Multi Asset Real Return Fund

Quarterly Performance Update

Q22018

All data and information as of June 30, 2018

Strategy Inception	01 Feb 2017
Size $m	188.5
Unit Pricing	Daily
Distributions	Quarterly
Management Costs	Up to 0.76%
Buy/Sell Spread	0.10% / 0.10%
Minimum Investment	$20,000

Management Costs include Morningstar's management fee of 0.72% as well as our reasonable estimate of indirect costs which include performance-related fees charged by underlying managers.

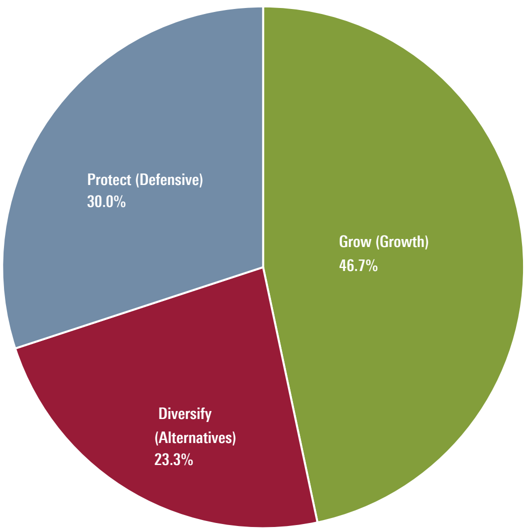
Total Returns %

	1y	3m	Inception (pa)
Fund (pre-fee) [1,2]	7.45	0.64	7.84
Fund (post-fee) [1,2]	6.68	0.46	7.07
CPI + 4.0% pa	6.08	1.33	5.81

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

1. 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.
2. Inception date for the Strategy is 1/02/2017. The inception return is calculated from the first month end after the inception date.

Current Asset Allocation %



'In the short run the market is a voting machine - reflecting a voter registration test that requires only money not intelligence or emotional stability - but in the long run the market is a weighing machine'.-
— Benjamin Graham and Warren Buffett

Key points

- The upward path of U.S. interest rates and increasing trade tensions has impacted investor sentiment in recent months, leading to heightened volatility
- Recent weakness in Emerging Market shares and bonds sees them stand out in a world of few opportunities

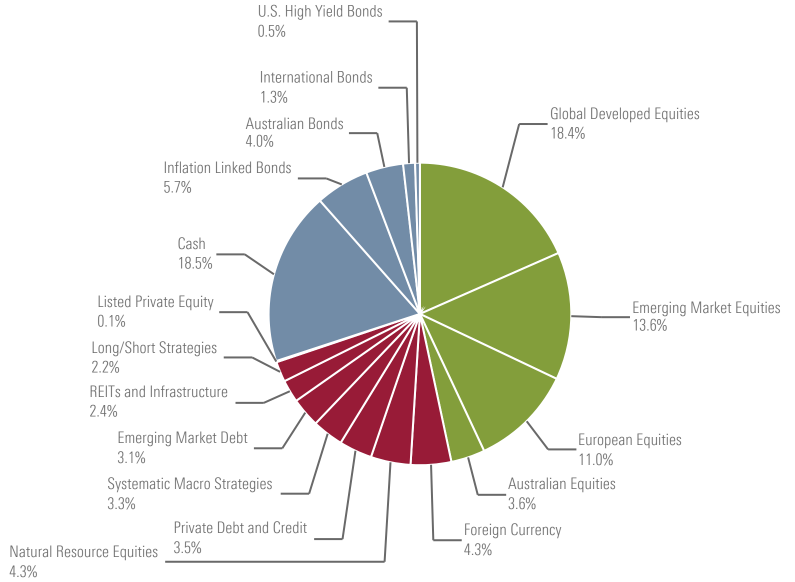
2018 has proven to be a challenging year so far. The strong gains and buoyant sentiment of 2017 feel like a distant memory, having been replaced by a more cautious period of muted returns from key share and bond markets. In many cases, the cause for investor concern is not new. The upward direction for the outlook for U.S. interest rates has been on the horizon for some time. Global political issues too, like the ongoing Brexit negotiations, are well known, notwithstanding the increasing news flow in recent times. Indeed, concerns over the political outlook in Italy (and by extension the health of Italian banks) have again risen to the surface. Granted, these issues are a little further down the road toward resolution, but understandably are still triggering investor anxiety along the way. New challenges have though emerged, notably via an escalation of trade tensions, which, for example, has reignited Emerging Market uncertainty, particularly regarding China. Closer to home, investors have had to digest the surprising and explosive revelations aired during the Banking & Financial Services Royal Commission.

