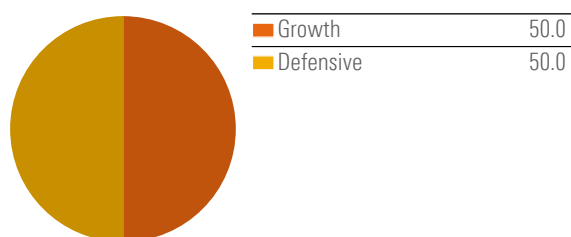




## Balanced Managed Account Portfolio

Quarterly Performance Update: Q2 2016

### Long Term Target %



*The portfolio delivered positive quarterly returns, despite a Brexit shock.*

*The portfolio retains elevated levels of cash in anticipation of further market volatility and in recognition that a number of asset classes look increasingly expensive.*

### How the portfolio performed

The Balanced Portfolio delivered a return of 2.13% for the quarter, pleasingly outperforming its objective. This result was achieved in an extremely tumultuous period for financial markets, which were caught off-guard by the unexpected decision of the British people to exit the European Union after more than 40 years of membership. Whilst this was left-field, the portfolio's generally cautious positioning, given valuation concerns, helped buffer the portfolio from the ensuing market volatility.

### What happened to valuations and how is the portfolio positioned?

International shares contributed positively to quarterly returns in aggregate. This was led by the portfolio's allocation to the quality-focused Morningstar International Shares Fund. The portfolio's overweight positions to Japanese and Emerging Market shares further added value. In both cases however, the key driver of returns was movements in currency, with the 11.6% rise in the 'safe-haven' Japanese Yen (versus the Australian Dollar) over the quarter more than offsetting the weakness in Japanese shares (in local currency terms). Unhedged European shares were the largest detractor on the portfolio's performance for the quarter. This weakness sees European shares become even more attractive relative to other asset classes, based on our valuation analysis.

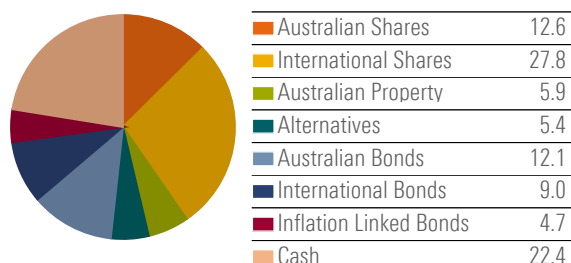
Australian property and shares had strong quarters, the former being buoyed by an unexpected 0.25% interest rate cut which was quickly enacted following a poor domestic inflation reading in late April.

With regard to fixed income, whilst valuations in global and domestic bonds are already high, the Brexit shock induced a flight to safety. This saw global bonds strengthen further, particularly in the United States. The move reflected revised expectations as to the timing and speed of U.S. interest rate rises due to the growing uncertainty as to the outlook for global growth. This, combined with the aforementioned inflation number, also saw Australian bonds well supported, as investors adjusted to this 'lower for longer' interest rate environment.

We made slight changes to the portfolio in late May, continuing to reduce exposure to yield assets such as Australian REITs, and Australian and International bonds, whilst increasing our allocation to European shares given our longer term view of their supportive valuations and fundamentals. We also took the opportunity to refine our Emerging Market exposure toward standout opportunities in Taiwan & South Korea.

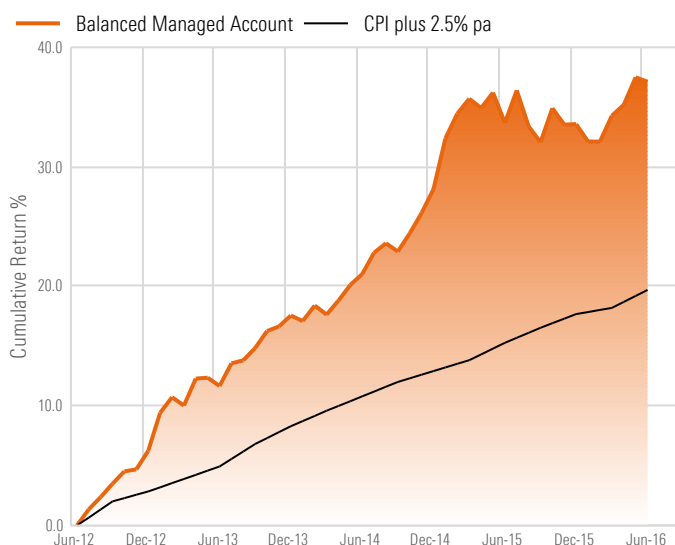
With key asset classes largely remaining expensive, we continue to position for ongoing volatility, with ample cash available to take advantage of compelling investment opportunities, where it makes sense to do so.

