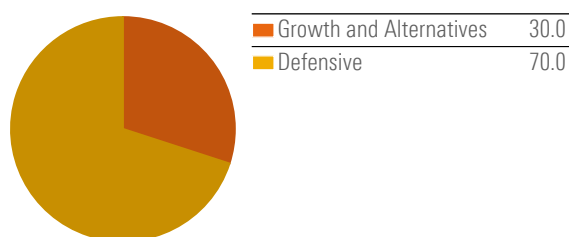




Conservative Real Return Fund

previously Ibbotson Conservative Growth Trust
Quarterly Performance Update: Q2 2016

Long Term Target %



The portfolio delivered positive quarterly returns, despite a Brexit shock, with strong performances from International shares and bonds, Australian bonds and Australian listed property.

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, notably government bonds.

How the portfolio performed

The Conservative portfolio delivered a return of 2.01% 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 a left field event, the portfolio's generally cautious positioning, given valuation concerns, helped buffer the portfolio from the ensuing market volatility.

What happened to valuations & how is the portfolio positioned?

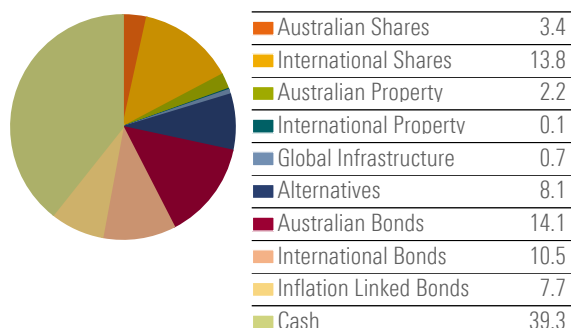
Notwithstanding already high valuations in global and domestic bonds, the Brexit shock induced a flight to safety. This saw global bonds strengthen further, particularly in the United States. With this and the stabilisation in commodity prices, Emerging Market Debt and High Yield Credit markets were well supported. The global drive for yield extended to Australian bonds, which were further sustained by an unexpected 0.25% interest rate cut following a poor domestic inflation reading in late April.

International shares also contributed positively to quarterly returns, led by the portfolio's allocation to European Energy securities which soared with the near 20% rally in the price of Brent Crude oil. The portfolio's larger positions in 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 similarly had strong quarters, the former doing particularly well as investors sought 'defensive' yield in the increasingly volatile market conditions.

We made slight changes to the portfolio during the quarter, continuing to reduce exposure to yield assets such as Australian listed property. With High Yield Credit spreads attractively priced versus developed-world sovereign yields, we also added an allocation to a specialist high yield manager. Lastly, we added to our Japanese shares position early in the quarter and then initiated a position in European Financials after the sharp selloff that eventuated following the Brexit decision.

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.

