Morningstar Multi Asset Real Return Fund

Q22019

All data and information as at Portfolio Date: 30/06/2019

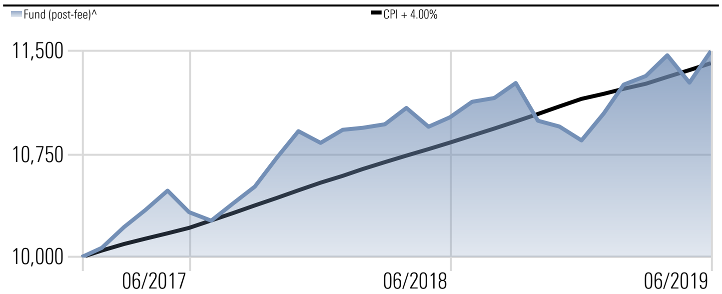
Quarterly Performance Update

Inception: 1 February 2017*
Size $m: 183.3
Unit pricing: Daily
Distributions: Quarterly
Management Costs: Up to 0.76% (effective from 30 September 2018)**
Buy/Sell Spread: 0.10%/0.10%
Minimum investment: $10,000

Management Costs include Morningstar's management fee of 0.70% as well as our reasonable estimate of indirect costs which include performance-related fees charged by underlying managers.

What's the purpose of this fund?

The fund aims to earn a rate of return that exceeds the Consumer Price index by at least 4.0% pa over a rolling 7 year periods.



Past performance is not a reliable indicator of future performance.
Returns over 12 months are annualised.

How the investment portfolio has performed

	2yr (%)	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (post-fee)^	5.52	4.37	1.60	5.95
CPI + 4.00%^^	5.70	5.33	1.33	5.61

The pre-fee investment performance is expressed before management fees, costs and taxes. The post-fee return is after management fees, costs and before taxes. The management fee is inclusive of GST (after taking into account Reduced Input Tax Credits) and can be negotiated for direct investors. The Fund also has exposure to underlying investment managers which charge performance fees and these are an additional cost to you and impact the return.

Quarter-end Asset Allocation

Portfolio Date: 30/06/2019

	%
Grow (Growth)	42.8
Protect (Defensive)	34.1
Diversify (Alternatives)	23.1
Total	**100.0**

"Only if your behaviour is unconventional is your performance likely to be unconventional … and only if your judgements are superior is your performance likely to be above average."

— Howard Marks: Investor, writer and co-founder of Oaktree Capital Management.

At a glance….

- The expectation of lower interest rates, both in Australia and abroad, has fueled gains in share and bond markets which are unsustainable on a long-term basis, in our view.
- The risk of permanently losing capital is now significant, leading us to adopt an increasingly cautious position across the portfolio.
- The portfolio has a lower allocation to growth assets, like shares, and is holding more cash than normal.

2019 has been a remarkable period for investors. The expectation of lower interest rates, notably in the US, Europe and Australia, has triggered a sharp rebound in investor sentiment, with investors once again complacent about risks and overly optimistic about future outcomes. This has flowed through into strong returns for investors in both shares and bonds, resulting in another year of above-average returns for the portfolio.

Concerningly, we think investors in key global share and bond markets are now paying much more for these assets than what we believe they are worth. This increases the risk of losing money that may never be made back. Indeed, many shares and bonds have never been this expensive, all at the same time, on our analysis. This leads us to adopt our most cautious portfolio positioning to date. Understandably, this statement may make some readers uneasy. To be clear, we are not forecasting an imminent or catastrophic decline in markets. In fact, there is a chance that the "good times" continue and that euphoric investor sentiment drives share markets even higher. However, we believe that the likelihood of this outcome is low, with the balance of probabilities suggesting that this period of strong returns is unlikely to be sustained. In such an environment, we must pull all available levers to help preserve capital. In its simplest form, this means holding more cash than we otherwise may like, in wait for future opportunities to buy better value assets.