### Current Asset Allocation %

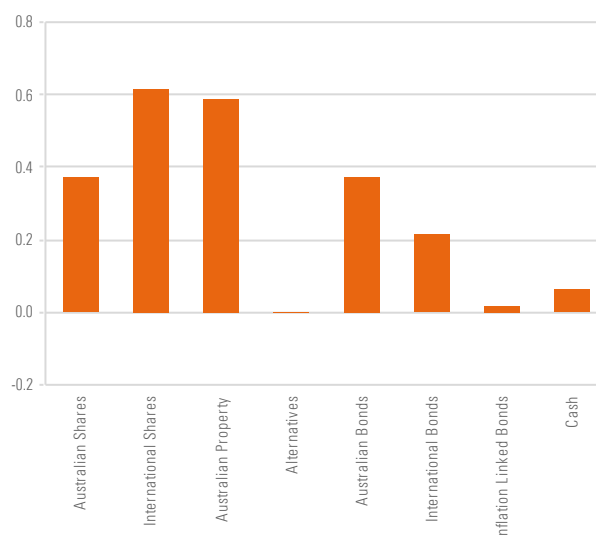


# Performance Overview

## Compound Returns %



## Contribution to Return by Asset Class % over the Quarter

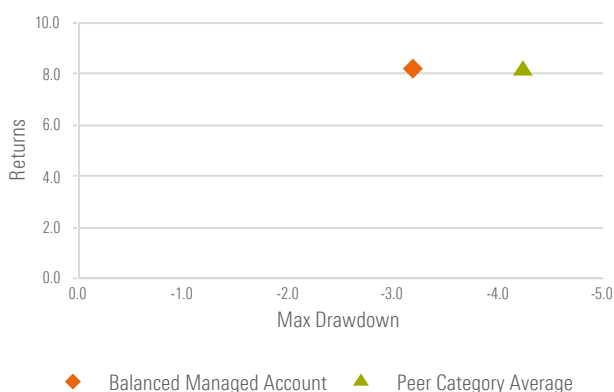


## Total Returns %

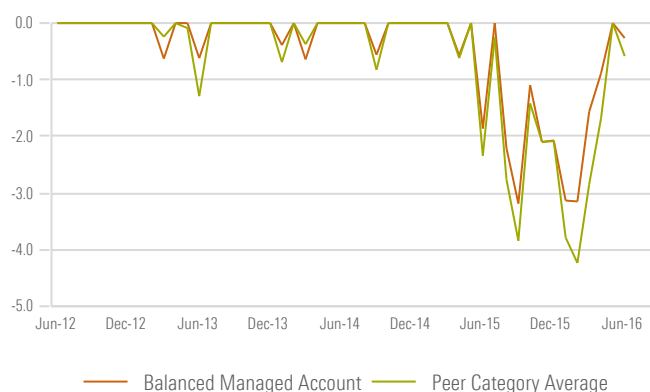
	3 Months	6 Months	1 Year	3 Years (pa)	Inception (pa)
Balanced Managed Account <sup>1,2</sup>	2.13	2.66	2.57	7.08	8.21
CPI + 2.5% pa <sup>4</sup>	1.26	1.71	3.81	4.44	4.55
Outperformance	0.87	0.95	-1.24	2.64	3.66

## Risk Overview vs Peer Average<sup>3</sup>

### Returns and Drawdown % Since Inception



### Drawdown %



1. Investment performance is before tax and after the standard management fee of 0.61% (inclusive of GST). Investment performance is shown from 30/06/2012 and represents modelled performance only and assumes income received is reinvested. An individual investor's performance will differ from the modelled performance depending on factors such as transaction timing, actual management fees, whether income is paid and any divergence from model portfolio weightings.

