacing AASB 111 *Constructions Contracts* and AASB 118 *Revenue*. The new standard provides a five-step model to be applied to all contracts with customers when determining when to recognise revenue, and at what amount. The Scheme's main sources of revenue are distributions, interest income and gains on financial instruments measured at fair value through profit or loss. As all of these revenues are outside the scope of the new standard, the standard does not have a material impact on the Scheme's financial position or performance, or the presentation and disclosures in the Financial Report.

NOTE 2 - INTEREST INCOME

	2019 \$'000	2018 \$'000
Cash and deposits	1,021	871
Deposit held with brokers for margin	6	10
Interest bearing securities	<u>3,026</u>	<u>4,093</u>
	<u>4,053</u>	<u>4,974</u>

NOTE 3 - AUDITOR'S REMUNERATION

	2019 \$	2018 \$
Total amount paid or due and payable to Ernst & Young:		
Audit of financial reports	7,000	7,000
Other assurance engagements	<u>2,374</u>	<u>2,374</u>
	<u>9,374</u>	<u>9,374</u>

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

NOTE 4 - DISTRIBUTIONS

Distributions payable during the year by the Scheme were as follows:

	Class A		Class B	
	\$'000	c/unit	\$'000	c/unit
2019				
June - payable	<u>27,367</u>	<u>1.65</u>	<u>302</u>	<u>1.20</u>
	<u>27,367</u>	<u>1.65</u>	<u>302</u>	<u>1.20</u>
2018				
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>

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

	2019 \$'000	2018 \$'000
Unlisted investment funds	1,370,592	999,379
Fixed interest bonds	16,000	35,727
Floating rate notes	75,923	48,053
Mortgage backed securities	4,992	14,658
Discount securities	154,783	139,481
Asset backed securities	<u>10,567</u>	<u>11,683</u>
Total financial assets at fair value through profit or loss	<u>1,632,857</u>	<u>1,248,981</u>

NOTE 6 - RECEIVABLES

	2019	2018
	\$'000	\$'000
Outstanding settlements	10,000	-
Interest receivable	<u>434</u>	<u>527</u>
	<u>10,434</u>	<u>527</u>

NOTE 7 - PAYABLES

	2019	2018
	\$'000	\$'000
Investment management fees payable - external fund managers	<u>109</u>	<u>199</u>
	<u>109</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 the 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.

(c) Other related party transactions with the Scheme

From time to time, the Directors of MLC Investments Limited or their 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 (2018: 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:

	2019	2018
	\$	\$
Management fees	2,472,839	2,143,914

NOTE 8 - RELATED PARTIES (continued)

(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.

	Number of units held No.	Interest held in the Scheme %	Fair value of investments \$	Distributions paid/payable \$
2019				
MLC Super Fund	1,657,599,405	98.53	1,629,703,766	27,367,387
JANA Investment Trust	25,183,153	1.47	24,258,416	301,452
2018				
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

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.

(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 2019. The significant exposures are held with authorised deposit-taking institutions. There is no exposure to an individual counterparty in excess of 5.2% of the total market value of investment at 30 June 2019 (2018: not in excess of 4%).

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.

NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

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 2019 and 30 June 2018.

2019

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Not Rated \$'000	Total \$'000
Fixed interest bonds	12,933	3,066	-	-	15,999
Floating rate notes	67,920	8,003	-	-	75,923
Mortgage backed securities	4,992	-	-	-	4,992
Discount securities	-	154,783	-	-	154,783
Asset backed securities	10,567	-	-	-	10,567
Total	96,412	165,852	-	-	262,264

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
Total	82,143	149,099	-	18,360	249,602

(c) Financial Assets and Liabilities at Fair Value through Profit or Loss

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 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

	2019			2018		
	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
Financial assets						
Futures contracts	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-
Financial liabilities						
Futures contracts	(13)	1,070	1,057	(114)	1,631	1,517
Credit default swaps	(628)	-	(628)	(429)	-	(429)
Closing balance	(641)	1,070	429	(543)	1,631	1,088

NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)

(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 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 2019 (2018: Nil).

(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.

The changes in interest rates as disclosed in this note are based on assumed fluctuations in interest rates on floating rate financial assets. 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 following tables demonstrate the sensitivity of the Scheme's financial assets 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.