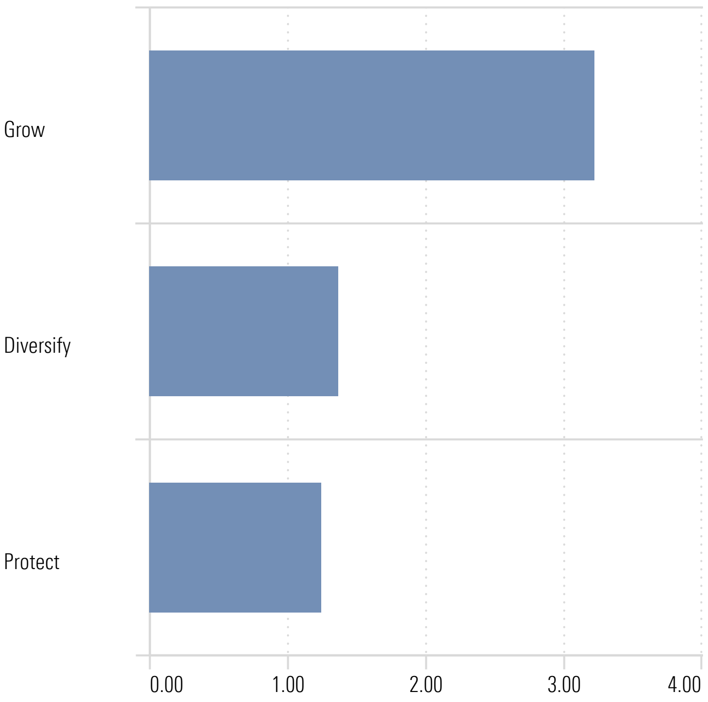
The portfolio remains well positioned to continue to achieve its longer-term objectives, with our process still identifying attractive opportunities, given our willingness to be different. Notably, shares in Japanese and UK companies, which remain weighed down by the threat of 'trade wars' and Brexit respectively, increasingly appeal as investors have become too pessimistic on the outlook for companies in these markets, in our view.

This is especially the case when compared to companies in the US and Australia, where justification of current share prices forces us to make unrealistic assumptions around corporate profitability (for example, that profit margins remain elevated for an abnormal period of time – again, possible …. but unlikely). In this respect, investors seem to be willing to pay a significant premium for growth that may not be sustained, which is irrational, in our opinion. Limiting our investments in longer dated bonds (which are most vulnerable to changes in interest rate expectations), at a time when interest rates are at or near record lows in much of the developed world, also makes sense to us, given the heightened potential to lose money from what is typically considered to be a relatively safe asset.

*The Fund's inception date used is 1 February 2017, the start of the full implementation of the Valuation Driven asset allocation process.
**Management fees can be negotiated and may be less than the standard management fee. The portfolio may include exchange traded funds which charge management fees and these are an additional cost to individual investors and impact their return. This and any other indirect costs incurred by the portfolio is captured within 'Management Costs' above.
^Investment performance is before tax and after the standard management fee (inclusive of GST).
^^The CPI was not available for the current period at the time of creation. CPI for the same period of previous year has been used as a proxy for the current period. Please note the actual CPI for the current quarter will differ to the proxy used.

Information about the portfolio's performance

What drove portfolio performance over the past year?



Actual outcomes may differ, as the chart has been prepared using a monthly 'buy and hold' approach

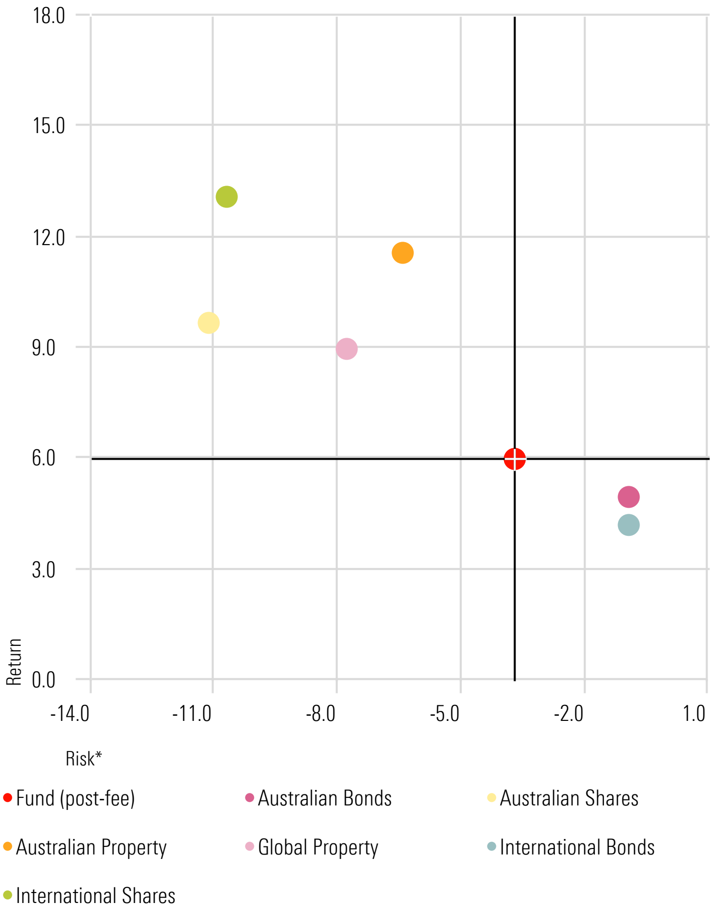
This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

The performance of international shares was the key driver of portfolio returns over the past year.