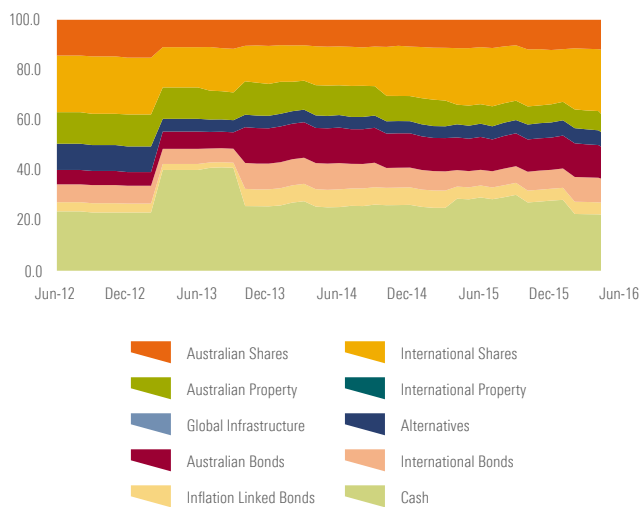
2. Management fees can be negotiated and may be less than the standard management fee. The portfolio may include exchange traded funds which charge management fees and these are an additional cost to individual investors and impact their return.

3. Peer Average is the Morningstar Australia Open End Multisector Balanced category, which contains multi-sector funds with 40.0 - 60.0 percent of their investments in growth assets such as shares and property.

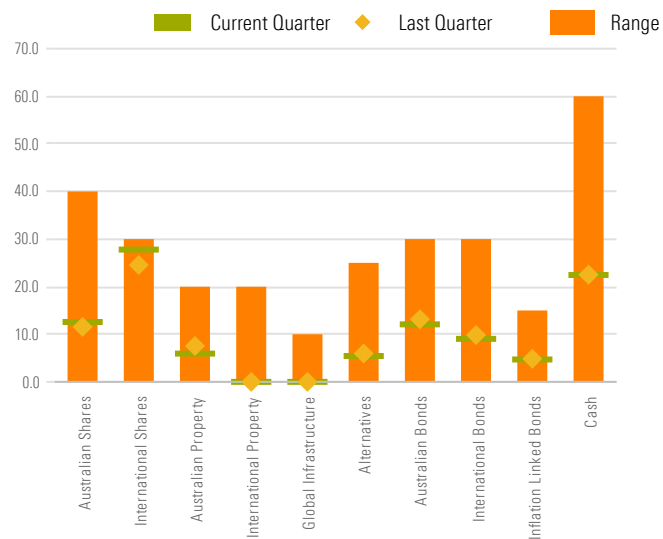
4. The CPI was not available for the current quarter at the time of creation. CPI for the same quarter of previous year has been used as a proxy for the current quarter. Please note the actual CPI for the current quarter may differ to the proxy used.

