Morningstar Multi Asset Real Return Fund

Q12019

All data and information as at Portfolio Date: 31/03/2019

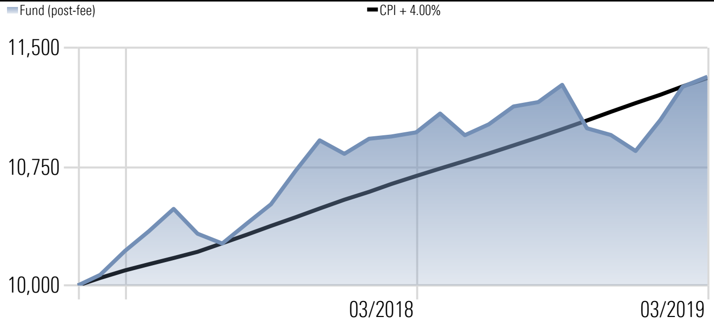
Quarterly Performance Update

Inception: 1 February 2017*
Size $m: 176.3
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

	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (pre-fee)	3.95	4.51	6.64
Fund (post-fee)	3.20	4.32	5.88
CPI + 4.00%	5.78	1.42	5.84

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: 31/03/2019

	%
Grow (Growth)	42.5
Protect (Defensive)	37.3
Diversify (Alternatives)	20.2
Total	100.0

"Return alone — and especially return over short periods of time — says very little about the quality of investment decisions."

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

Your top five take aways

- Key global share markets staged an extraordinary rally in the first months of 2019, with investor sentiment backflipping from a difficult final quarter of 2018.
- Bond markets too generally performed well. In each case, investors were buoyed by softening expectations for future interest rate rises.
- Share and bond markets again look increasingly unattractive versus their long term fair value. In this challenging environment, U.K. shares, Japanese shares, Emerging Market shares and bonds and, most importantly, cash remain our preferred investment opportunities.
- As always, it's important to build portfolios with assets that have different drivers of return, in order to help preserve capital.
- While we cannot predict the timing and catalyst for future weakness, we position our portfolios where we are being rewarded for investing.

The March quarter marks ten years since major share markets bottomed during the Global Financial Crisis. As we look back over the ensuing decade, we are reminded of what an extraordinary period of returns it has been for investors, with Central Bank support underpinning investor sentiment on a scale that we could not previously imagine. With this, share and bond markets have delivered well in excess of what we might reasonably expect over that time, while periods of loss have been conspicuoully rare. Indeed on this latter point, a typical diversified portfolio saw its largest losses since the European Financial Crisis (2011/12) occur in the final quarter of last year, although this was a fraction of what was experienced during the Global Financial Crisis. In our view, losses of this small magnitude and low frequency are unsustainable and not indicative of 'normal' market behaviour.

Against that backdrop, it is curious to note how quickly the poor investor sentiment from Q4 2018 has reversed, allowing investors to again feel comfortable to invest. The reasons behind this are not clear – many of the issues that were commonly cited behind the falls toward the end of 2018, remain. Brexit, for instance, has marched past the March 29 deadline with still no resolution in place. Nonetheless, it is clear that investors have taken heart from comments from the U.S Federal Reserve that further interest rate hikes are off the table, for now at least.

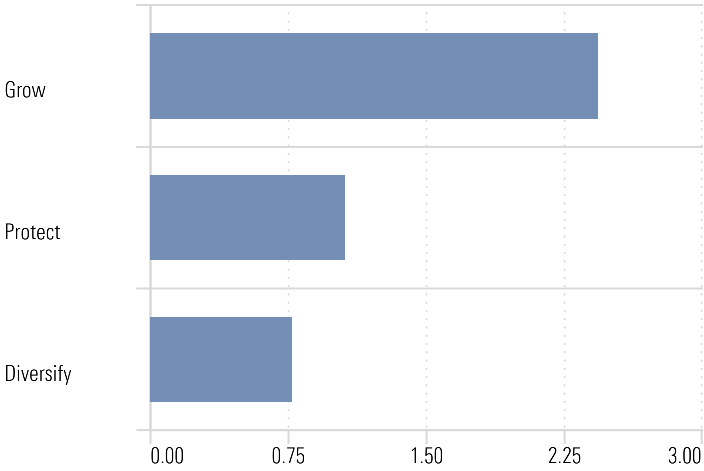
The decline in global interest rate expectations has been significant, leading shares to rally strongly (it makes it easier to justify higher share prices with lower interest rates). Bonds too have performed well (bond prices rise as interest rate expectations fall, all else being equal) but the messaging from the bond market is painting a different picture – one reflecting concerns around the outlook for the global economy. This more cautious outlook extends to Australia, with our 10-year bond yield touching record lows toward the end of the quarter (falling below 1.8%!), while the German 10-year bond yield has turned negative for the first time in more than two years.