Volatility in the final quarter of 2018 impacted returns from major global share markets, including U.S. and Japanese shares, however, 2019 has been a very strong period for share markets, with investor sentiment supported by the softening interest rate outlook, both domestically and abroad.

We continue to prefer U.K, Japanese and Emerging Market shares.

Risk versus reward since inception



*Risk is measured as the maximum loss from a peak to a trough for that investment during the period.

This chart shows how a number of investments have performance on average since full implementation of the Fund's strategy, which occured on 1 February 2017.

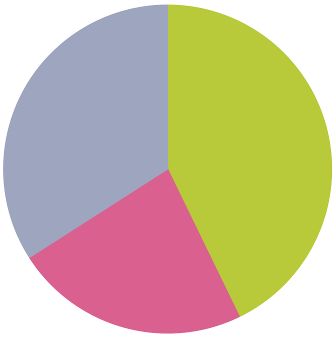
Returns alone are not the full picture. You cannot generate returns without taking on a level of risk. The chart shows the 'riskiness' of each investment relative to its average return.

You want to be as close to the top right corner of the chart as possible, as this indicates high returns achieved with less risk. You would expect cash to be towards the bottom right of the chart, with little to no risk and consequently, low returns.

It's important to note that past performance is not a reliable indicator of future performance and **riskiness of investments may far exceed what has occurred in the past.**

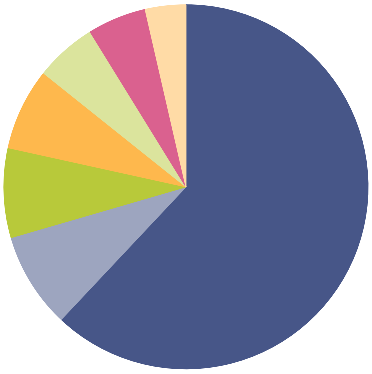
Information about what the portfolio is invested in

Portfolio Positioning %



	%
Global Developed Equities	17.8
European Equities	10.3
Emerging Market Equities	8.6
Australian Equity	6.0
REITs and Infrastructure	5.6
Natural Resource Equities	3.5
Private Debt and Credit	4.3
Systematic Macro Strategies	3.6
Foreign Currency	2.3
Emerging Market Debt	2.3
Long/Short Strategies	1.6
Cash	23.2
Inflation Linked Bonds	4.9
International Bonds	4.0
Australian Bonds	1.2
U.S. High Yield Bonds	0.8
Total	**100.0**

Foreign Currency Exposure %

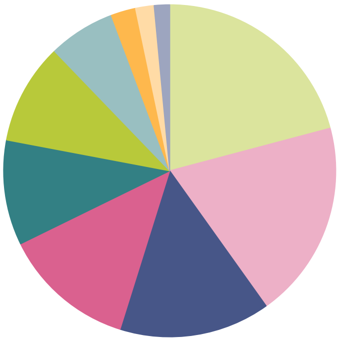


	%
Australian Dollar	62.0
US Dollar	8.5
Combined Emerging Markets	7.9
Euro	7.3
British Pound	5.5
Other Developed Markets	5.2
Japanese Yen	3.6
Total	**100.0**

Equity Sector Exposure

	%
Financials	14.9
Communication Services	13.4
Information Technology	11.4
Energy	10.8
Consumer Discretionary	10.4
Industrials	9.2
Utilities	8.2
Healthcare	7.4
Materials	7.0
Consumer Staples	6.3
Real Estate	1.2
Total	**100.0**