# Allocation Overview

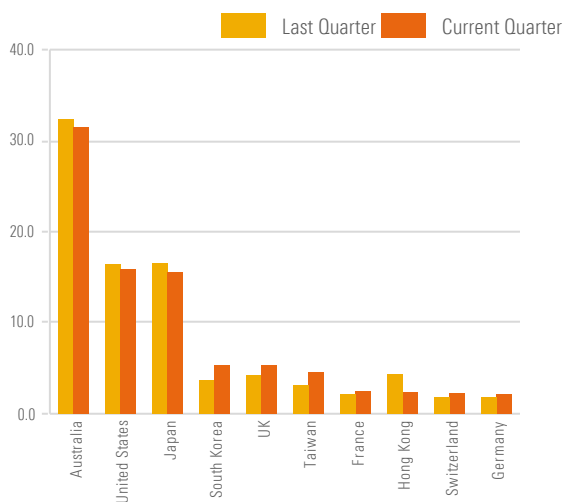
## Asset Allocation %



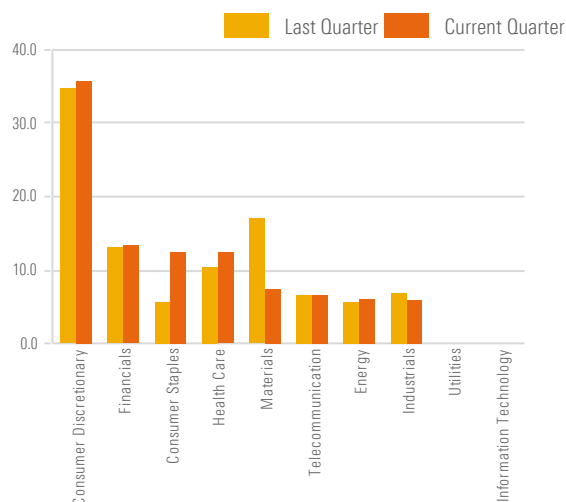
## VDAA vs Range %



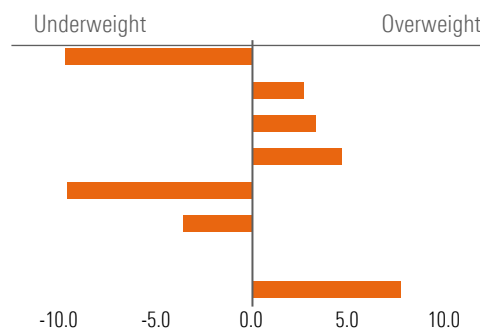
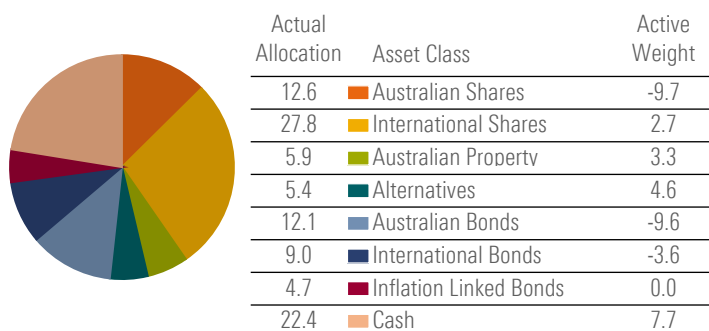
## Equity Sector Regional Allocations %



## Australian Shares Sector Allocations %



## Current Asset Allocation Vs Peer Average % <sup>1</sup>



1. Peer Average is the Morningstar Australia Open End Multisector Balanced category, which contains multi-sector funds with 40.0 - 60.0 percent of their investments in growth assets such as shares and property.

## Portfolio Holdings

Holding	Code	Morningstar® Economic Moat Rating™ <sup>1</sup>	Morningstar/ Chant West/ Lonsec Rating <sup>1</sup>	Current Portfolio Weight (%)	Price (\$)	Trailing Yield/ Distribution Return (%) <sup>2</sup>	Market Capitalisation (\$ million)
<b>Australian Shares</b>				<b>12.58</b>			
Consumer Discretionary							
Trade Me Group Ltd.	TME	Wide	Reduce	1.00	4.42	3.27	1,756
Sky City Entertainment Group Ltd	SKC	Narrow	Hold	0.99	4.36	3.63	2,615
Fairfax Media Ltd.	FXJ	None	Reduce	0.92	0.93	5.22	2,242
InvoCare Ltd.	IVC	Narrow	Hold	0.89	13.14	2.42	1,446
Sky Network Television Ltd.	SKT	Narrow	Hold	0.71	4.55	6.02	1,771
Consumer Staples							
Coca-Cola Amatil Ltd.	CCL	Narrow	Hold	0.81	8.23	6.98	6,284
Woolworths Ltd.	WOW	Narrow	Accumulate	0.76	20.89	7.93	26,550
Energy							
Woodside Petroleum Ltd.	WPL	None	Hold	0.76	26.84	8.09	22,114
Financials							
ASX Ltd.	ASX	Wide	Reduce	0.93	45.76	6.06	8,859
Perpetual Ltd.	PPT	Narrow	Accumulate	0.76	41.12	8.69	1,915
Health Care							
Sonic Healthcare Ltd.	SHL	Narrow	Hold	0.84	21.55	3.92	8,908
Ansell Ltd.	ANN	Narrow	Accumulate	0.72	18.17	3.25	2,749
Industrials							
Air New Zealand Ltd.	AIZ	None	Accumulate	0.75	1.99	8.95	2,234
Materials							
Pact Group Holdings Ltd	PGH	None	Reduce	0.93	6.03	4.24	1,788
Telecommunication							
Telstra Corp. Ltd.	TLS	Narrow	Hold	0.83	5.56	7.97	67,975
<b>International Shares</b>				<b>27.79</b>			
Morningstar International Shares (Hedged) Fund	INT0016AU	-	4 Apples	9.20	0.42	0.05	-
iShares MSCI Japan ETF	IJP	-	Neutral	5.22	15.42	1.38	199
iShares Europe ETF	IEU	-	Neutral	5.06	49.73	2.64	556
iShares MSCI Emerging Markets ETF	IEM	-	Bronze	4.54	45.76	2.01	350
iShares MSCI South Korea Capped ETF	IKO	-	-	1.41	69.68	2.13	24
iShares MSCI Taiwan ETF	ITW	-	-	1.27	18.77	2.63	47
Morningstar International Shares (Unhedged) Fund	INT0017AU	-	4 Apples	1.09	0.84	2.09	-
<b>Australian Property</b>				<b>5.93</b>			
GPT Group	GPT	Narrow	Hold	1.41	5.41	4.25	9,727
Westfield Corp	WFD	Narrow	Hold	0.95	10.65	3.24	22,132
Scentre Group	SCG	Narrow	Reduce	0.95	4.92	4.25	26,196
Dexus Property Group	DXS	Narrow	Hold	0.90	9.02	4.95	8,731
Goodman Group	GMG	Narrow	Hold	0.87	7.11	3.38	12,644
Vicinity Centres	VCX	Narrow	Hold	0.84	3.32	5.33	13,143
<b>Alternatives</b>				<b>5.44</b>			
Morningstar Diversified Alternatives Fund	INT0097AU	-	Investment Grade	5.44	0.71	1.38	-