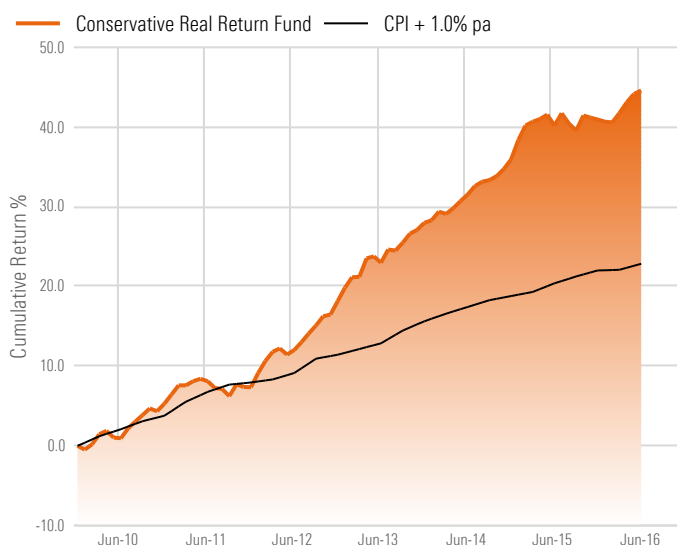
Current Asset Allocation %



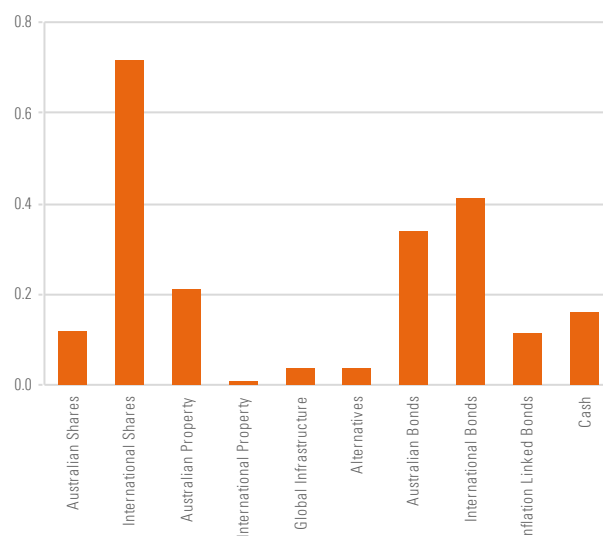
Size \$ million	207.0	Unit Pricing	Daily	Management Fee	Up to 0.57%	Minimum Investment	\$20,000
Inception	07 Jul 2000	Distributions	Quarterly	Buy/Sell Spread	0.10% / 0.10%	APIR Code (Class A)	INT0034AU

Performance Overview

Total Return Against Objective¹



Contribution to Return by Asset Class % over the Quarter

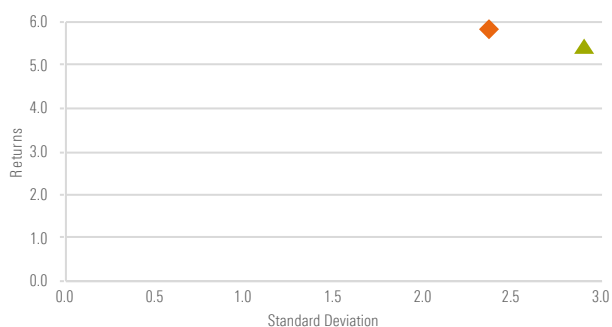


Total Returns %

	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)	Since Inception
Conservative Real Return Fund ^{2,3}	2.01	2.59	3.15	5.54	5.99	5.34
CPI + 1.0% pa	0.62	0.68	2.02	2.85	2.83	3.70
Outperformance	1.39	1.90	1.12	2.70	3.16	1.64

Risk Overview Vs Peer Group^{1,4}

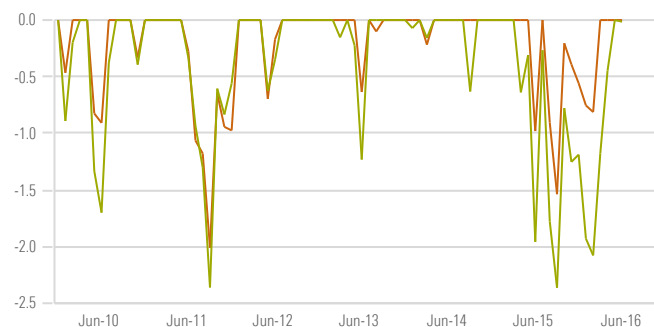
Returns and Standard Deviation % pa



◆ Conservative Real Return Fund ▲ Peer Category Average

The above chart illustrates both the Fund and the peer group's risk and return results. In this case risk is defined as standard deviation, which is a measure of how much the returns have moved around. It is desirable to be as close to the top left corner as possible as this indicates both high returns and low risk.

Drawdown %



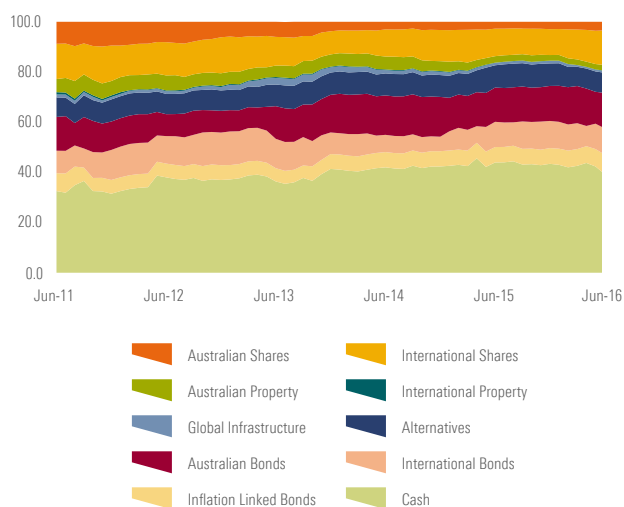
— Conservative Real Return Fund — Peer Category Average

The above chart illustrates how both the Fund and the peer group have performed in challenging market conditions. It looks at how much each has lost in various down markets. It is desirable to have the smallest drawdown possible.

