Morningstar Multi Asset Real Return Fund

Q42018

Quarterly Performance Update

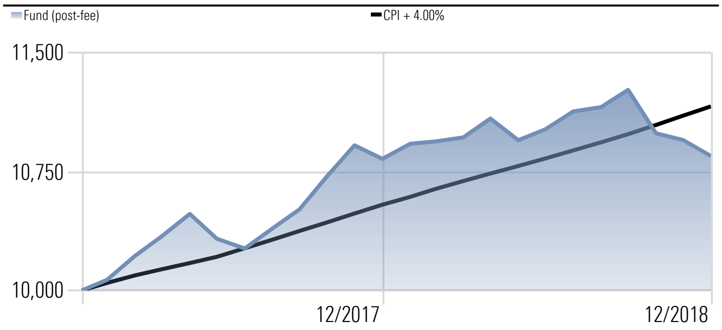
All data and information as at Portfolio Date: 31/12/2018

Inception: 1 February 2017*
Size $m: 179.8
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.

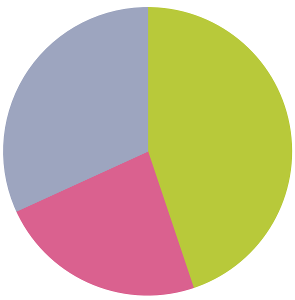
How the investment portfolio has performed

	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (pre-fee)	0.89	-3.53	5.09
Fund (post-fee)	0.17	-3.71	4.34
CPI + 4.00%	5.89	1.60	5.90

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: 31/12/2018



	%
Grow (Growth)	44.9
Diversify (Alternatives)	23.3
Protect (Defensive)	31.8
Total	**100.0**

As we welcome 2019, we celebrate 9 years of our Valuation Driven Asset Allocation approach. With this, the portfolio has achieved it's 'inflation plus' investment objective across all key timeframes. Our focus on capital preservation has seen the portfolio perform better in weak markets, delivering top-quartile performance on a reward versus risk basis.

"Stock market corrections, although painful at the time, are actually a very healthy part of the whole mechanism, because there are always speculative excesses that develop, particularly during the long bull market."

— Ron Chernow, investor and business and finance journalist.

Key points:

- Q4 2018 saw a sharp retreat in key global share markets
- Share and bond markets still remain generally unattractive versus their long term fair value. In this challenging environment, U.K. shares, Japanese shares, Emerging Market shares and Emerging Market bonds remain our preferred investment opportunities

The blinding investor optimism that was a feature of much of 2018 (and 2017, for that matter) seems a distant memory, with the final quarter of the year bringing about a sharp reversal in sentiment and with it, substantial falls in global share markets. This weakness sees most major share markets now delivering a negative return, on a twelve-month view in local currency terms, leaving cash among the best performing asset classes over the calendar year for the first time since the Global Financial Crisis. Numerous reasons have been put forward by market pundits in an attempt to justify this weakness – escalation in the so-called 'trade wars' between the U.S. and China, uncertainty in the outlook for U.S. interest rates and the looming spectre of Brexit, to name a few. More recently, the plunging oil price and concerns around Trump's ability to implement his agenda now that the Republicans no longer control both houses have exacerbated investor anxiety.

The portfolio was relatively defensively positioned leading into this period of uncertainty, given less attractive valuations in key share and bond markets and consequently, the heightened risk of losses. **In this regard, it is pleasing to observe that the portfolio has delivered an exceptional result in falling markets, consistent with our focus on capital preservation in more difficult market conditions.** This is crucial as experiencing significant losses can lead investors to make irrational decisions at the worst time. For example, selling down after the market has already fallen, in an effort to relieve the uncomfortable feeling that portfolio losses often trigger. Our approach to investing is not to try and predict what may happen in the economic and political environment, which is important but generally unknowable, but rather to position the portfolios based on how attractively we are being rewarded for investing. If the reward for risk is less than what we might reasonably expect, as it was throughout much of 2018, then we look to simply hold more cash until such time as we are being adequately compensated to invest.