1. Any Morningstar Ratings or Economic Moat Ratings contained in this report are based on the full research report available from Morningstar or your adviser.

2. Calculated as either the last 12 month distribution return or last 12 months of dividends divided by current share price.

## Portfolio Holdings

<b>Holding</b>	<b>Code</b>	<b>Morningstar® Economic Moat Rating™</b> <sup>1</sup>	<b>Morningstar/ Chant West/ Lonsec Rating</b> <sup>1</sup>	<b>Current Portfolio Weight (%)</b>	<b>Price (\$)</b>	<b>Trailing Yield/ Distribution Return (%)</b> <sup>2</sup>	<b>Market Capitalisation (\$ million)</b>
<b>Australian Bonds</b>				<b>12.08</b>			
iShares Composite Bond ETF	IAF	-	Silver	12.08	109.63	3.35	320
<b>International Bonds</b>				<b>9.03</b>			
Morningstar International Bonds (Hedged) Fund	INT0082AU	-	Investment Grade	9.03	1.05	1.31	-
<b>Inflation Linked Bonds</b>				<b>4.71</b>			
iShares Government Inflation ETF	ILB	-	-	4.71	115.75	1.55	64
<b>Cash</b>				<b>22.45</b>			
Cash & Cash Equivalents		-	-	11.61	1.00	1.20	-
BetaShares Australian High Interest Cash ETF	AAA	-	Neutral	10.84	50.17	2.30	932

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## Transactions over the quarter