For all of the recent volatility, expected returns are little changed from this time a year ago, with many key share and bond market valuations appearing stretched, thereby raising the risk of permanent loss of capital. In such an environment, the ability of bonds to provide meaningful diversification to shares becomes much more limited, highlighting the importance of building portfolios with assets that have different drivers of return, in order to help preserve capital. While we cannot predict the timing and catalyst for future weakness, we must position our portfolios where we are being rewarded for investing. After all, only those investors that were positioned to withstand (or mitigate) the losses incurred during the Global Financial Crisis, and were able to keep their behavioural biases in check throughout this time by demonstrating a willingness to be different, were able to enjoy the period of above average returns that followed.

* The inception date used is 1 February 2017, the start of the full impementation of the Fund's strategy.

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

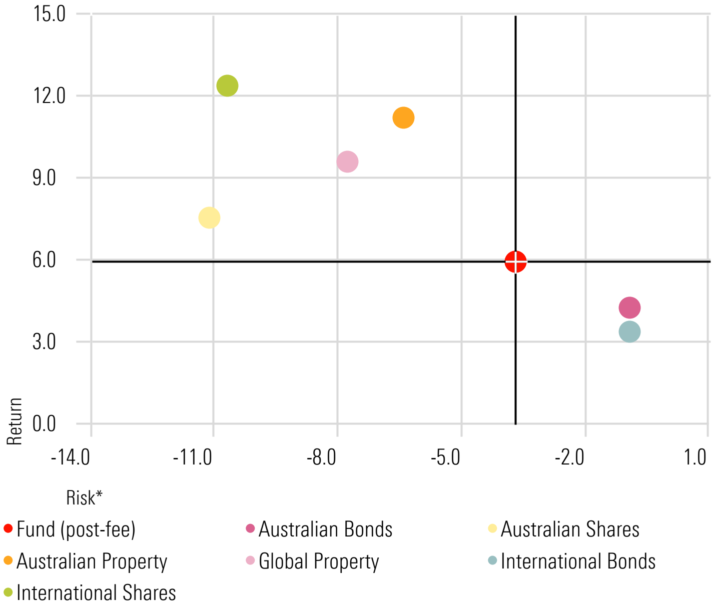
This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

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, the start of 2019 has been a very strong period for share markets with investor sentiment buoyed by expectations that we will not see further interest rates rises.

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

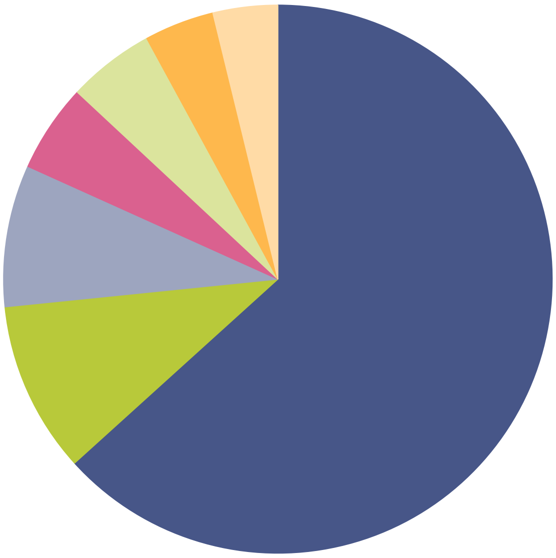
This chart shows how a number of investments have performance on average since full implementation of the Fund's strategy, which occured on 1 February 2017.