Against such a backdrop, it should come as no surprise that financial markets have endured a volatile time. This change in investor sentiment is noteworthy. For too long, investors have thought the strong market returns were reasonable and sustainable expectations for the future. Having been increasingly complacent in their approach toward the end of 2017, investors have had their attitudes toward risk sharply refocused. In our view, this prudence is warranted but, as is often the case, investors have fled those assets with the greatest perceived uncertainty. This has often been without regard for the price of the asset, as many investors solely focus on removing the discomfort of being invested in assets where fear and worry is the greatest. This irrational response has resulted in significant outflows from Emerging Market shares, bonds and currencies just like in late 2016. This 'flight to safety' has further contributed to a strengthening U.S. dollar, which was already experiencing upward pressure, given the growth of the U.S. economy. In each case, however, while risks remain, the fundamental drivers of cash flows from these assets (for instance, dividends) appear strong; and importantly, valuations having further improved with this recent weakness (suggesting that investors are being compensated for the risks of investing in these assets).

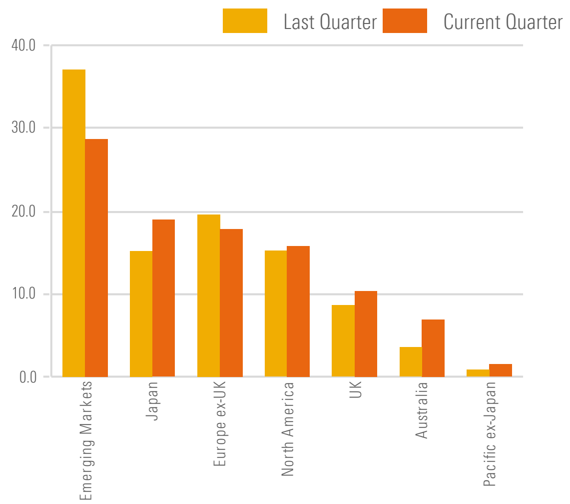
This point regarding valuations cannot be underestimated. While there are plenty of potential catalysts for weakness firmly on the radar, attempting to predict the actions of global Central banks and governments, which are heavily dictating sentiment, is a fruitless exercise. What remains a far better guide to identifying sources of potential future returns is to invest based on an understanding of "what is in the price". In this respect, attractively priced opportunities remain few and far between. Indeed, many of the traditional asset classes favoured by Australian investors, such as Australian and U.S. equities, offer a poor reward for risk. Similarly, global bonds are expected to deliver negative returns, after inflation, over the longer term, as stimulatory monetary policy, in place since the Global Financial Crisis, is unwound. With this, while we welcome the recent caution, investors still appear to be too optimistic on the outlook for portfolio returns given the opportunities currently available. In this environment, with valuations expensive and the risk of loss remaining elevated, we continue to ensure our portfolio focus is on the assets offering the best future return opportunities and balancing this with holding higher levels of cash than what we might normally.