Action	Security/ APIR Code	Security Name	Rationale
<b>Australian Equities</b>			<b>Asset Allocation Decision: Increase</b>
-	Removed	BHP-AU BHP Billiton Limited	BHP Billiton Limited is a diversified natural resources company with interests in Petroleum and Potash, Copper, Iron ore and Coal assets. BHP Billiton was originally added to the portfolio on valuation grounds. More recently however, we have become concerned that the 'investment case' of the company is looking less attractive, having flagged large asset write-downs in the face of falling commodity prices, most notably with regard to iron ore. With downside risks to the iron ore price remaining and further uncertainty regarding the outcome of compensation claims arising from the Samarco tailings dam disaster in Brazil, we have elected to cut the holding and invest in companies with stronger investment drivers.
-	Removed	NPX-AU Nuplex Industries Limited	Nuplex Industries Limited is a global manufacturer of resin used in paints, coatings and structural materials. On 12 February 2016, the company announced that it had received a takeover offer from Allnex, a Belgium-based competitor. The offer valued the company at NZ\$5.55, a 44% premium to its previous close. With the deal now progressing toward a scheme of arrangement (a court approved process that is commonly used to restructure a company), and with much of the value that we saw in the company now realised via the takeover offer, we exit the holding in favour of other investment opportunities.
+	Added	CCL-AU Coca-Cola Amatil Limited	Coca-Cola Amatil Limited manufactures and distributes carbonated soft drinks, water, sports and energy drinks, fruit juice, flavoured milk, coffee and packaged ready-to-eat fruit and vegetable products. Notwithstanding increasing competitive pressure, Coca Cola Amatil is a high quality business that enjoys a dominant market position and is attractively priced at this level. In addition, the company has growth opportunities through their Indonesian business.
<b>International Equities</b>			<b>Asset Allocation Decision: Increase</b>
-	Removed	IBK-AU iShares MSCI BRIC ETF	The iShares MSCI BRIC ETF seeks to track the results of an index composed of Brazilian, Russian, Chinese and Indian equities, before fees and expenses. Recent strong price increases in certain Emerging Markets, most notably Brazil and, to a lesser extent, Russia, leads us to exit our allocation to this ETF in favour of increasing our investments in Taiwanese and South Korean equities, which present with far more attractive valuations. In addition, we are becoming increasingly concerned by the amount of borrowing on the books of Chinese banks, much of which we believe, is of low credit quality, and so we take this opportunity to reduce our exposure to Chinese 'Financials'.
↑	Increased	INT00016AU Morningstar International Shares (Hedged) Fund (formerly Ibbotson International Shares Core (Hedged) Trust)	The Morningstar International Shares (Hedged) Fund is a diversified portfolio of international securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued, under-owned and quality securities. In this trade update, we increase our allocation to the currency hedged version of this product, given the Australian dollar's recent weakness as well as de-risking the portfolio from exposure to the Japanese Yen. This is because the Japanese Yen typically has an opposite relationship with Japanese equities. Essentially, we remain positive on Japanese equities, but at the same time, want to limit our exposure to the Japanese Yen. Note: investors in the fund via our managed accounts do not incur any additional underlying investment management fees.

Action	Security/ APIR Code	Security Name	Rationale
↑	Increased	IEU-AU iShares MSCI Europe ETF	The iShares MSCI Europe ETF seeks to track the results of an index composed of European equities, before fees and expenses. As at 20 May 2016, the top 5 sectors represented by the ETF are 'Financials'; 19.7%, 'Consumer Staples'; 15.7%, 'Health Care'; 13.8%, 'Industrials'; 11.9% and 'Consumer Discretionary'; 11.3%. The top 5 country weightings are 'United Kingdom'; 30.5%, 'France'; 15.0%, 'Switzerland'; 14.1%, 'Germany'; 13.4% and 'Spain'; 4.8%. With U.K. and European equities becoming increasingly attractive relative to other asset classes, we take the opportunity to add to our holding. The ICR (management cost) on this ETF is 0.60% p.a.
↑	Increased	IEM-AU iShares MSCI Emerging Markets ETF	The iShares MSCI Emerging Markets ETF seeks to track the results of an index composed of equities from 16 'Emerging Market' countries, before fees and expenses. As at 20 May 2016, the top 5 sectors represented by the ETF are 'Financials'; 27.0%, 'Information Technology'; 20.7%, 'Consumer Discretionary'; 9.7%, 'Consumer Staples' 8.4% and 'Energy'; 7.9%. The top 5 country weightings are 'China'; 23.6%, 'South Korea'; 15.3%, 'Taiwan'; 11.9%, 'India'; 8.4% and 'Brazil'; 6.9%. In exiting the iShares MSCI BRIC ETF, we have increased our allocations to targeted opportunities in Taiwanese and South Korean equities, given particularly attractive valuations, with the balance allocated to this broad-based Emerging Markets ETF. The ICR (management cost) on this ETF is 0.68% p.a.
↑	Increased	IKO-AU iShares MSCI South Korea ETF	The iShares MSCI South Korea ETF seeks to track the results of an index composed of South Korean equities, before fees and expenses. As at 20 May 2016, the top 5 sectors represented by the ETF are 'Information Technology'; 35.3%, 'Consumer Discretionary'; 15.2%, 'Financials'; 13.5%, 'Industrials'; 11.8% and 'Consumer Discretionary'; 10.2%. With South Korean equities increasingly attractively priced relative to other asset classes, we take this opportunity to add to our existing holding. The ICR (management cost) on this ETF is 0.62% p.a.
↑	Increased	ITW-AU iShares MSCI Taiwan ETF	The iShares MSCI Taiwan ETF seeks to track the results of an index composed of Taiwanese equities, before fees and expenses. As at 20 May 2016, the top 5 sectors represented by the ETF are 'Information Technology'; 57.4%, 'Financials'; 16.8%, 'Materials'; 9.8%, 'Telecommunications'; 5.8% and 'Consumer Discretionary'; 3.9%. With Taiwanese equities increasingly attractively priced relative to other asset classes, we take this opportunity to add to our existing holding. The ICR (management cost) on this ETF is 0.62% p.a.
<b>Australian Property</b>			<b>Asset Allocation Decision: Decrease</b>
–	Removed	SGP-AU Stockland	Further to our decision to decrease our allocation to Australian property, we have sought to reduce any exposure to residential property development. This is due to concerns regarding a slowing domestic economy, poor housing affordability, increasing housing supply and ongoing regulatory changes aimed at slowing property investment. Accordingly, we exit Stockland and Mirvac, which generate a significant portion of their earnings from this sector.
–	Removed	MGR-AU Mirvac Group	
↓	Decreased	WFD-AU Westfield Corporation	Given our decision to reduce our allocation to Australian property, we have decreased our weighting to Westfield Corporation and Scentre Group (in addition to exiting Stockland Group and Mirvac Group). This change brings the weighting of the two securities broadly in line with the remaining property securities in the portfolio (with the exception of GPT Group, which retains a higher weighting due to the high quality of its business).
↓	Decreased	SCG-AU Scentre Group	