Volatility can be uncomfortable. However, for valuation-driven investors, volatility can present the opportunity to buy assets that have been discarded by other investors during fearful and uncertain times. The challenge is to understand when and what to buy. Just because an asset's price has fallen, doesn't necessarily make it an attractive opportunity. As always, we consistently apply our approach to investing, governed by the framework of our investment principles. This sees us seeking to find high quality assets that offer a reasonable margin of safety. In this respect, while markets, in general, represent better value, the risk of loss remains elevated. While we were able to take advantage of select opportunities that emerged throughout the last quarter, the portfolio remains relatively defensively positioned, as we continue to wait for further opportunities to invest, when and where it makes sense to do so.

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

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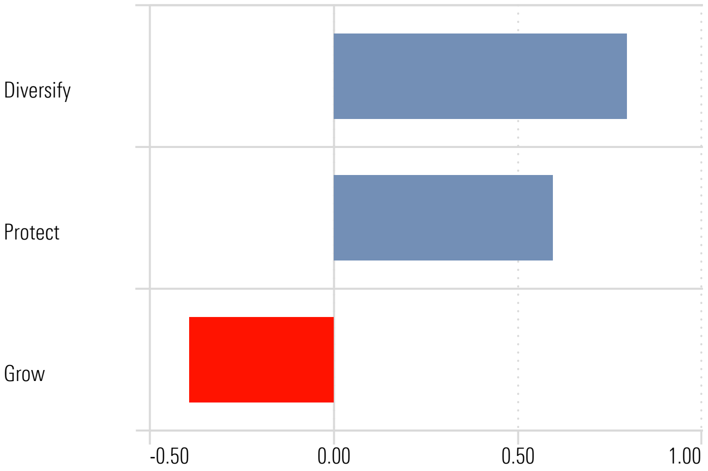
Information about the portfolio's performance

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.

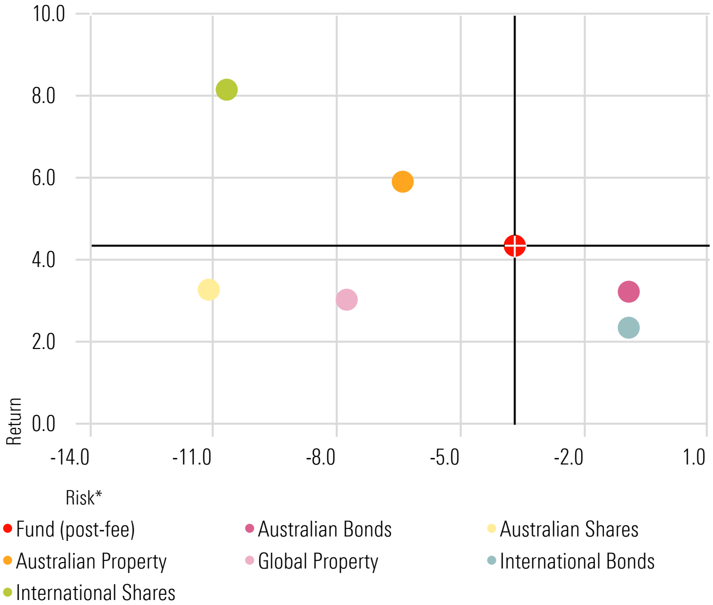
The contribution of cash was the key driver of portfolio returns over the past year as defensive assets came into favour amid turbulent share market conditions.

Weakness in the final quarter of 2018 saw returns from major global share markets, including U.S. and Japanese shares, finish negative for the year.

This impacted portfolio performance although the portfolio's focus on preserving capital in difficult markets saw the portfolio perform relatively well under these circumstances.

We continue to prefer U.K, Emerging Market and Japanese shares but retain ample cash with share and bond markets considered generally expensive.

Risk versus reward since inception



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

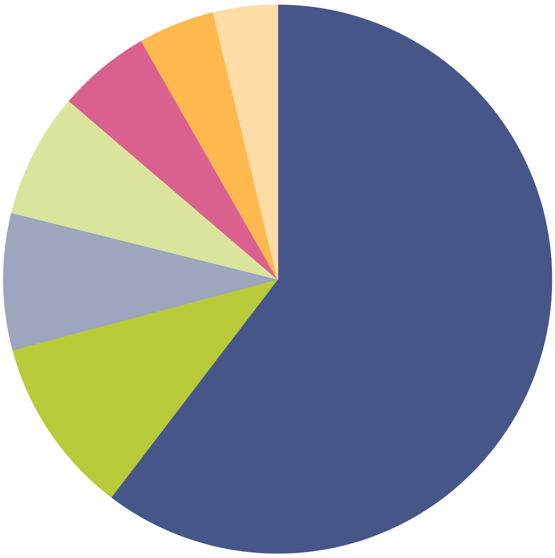
This chart shows how a number of investments have performance on average since full implementation of the Fund's strategy, which occured on 1 February 2017.