Allocation Overview

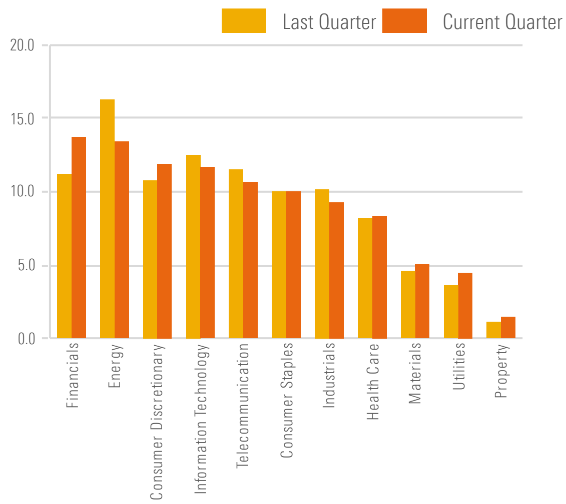
Portfolio Positioning %



Growth Assets Regional Allocations %

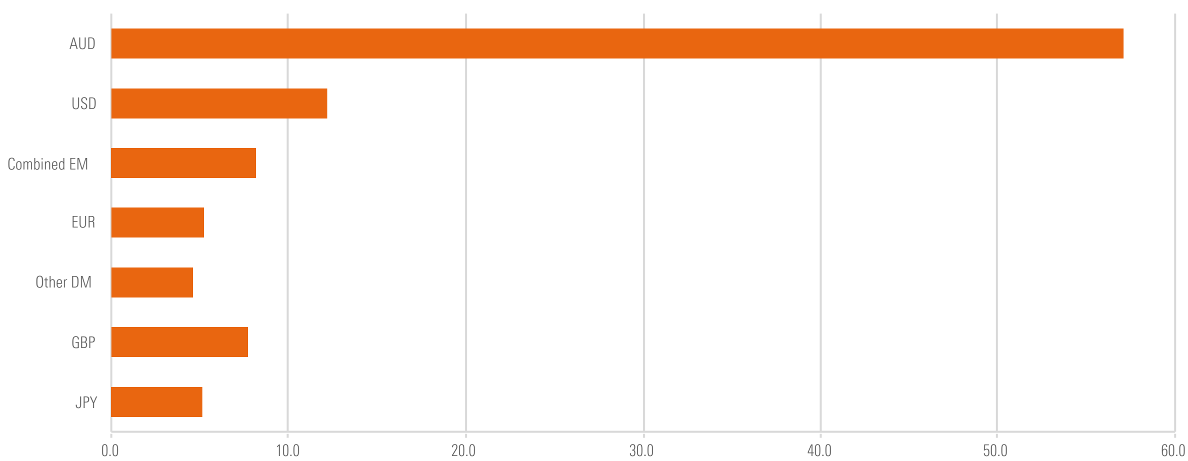


Growth Assets Industry Sector Allocations %



Growth Assets in the charts above include Australian Shares, International Shares, Global Property & Infrastructure and exclude Alternatives.

Foreign Currency Exposure %



Portfolio Holdings

Asset Class	Allocation (%)	Type of Holdings	Manager *
Australian Shares	3.6	Managed Fund	Morningstar
International Shares	42.8	Direct Shares	Morningstar
		ETF	Van Eck
		Managed Fund	Morningstar
Global Property & Infrastructure	2.4	Managed Fund	Omega
Australian Bonds	7.4	Managed Fund	Metrics
			Omega
International Bonds	9.0	Managed Fund	Ashmore
			Colchester
			Omega
			Shenkman
			Standish
			T Rowe Price
Alternative Investments	13.8	Managed Fund	Morningstar
Cash	21.1	Institutional Cash Account	J.P. Morgan
		Managed Fund	Omega

* May also include liquidity cash, currency forwards, futures and transition accounts.

Transactions over the quarter

Action	Security/Fund Name	Rationale
Australian Equities		**Asset Allocation Change:** **Increase**
↑ Increased	Morningstar Australian Equity Income Fund	
		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, the recent uptick in global interest rate and inflation expectations has impacted the price of many local yield-sensitive stocks. With improving valuations in this part of the market, we increase our allocation to the fund.
International Equities		**Asset Allocation Change:** **Decrease**
↓ Decreased	Morningstar Emerging Markets	
		Notwithstanding recent weakness as trade fears escalate, Emerging Market equities have enjoyed a strong period of performance, leading us to downgrade our conviction to the asset class earlier in the year. With this, we have reduced our allocation, although we continue to view Emerging Market equities positively, relative to global peers.
↑ Increased	Japan Nikkei 400 Equity Futures	
+ Added	Topix Bank Index Futures	
		Japanese equities rank among our preferred equity regions, with reasonable valuations supported by structural reform that sees corporate governance, profit margins and dividend payouts all improving. In positioning further for this thesis, we have trimmed 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, while increasing our allocation to the Topix Bank Index, with the sector looking particularly attractive on our valuation analysis.
Property & Infrastructure		**Asset Allocation Change:** **No Change**
Australian Bonds		**Asset Allocation Change:** **Increase**
↑ Increased	Morningstar Australian Bonds Fund	
		Expecations of rising global interest rates, have flowed through into improved yields for Australian bonds. With this, we increase our allocation to Australian bonds, which are now relatively more attractive. This is particularly the case for securities with longer-dated maturities, which are most sensitive to changes in interest rate expectations.
International Bonds		**Asset Allocation Change:** **Increase**
+ Added	Morningstar International Bonds Fund (Hedged)	
		The Morningstar International Bonds Fund (Hedged) is a diversified portfolio of global fixed income managers. Valuations in U.S. fixed interest securities have improved following recent weakness as inflation and interest rate expectations were priced higher by the market. In addition, part of the fund is invested in Emerging Market debt, i.e. bonds issued by Emerging Market countries. Emerging Market debt stands out as offering one of the most attractive reward for risk profiles amongst our fixed interest universe. This has been particularly the case where the bonds are issued in the currency of the Emerging Market nation (as opposed to being issued in U.S. dollars) but more recent moves in hard currency (i.e. USD denominated) debt, in response to rising U.S. interest rates, see valuations in this space as attractive as they have been since December 2016. With this, we have added an allocation to the fund.
Alternatives		**Asset Allocation Change:** **No Change**
Cash		**Asset Allocation Change:** **Decrease**
↑ Increased	Morningstar Cash Fund	
		With improving valuations in fixed income, we deploy some of our cash into selected opportunities. That said, with equity and fixed interest markets generally expensive, on our analysis, we continue to hold higher levels of cash than normal, 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.

Protect Diversify Grow

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.