Action	Security/ APIR Code	Security Name	Rationale
<b>Alternatives</b>			<b>Asset Allocation Decision: Decrease</b>
↓	Decreased	INT0097AU Morningstar Diversified Alternatives Fund <i>(formerly Ibbotson Diversified Alternatives Trust)</i>	The Morningstar Diversified Alternatives Fund is a diversified portfolio of global alternative investments that importantly, offers daily liquidity. With a more favourable outlook for 'growth' assets, we have slightly reduced the allocation to this fund. Nonetheless, Alternative investments remain a key part of our diversified portfolio given that returns from this asset class typically have a lower relationship with the performance of traditional asset classes like equities and bonds. Note: investors in the fund via our managed accounts do not incur any additional underlying investment management fees.
<b>Australian Bonds</b>			<b>Asset Allocation Decision: Decrease</b>
↓	Decreased	IAF-AU iShares Core Composite Bond ETF	The iShares Core Composite Bond ETF seeks to track the results of an index composed of investment grade fixed income bonds issued in the Australian debt market, less fees and expenses. Domestic interest rate expectations have fallen following the poor March inflation reading and the subsequent cut to the RBA cash rate in May. With a bond's price and its yield having an opposite relationship, all things being equal, bond prices have rallied in this environment and valuations are now relatively less attractive than they were. This is despite the prospect of interest rates remaining low for some time yet. As such, we have reduced our allocation to the asset class. The ICR (management cost) on this ETF is 0.20% p.a.
<b>International Bonds</b>			<b>Asset Allocation Decision: Decrease</b>
↓	Decreased	INT0082AU Morningstar International Bonds (Hedged) Fund <i>(formerly Ibbotson International Bonds Active (Hedged) Trust)</i>	The Morningstar International Bonds (Hedged) Fund is a diversified portfolio of global fixed income securities. Following February's widening credit spreads (see glossary), most notably with regard to U.S. high yield credit and Emerging Market sovereign debt (i.e. investors were demanding a greater yield for investing in what were perceived to be riskier securities), spreads have now returned to more normal levels as global fears subside. As valuations are now relatively less attractive, and with the short duration (see glossary) of our portfolio increasingly moving in line with equities, we have reduced our allocation to this fund and redeployed the capital into other investment opportunities. Note: investors in the fund via our managed accounts do not incur any additional underlying investment management fees.
<b>Inflation-linked Bonds</b>			<b>Asset Allocation Decision: No Change</b>
<b>Cash</b>			<b>Asset Allocation Decision: No Change</b>



## 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.



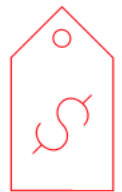
**We're valuation-driven investors.** Anchoring decisions to an investment's fair value—or what it's really worth—can lead to greater potential for returns.

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.