	2019				2018			
	Change in interest rate (basis points)		Effect on Statement of Profit or Loss and Other Comprehensive Income \$'000		Change in interest rate (basis points)		Effect on Statement of Profit or Loss and Other Comprehensive Income \$'000	
	+	-	+	-	+	-	+	-
Fixed interest bonds	100	(100)	(355)	356	100	(100)	(734)	734
Floating rate notes	100	(100)	(88)	89	100	(100)	(37)	38
Mortgage backed securities	100	(100)	(1)	3	100	(100)	(4)	7
Discount securities	100	(100)	(167)	167	100	(100)	(234)	234
Asset backed securities	100	(100)	(6)	7	100	(100)	(9)	10
Credit default swaps	100	(100)	(12)	12	100	(100)	(10)	10
Bond futures	100	(100)	379	(379)	100	(100)	1,143	(1,144)

NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)

(d) Market Risk (continued)

(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 table represents 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	2019				2018			
	Change in price		Effect on Statement of Profit or Loss and Other Comprehensive Income \$'000		Change in price		Effect on Statement of Profit or Loss and Other Comprehensive Income \$'000	
	+	-	+	-	+	-	+	-
Unlisted investment funds	10 %	-10 %	137,059	(137,059)	10 %	10 %	99,938	(99,938)
Total			137,059	(137,059)			99,938	(99,938)

(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.

(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 2019, the overall direct market exposures were as follows:

	30 June 2019		30 June 2018	
	Contract/Notional amount \$'000	Fair value \$'000	Contract/Notional amount \$'000	Fair value \$'000
Derivative instruments				
Futures contracts	27,075	(13)	41,083	(114)
Credit default swaps	13,557	(628)	25,716	(429)
Total	40,632	(641)	66,799	(543)

NOTE 9 - FINANCIAL RISK MANAGEMENT (continued)

(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 trustee/fund manager of the underlying trust/entity.
Interest bearing securities	2	Valued by the sourcing appropriate yield curves based on credit rating, security type and term to maturity.

Financial Instruments	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Unlisted investment funds	-	1,370,592	-	-	999,379	-
Fixed interest bonds	-	16,000	-	-	35,727	-
Floating rate notes	-	75,923	-	-	48,053	-
Mortgage backed securities	-	4,992	-	-	14,658	-
Asset backed securities	-	10,567	-	-	11,683	-
Discount securities	-	154,783	-	-	139,481	-
Bond futures	(13)	-	-	(114)	-	-
Credit default swaps	-	(628)	-	-	(429)	-
Total	(13)	1,632,229	-	(114)	1,248,552	-

There have been no movements into or out of Level 2 and Level 3 for the year ended 30 June 2019 and 30 June 2018.

NOTE 10 - NOTES TO THE STATEMENT OF CASH FLOWS

	2019 \$'000	2018 \$'000
(a) Reconciliation of operating profit to net cash flows from operating activities		
Net operating profit/(loss)	8,678	(35,681)
Changes in the fair value of financial assets and liabilities at fair value through profit or loss	(9,190)	37,199
<i>Changes in the assets and liabilities during the year:</i>		
(Increase)/decrease in interest receivables	93	53
Increase/(decrease) in investment management fees payable	(90)	-
Net cash provided by/(used in) operating activities	<u>(509)</u>	<u>1,571</u>

(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 financial year 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	38,019	363,960
Term deposits	-	35,000
Futures margin	1,070	1,631
	<u>39,089</u>	<u>400,591</u>

(c) Non-cash financing and investing activities

Distributions to unitholders reinvested	7,252	-
	<u>7,252</u>	<u>-</u>

NOTE 11 - 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 12 - COMMITMENTS AND CONTINGENT LIABILITIES

The Scheme has no known commitments or contingent liabilities as at 30 June 2019 (2018: Nil).

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 and *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of the Scheme as at 30 June 2019 and its performance for the year ended on that date;
- (b) complying with Australian Accounting Standards and *Corporations Regulations 2001*;
- (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: CLAIRE KEATING

Signature: 

Dated at Sydney this 28th day of November 2019

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 2019, the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders 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 2019, 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.

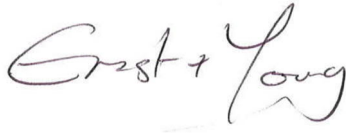
Auditor's Responsibilities for the Audit of the Financial Report

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 Scheme'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 Scheme'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 Schemes 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
28 November 2019