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.**

Foreign Currency Exposure %



	%
AUD	63.3
Combined EM	10.1
USD	8.4
Other DM	5.2
GBP	5.1
EUR	4.1
JPY	3.8
Total	100.0

Information about what the portfolio is invested in

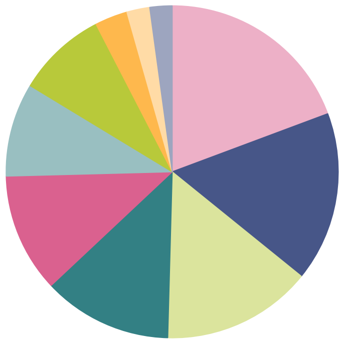
Portfolio Positioning %

	%
Global Developed Equities	16.5
Emerging Market Equities	11.4
European Equities	8.5
Australian Equity	6.0
Foreign Currency	2.8
Natural Resource Equities	3.6
Private Debt and Credit	3.3
Systematic Macro Strategies	2.6
REITs and Infrastructure	4.0
Long/Short Strategies	1.6
Emerging Market Debt	2.3
Cash	25.5
Inflation Linked Bonds	5.0
Australian Bonds	2.5
International Bonds	3.6
U.S. High Yield Bonds	0.8
Total	100.0

Equity Sector Exposure

	%
Financials	14.8
Information Technology	13.0
Telecom Services	12.8
Energy	11.6
Consumer Discretionary	10.3
Industrials	8.3
Consumer Staples	8.1
Healthcare	8.0
Materials	6.1
Utilities	5.6
Real Estate	1.3
Total	100.0

Equity Regional Exposure

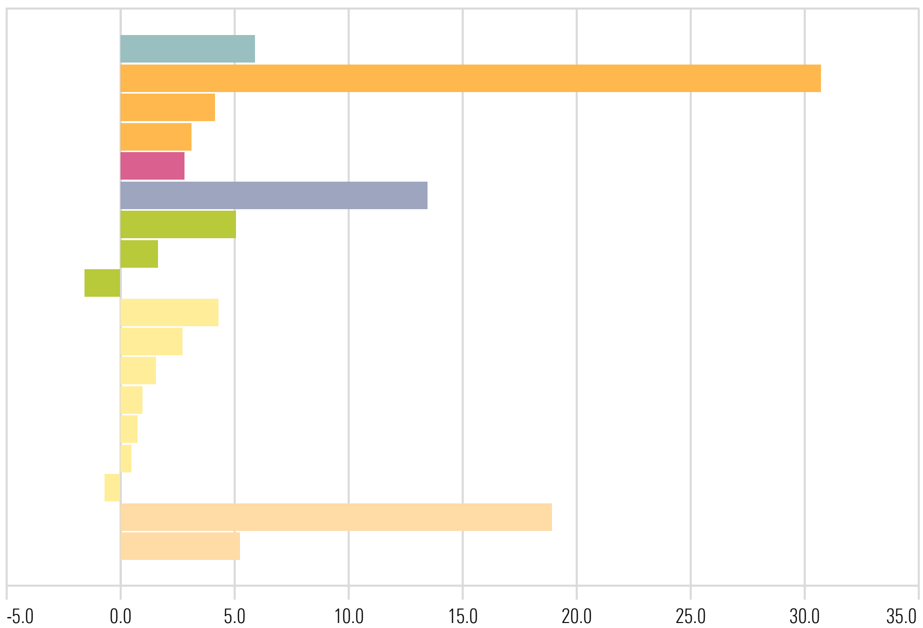


	%
Japan	19.3
North America	16.5
Europe dev	14.6
Asia dev	12.6
Australasia	11.6
Asia emrg	9.1
United Kingdom	8.7
Europe emrg	3.2
Africa	2.2
Latin America	2.2
Total	100.0

Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	5.9
International Shares - Morningstar	30.7
International Shares - Others	4.2
International Shares - iShares (ETF)	3.1
Global Property & Infrastructure - Omega	2.8
Alternative Investments - Diversified Alternatives	13.5
Australian Bonds - Omega	5.1
Australian Bonds - Metrics	1.7
Australian Bonds - Others	-1.5
International Bonds - Omega	4.3
International Bonds - Colchester	2.7
International Bonds - Standish	1.6
International Bonds - Ashmore	1.0
International Bonds - Shenkman	0.8
International Bonds - T Rowe Price	0.5
International Bonds - Others	-0.7
Cash - Omega	18.9
Cash - Others	5.3
Total	100.0



* Others can include futures, liquidity and transition cash, other exchange traded funds and direct stocks.