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	60.4
Combined EM	10.5
USD	8.1
GBP	7.4
Other DM	5.5
EUR	4.5
JPY	3.8
Total	**100.0**

Information about what the portfolio is invested in

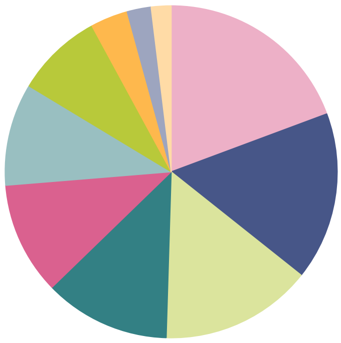
Portfolio Positioning %

	%
Global Developed Equities	18.2
Emerging Market Equities	12.9
European Equities	9.5
Australian Equity	5.5
Foreign Currency	6.4
Natural Resource Equities	5.1
Private Debt and Credit	3.8
Systematic Macro Strategies	3.0
REITs and Infrastructure	2.5
Long/Short Strategies	1.9
Emerging Market Debt	2.5
Cash	16.0
Inflation Linked Bonds	5.5
Australian Bonds	3.3
International Bonds	3.3
U.S. High Yield Bonds	0.7
Total	**100.0**

Equity Sector Exposure

	%
Financials	15.1
Communication Services	13.6
Information Technology	12.4
Energy	11.1
Consumer Discretionary	10.0
Industrials	8.5
Consumer Staples	8.2
Healthcare	8.4
Materials	6.2
Utilities	4.9
Real Estate	1.5
Total	**100.0**

Equity Regional Exposure

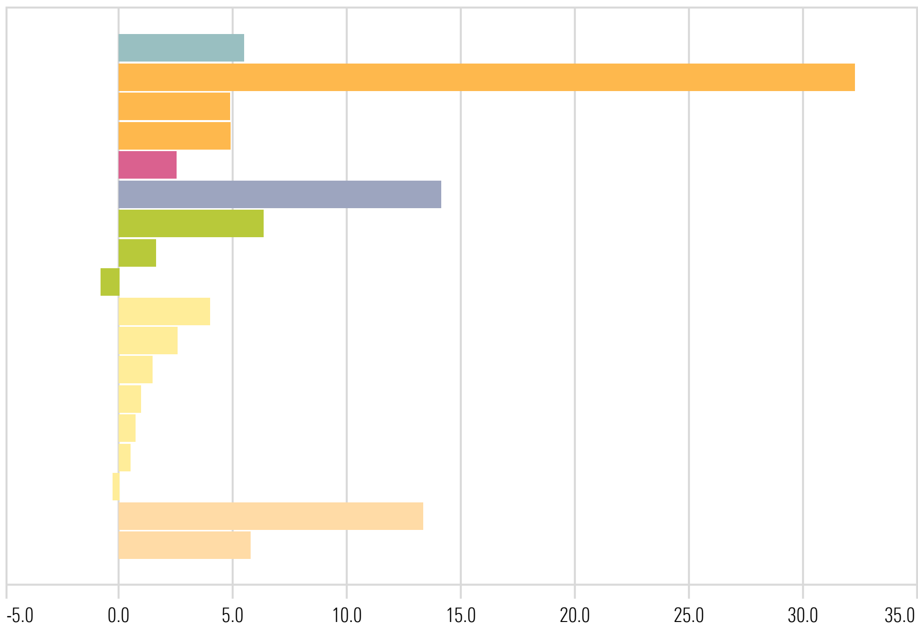


	%
Japan	18.1
North America	21.3
Europe dev	13.9
Asia dev	11.5
Australasia	10.3
Asia emrg	9.3
United Kingdom	7.9
Europe emrg	3.4
Latin America	2.2
Africa/Middle East	2.0
Total	**100.0**

Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	5.5
International Shares - Morningstar	32.3
International Shares - iShares (ETF)	4.8
International Shares - Others	4.9
Global Property & Infrastructure - Omega	2.5
Alternative Investments - Diversified Alternatives	14.1
Australian Bonds - Omega	6.3
Australian Bonds - Metrics	1.6
Australian Bonds - Others	-0.8
International Bonds - Omega	4.0
International Bonds - Colchester	2.5
International Bonds - Standish	1.5
International Bonds - Ashmore	0.9
International Bonds - Shenkman	0.7
International Bonds - T Rowe Price	0.5
International Bonds - Others	-0.3
Cash - Omega	13.3
Cash - Others	5.8
Total	**100.0**



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

Top equity holdings

Top 20 holdings: 9.43%   Other: 90.57%

	Portfolio Weighting %	Country	Sector
Stock	**9.43**		
Mitsubishi UFJ Financial Group Inc	0.71	JPN	Financial Services
Swisscom AG	0.70	CHE	Communication Services
Telefonica SA	0.65	ESP	Communication Services
Vodafone Group PLC	0.63	GBR	Communication Services
BT Group PLC	0.55	GBR	Communication Services
Royal Dutch Shell PLC B	0.54	GBR	Energy
Total SA	0.50	FRA	Energy
Sumitomo Mitsui Financial Group Inc	0.49	JPN	Financial Services
BP PLC	0.44	GBR	Energy
Mizuho Financial Group Inc	0.44	JPN	Financial Services
Orange SA	0.43	FRA	Communication Services
China Mobile Ltd	0.43	CHN	Communication Services
Telenor ASA	0.42	NOR	Communication Services
AutoZone Inc	0.38	USA	Consumer Cyclical
McDonald's Corp	0.36	USA	Consumer Cyclical
Roche Holding AG Dividend Right Cert.	0.36	CHE	Healthcare
Walmart Inc	0.36	USA	Consumer Defensive
Telstra Corp Ltd	0.35	AUS	Communication Services
Microsoft Corp	0.35	USA	Technology
Cisco Systems Inc	0.34	USA	Technology

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, 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.
X	**Removed**	VanEck Vectors Russian Equity ETF
Rationale		We entered our position in Russian equities with the market appearing attractively priced, having been depressed by weaker oil prices and poor sentiment amid international economic sanctions. Since that time, Russian equities have performed well and, despite being heavily concentrated in energy companies at a time of heightened oil price volatility, have held up well in this recent period of uncertainty. With this, Russian equities are much less attractive, relative to other opportunities, and we exit the position accordingly.
↓	**Decreased**	Morningstar Global Shares Fund
Rationale		The Morningstar Global Shares Fund is a diversified portfolio of international securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued quality securities. With share markets remaining generally overvalued, we have trimmed our allocation to the fund. 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.
↑	**Increased**	Japan Nikkei 400 Equity Futures
Rationale		Japanese equities rank among our preferred equity regions, with attractive valuations following recent falls 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 Marathon Japan, during the quarter, introducing an 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:No Change**
↑	**Increased**	Morningstar International Bonds Fund (Hedged)
Rationale		The Morningstar International Bonds Fund (Hedged) is a diversified portfolio of global fixed income securities. Approximately 30% 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 among 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 and uncertainty regarding the outlook for Argentinian and Turkish bonds, see valuations in this space becoming increasingly attractive. With this, we increase our allocation to the fund. 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.
↓	**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:Increase**
↑	**Increased**	Invesco DB Agriculture Fund
Rationale		The Invesco DB Agriculture Fund provides investors with exposure to a investments in futures over underlying agricultural commodities, including live cattle, soybeans, sugar, corn, wheat and lean hogs. Agricultural commodities appeal as a partial hedge against inflation making an increased allocation suitable for the 'Diversify' bucket of the Multi Asset Real Return portfolio.
↑	**Increased**	Colchester Emerging Markets Local Currency Bond Fund
Rationale		Among the current global bond universe, Emerging Market Bonds look to offer some of the more attractive return opportunities, particularly where they are issued in the currency of the Emerging Market country. With this, we increase our weighting to the Colchester Emerging Markets Bond Fund which we believe will complement our existing Emerging Market Debt investments (most notably the Ashmore Emerging Market Debt Fund).

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.