Equity Regional Exposure

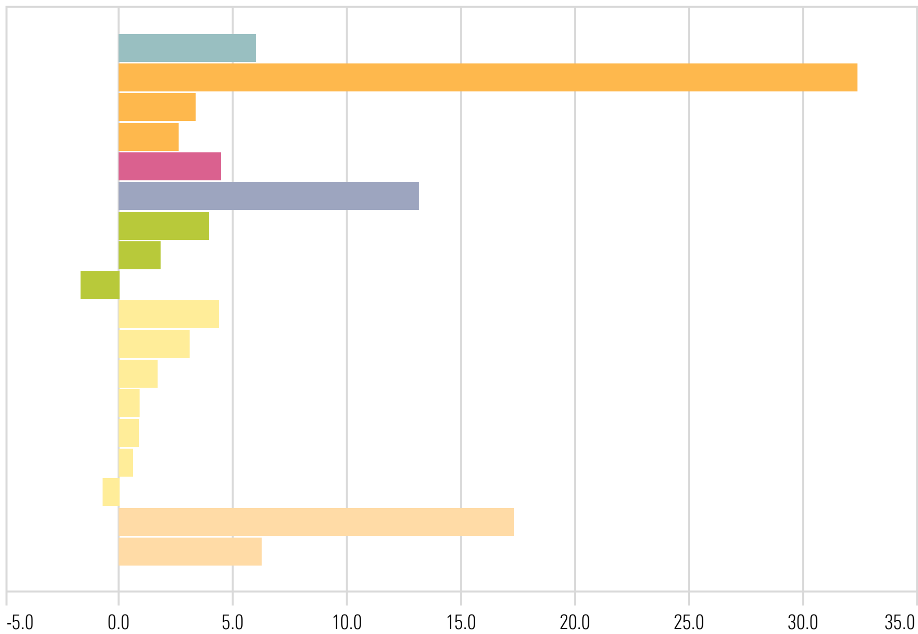


	%
Europe dev	20.9
Japan	19.3
North America	14.7
Australasia	12.9
Asia dev	10.2
United Kingdom	9.8
Asia emrg	6.5
Europe emrg	2.4
Africa	1.8
Latin America	1.5
Total	**100.0**

Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	6.0
International Shares - Morningstar	32.4
International Shares - Others	3.3
International Shares - iShares (ETF)	2.6
Global Property & Infrastructure - Omega	4.4
Alternative Investments - Diversified Alternatives	13.1
Australian Bonds - Omega	3.9
Australian Bonds - Metrics	1.8
Australian Bonds - Others	-1.7
International Bonds - Omega	4.4
International Bonds - Colchester	3.1
International Bonds - Standish	1.7
International Bonds - Ashmore	0.9
International Bonds - Shenkman	0.8
International Bonds - T Rowe Price	0.6
International Bonds - Others	-0.8
Cash - Omega	17.3
Cash - Others	6.2
Total	**100.0**



* Others can include futures, liquidity and transition cash, other exchange traded funds and direct stocks. Further information on the underlying holdings of the fund is available by contacting your financial adviser or Morningstar.

Top equity holdings

Top 20 holdings: 9.21%   Other: 90.79%

	Portfolio Weighting %	Country	Sector
Stock	**9.21**		
Telefonica SA	0.64	ESP	Communication Services
Swisscom AG	0.63	CHE	Communication Services
Mitsubishi UFJ Financial Group Inc	0.60	JPN	Financials
Vodafone Group PLC	0.58	GBR	Communication Services
Linde PLC	0.58	GBR	Materials
Royal Dutch Shell PLC B	0.53	GBR	Energy
BT Group PLC	0.52	GBR	Communication Services
Total SA	0.47	FRA	Energy
Sumitomo Mitsui Financial Group Inc	0.47	JPN	Financials
BP PLC	0.44	GBR	Energy
Orange SA	0.43	FRA	Communication Services
WPP PLC	0.42	GBR	Communication Services
Telenor ASA	0.40	NOR	Communication Services
Qualcomm Inc	0.38	USA	Information Technology
Mizuho Financial Group Inc	0.38	JPN	Financials
Roche Holding AG Dividend Right Cert.	0.36	CHE	Health Care
AutoZone Inc	0.35	USA	Consumer Discretionary
Perpetual Ltd	0.35	AUS	Financials
LVMH Moet Hennessy Louis Vuitton SE	0.34	FRA	Consumer Discretionary
Walmart Inc	0.34	USA	Consumer Staples