Top equity holdings

Top 20 holdings: 8.72%   Other: 91.28%

	Portfolio Weighting %	Country	Sector
Stock	8.72		
Mitsubishi UFJ Financial Group Inc	0.62	JPN	Financials
Swisscom AG	0.58	CHE	Communication Services
Telefonica SA	0.54	ESP	Communication Services
Vodafone Group PLC	0.54	GBR	Communication Services
BT Group PLC	0.50	GBR	Communication Services
Royal Dutch Shell PLC B	0.48	GBR	Energy
Sumitomo Mitsui Financial Group Inc	0.45	JPN	Financials
AutoZone Inc	0.44	USA	Consumer Discretionary
Total SA	0.44	FRA	Energy
BP PLC	0.43	GBR	Energy
China Mobile Ltd	0.39	CHN	Communication Services
Mizuho Financial Group Inc	0.39	JPN	Financials
Cisco Systems Inc	0.38	USA	Information Technology
Orange SA	0.38	FRA	Communication Services
Waters Corp	0.38	USA	Health Care
Roche Holding AG Dividend Right Cert.	0.36	CHE	Health Care
Telenor ASA	0.36	NOR	Communication Services
Microsoft Corp	0.35	USA	Information Technology
Oracle Corp	0.35	USA	Information Technology
McDonald's Corp	0.35	USA	Consumer Discretionary

Transactions over the quarter

Action		Security/Fund Name
Grow		**Allocation Change: Decrease**
↑	Increased	Morningstar Australian Equity Income Fund
	Rationale	The Morningstar Australian Equity Income Fund is a portfolio of securities selected because they appeal on a quality, value and income basis. While the Australian market in aggregate remains unattractive, select opportunities remain for this income strategy, as global interest rate and inflation expectations begin to normalise.
↓	Decreased	Morningstar International Shares Fund
	Rationale	The Morningstar International Shares Fund is a diversified portfolio of international securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued quality securities. We have trimmed our allocation to this strategy given the sharp rally across global equity markets over the quarter, which generally sees lower future expected returns on offer. Note: investors in the fund do not incur any additional underlying investment management fees when they access this fund via a Morningstar Real Return Managed Fund.
↓	Decreased	iShares Core MSCI Emerging Markets ETF
	Rationale	While Emerging Markets have borne the brunt of negative sentiment during 2018, around the impact of trade tariffs as well as country-specific issues, they held up reasonably well in the volatility that swept through markets toward the end of year, with Chinese equities, in particular, further enjoying a strong start to 2019. As such, while Emerging Markets remain among our key equity opportunities, their relative appeal has diminished slightly, and we trim our investment accordingly.
Protect		**Allocation Change: Increase**
↓	Decreased	Morningstar Australian Bonds Fund
	Rationale	Bond yields have fallen significantly (the Australian 10-year bond yield ended the quarter at around 1.8%, having been as high as 2.7% in November 2018), as expectations for rising domestic interest rates become tempered. The resulting strength in bond prices sees a poorer reward for risk looking forward, leading us to downgrade our conviction to the asset class.
↓	Decreased	Morningstar International Bonds Fund (Hedged)
	Rationale	The Morningstar International Bonds Fund (Hedged) is a diversified portfolio managed by leading global fixed income managers. A softening of rising interest rate expectations in the U.S. has seen longer dated bond yields fall back (U.S. 10-year bond yields are approximately 2.5%). The resulting strength in bond prices has led us to trim our allocation to longer dated U.S. bonds. Note: investors in the International Bonds Fund do not incur any additional underlying investment management fees when the fund is accessed via an investment in a Morningstar Multi Asset Portfolio. Where that Morningstar fund uses third party managers, Morningstar absorbs the management fee charged by the investment manager.
↔	No Change	Morningstar Global Inflation-linked Bonds Fund
	Rationale	With inflation-linked bonds, the value of the principal rises (or falls) with changes in inflation expectations. However, they are also influenced by real yields and so, while inflation expectations in Australia remain low, the impact of falling real yields means that longer dated inflation-linked bonds are becoming increasingly unattractive (leading us to lower our conviction to the asset class). With this, we rotate part of our Australian inflation-linked bond exposure into global inflation-linked bonds, with U.S. inflation-linked bonds notably offering us a much more attractive reward for risk.
↑	Increased	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.