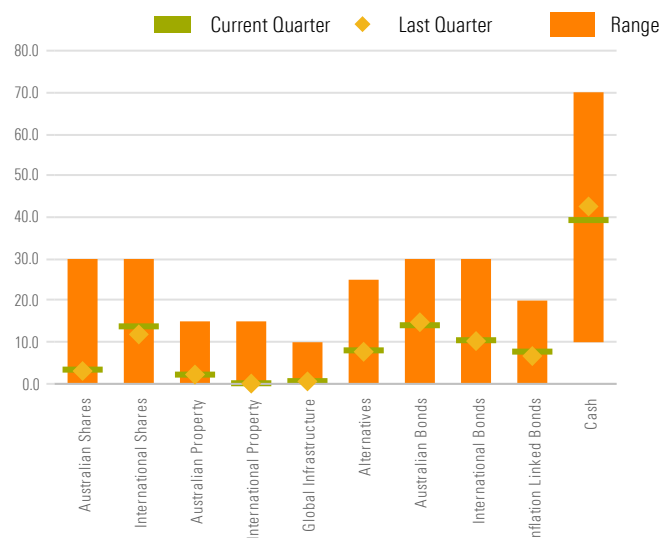
1. Start date is full implementation of Valuation Driven Asset Allocation process, which occurred on 31 December 2009.
2. Fund Performance measures are expressed after management fees, costs and before taxes. The management fee is inclusive of GST (after taking into account Reduced Input Tax Credits) and can be negotiated for direct investors. The Fund also has exposure to underlying investment managers (including Morningstar) which charge performance fees and these are an additional cost to you and impact the return.
3. Inception date for the Fund is 07/07/2000, however, since inception return is calculated from the first month end after the inception date.
4. Peer Average is the Morningstar Australia Open End Multisector Moderate category, contains multi-sector funds with 20.0 - 40.0 percent of their investments in growth assets such as shares and property.

Allocation Overview

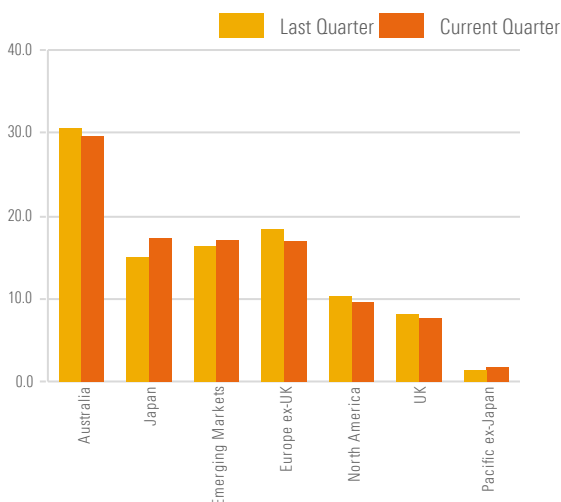
Asset Allocation Over Five Years %



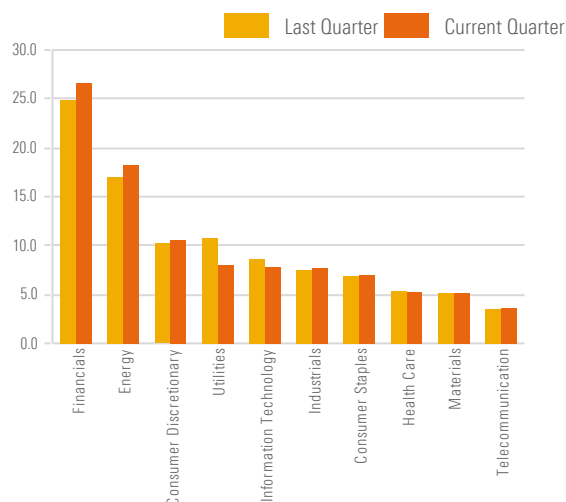
Asset Allocation vs Range %



Growth Assets Regional Allocations %



Growth Assets Industry Sector Allocations %



Growth Assets include Australian Shares, International Shares, Australian Property, International Property, Global Infrastructure and exclude Alternatives.

Transactions over the Quarter

Holding	Asset Class	Increased/Decreased	Reason
Topix Futures (Japanese Equities)	International Equity	Increased	Taking advantage of attractive valuations caused by recent price falls
SPDR MSCI Europe Financial ETF	International Equity	Increased	Taking advantage of attractive valuations caused by recent price falls
Shenkman Finsbury Short Duration High Income Fund	International Bonds	Increased	Introducing active management into the high yield portion of the portfolio.
iShares Interest Rate Hedged High Yield Bond ETF	International Bonds	Removed	
Morningstar Australian Property Securities Fund	Australian Listed Property	Decreased	Selling into strength. Valuations becoming stretched
European Utilities	International Equity	Decreased	Focusing the portfolio into higher conviction positions.
Morningstar Cash Fund	Cash	Increased	Increasing downside protection and building purchasing power within the portfolio.

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.



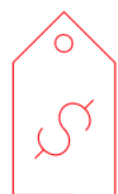
We're valuation-driven investors. Anchoring decisions to an investment's fair value—or what it's really worth—can lead to greater potential for returns.

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.