Transactions over the quarter

Action		Security/Fund Name
Grow		**Allocation Change:Increase**
↓	**Decreased**	Morningstar Emerging Markets
↓	**Decreased**	iShares Core MSCI Emerging Markets ETF
Rationale		While Emerging Markets remain among our key investment opportunities, the addition of other attractively priced shares into the portfolio, most notably in German equities, leads us to resize the positiong slightly lower to maintain our focus on true diversification and preserving capital in overvalued markets.
+	**Added**	iShares Core DAX UCITS ETF
Rationale		European shares continue to offer a much better reward for risk than U.S. peers. This is particularly the case for regional heavyweight, Germany, whose corporates have delivered expanding margins following a period focused on cost efficiencies (notwithstanding specific risks to the sizeable auto industry from both automation and trade tariffs). With attractive valuations, we initiate a standalone position in this market, which includes a range of high quality, household names like SAP, Siemens, Bayer, BMW, & Adidas.
↑	**Increased**	Japan Nikkei 400 Equity Futures
Rationale		Japanese equities rank among our preferred equity regions, with attractive valuations supported by structural reform that sees corporate governance, profit margins and dividend payouts all improving. Indeed, the relative appeal of Japanese equities has improved with the risk of 'trade wars' impacting sentiment (and leading to recent underperformance of key global peers, like the U.S.). With this, we increase our allocation to the JPX-Nikkei 400 Index, which identifies Japanese corporates that meet the requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.
Protect		**Allocation Change:Decrease**
↓	**Decreased**	Ashmore Emerging Markets Debt Fund
↑	**Increased**	Colchester Global Sovereign Bonds
Rationale		A softening of interest rates expectations in the U.S., as the Federal Reserve reaffirms its commitment to supporting markets, has led to improved sentiment toward Emerging Market assets. This has resulted in Emerging Market bonds performing well over the course of 2019. With this, we trim our allocations to the Ashmore Emerging Market Debt Fund, reinvesting the proceeds into Colchester's Global Sovereign Bonds strategy, given that developed world bonds are now relatively more attractive compared to Emerging Market peers.
↓	**Decreased**	Morningstar Cash Fund
Rationale		With equity and fixed interest markets increasingly expensive, on our analysis, we continue to hold higher levels of cash in wait for more compelling investment opportunities and to help minimise the risk of permanent impairment of capital by otherwise investing in overvalued asset classes.
Diversify		**Allocation Change:No Change**

Morningstar Multi Asset Real Return Fund

The Morningstar Multi Asset Real Return Fund is an unconstrained, multi asset real return managed fund which blends our local and global research insights and our valuation-driven asset allocation (VDAA) approach into one portfolio. It represents the purest implementation of what we consider to be the highest returning and lowest risk investment opportunities available.

Investing without regard for a long-term split between growth and defensive assets, the portfolio targets a CPI + 4% objective over rolling 7-year periods. With this, the portfolio can be 0 – 100% invested in growth assets and 0 – 100% invested in defensive assets. The fund is designed to deliver consistent returns that aren’t dependent on the direction of the broad markets. By adapting to all kinds of market environments as it looks to focus on those assets offering the best reward for risk, we aim to limit drawdowns whilst also offering diversification relative to traditional markets.

What types of assets can the Morningstar Multi Asset Real Return Fund invest in?

Investing across three buckets, the fund utilises a large opportunity set with investments potentially including:

- **Grow** - Australian equities, international equities (regions, countries & sectors)
- **Protect** - Australian bonds, global bonds, inflation-linked bonds, corporate bonds and cash
- **Diversify** - Long/short strategies, Emerging Market bonds, macro strategies, insurance-linked securities, bank loans, alternative debt, foreign currency, private equity, equity volatility strategies, Australian and international property and global infrastructure

The fund leverages Morningstar’s asset allocation and portfolio construction expertise, building the portfolio using direct equity strategies, Exchange Traded Funds (ETFs) and external managers to deliver a final portfolio that offers investors a superior reward for risk.

Morningstar's Investment Principles

We put investors first. We believe the firms that put investors first win in the long term because their investors win.

Since 1984, Morningstar, Inc. has been helping investors reach their financial goals. Our fiduciary duty to our principals is paramount.

We're independent-minded. To deliver results, we think it's necessary to invest with conviction, even when it means standing apart from the crowd.

Our research shows that making decisions based on fundamental analysis, rather than short-term factors and sentiment, delivers better long-term investment results.

We invest for the long term. Taking a patient, long-term view helps people ride out the market's ups and downs and take advantage of opportunities when they arise.

Investing with a multi decade horizon aligns with investors focus on increasing their purchasing power over their lifetimes.

The long term is the only period where fundamental, valuation driven investing works.

We're valuation-driven investors. Anchoring decisions to an investment's fair value—or what it's really worth—can lead to greater potential for returns.

Valuation-driven investing through a long-term focus on the difference between price and intrinsic value enables investors to get more than they're paying for.

We take a fundamental approach. Powerful research is behind each decision we hold, and we understand what drives each investment we analyse.

Fundamental investing incorporates a focus on the future earnings of an investment and not its prospective price change.

We strive to minimise costs. Controlling costs helps investors build wealth by keeping more of what they earn.

Investment returns are uncertain, but costs are not.

Lower costs allow investors to keep more of their returns.

We build portfolios holistically. To help manage risk and deliver better returns, truly diversified portfolios combine investments with different underlying drivers.

Portfolios should be more than the sum of their parts.

True diversification can have a powerful impact on a portfolio's risk-adjusted returns – but simply holding more investments isn't the same as true diversification.