

Morningstar International Shares Active ETF (Managed Fund) (ASX: MSTR)

Q1 2022

Performance Update

As at Portfolio Date: 31/03/2022

Risk Profile: High

Strategy Inception: 1 June 2013

Active ETF Inception: 12 November 2019

Management Fees and Costs: Up to 0.39%

Performance Fees: Nil

Transaction Costs: 0.10%

Underlying Fund Size \$M: \$459.8

Active ETF Size \$M: \$158.1

Investment Horizon: 5 Years

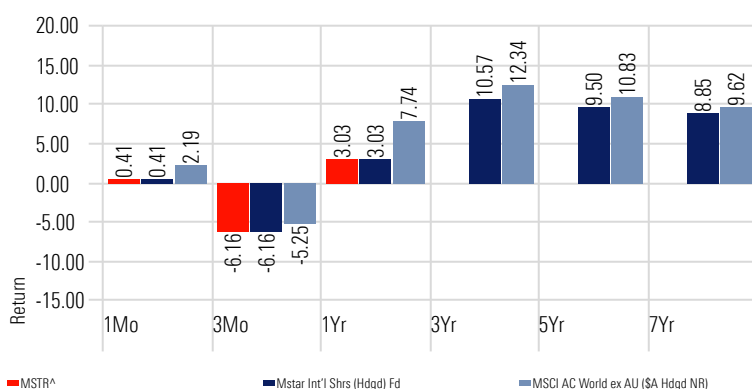
Investment objective

Aims to achieve meaningful capital growth over the medium- to long-term, while minimising the risk of permanent capital loss, by providing exposure to listed international shares, supplemented by a passive currency overlay to reduce the risk of foreign currency price movements.

Investment strategy

An actively managed Fund predominantly invested in units of the Morningstar International Shares (Hedged) Fund ('Underlying Fund'). The Fund may also invest in derivatives to gain desired exposures or manage risks. The Underlying Fund predominantly invests in listed international shares with the aim of producing superior long-term returns relative to the Benchmark, being the MSCI All Country World ex-Australia Index with Net Dividends Reinvested (\$A Hedged). In turn, the Fund aims to produce superior long-term returns relative to the Benchmark.

The Underlying Fund consists of a well-diversified portfolio of companies that exhibit desirable fundamental quality and/or value characteristics, supplemented with passive currency overlay. Morningstar is the responsible entity and investment manager of the Underlying Fund and the issuer of units in the Underlying Fund.



Performance of the Underlying Fund is displayed as a guide only. Past performance is not a reliable indicator of future performance. Returns over 12 months are annualised.

* MSTR inception date is 12 November 2019 and therefore does not have the full quarter worth of return.

How the Underlying Fund has performed

	7Yr	5Yr	3Yr	1Yr	3Mo	1Mo
MSTR [^]				3.03	-6.16	0.41
Mstar Int'l Shrs (Hdgd) Fd	8.85	9.50	10.57	3.03	-6.16	0.41
MSCI AC World ex AU (\$A Hdgd NR)	9.62	10.83	12.34	7.74	-5.25	2.19

Performance for periods more than one year in this table are annualised.

5-year capital preservation metrics in challenging markets

	Up Capture Ratio	Down Capture Ratio	Max Drawdown
MSTR [^]			
Mstar Int'l Shrs (Hdgd) Fd	86.33	85.50	-18.68
MSCI AC World ex AU (\$A Hdgd NR)	100.00	100.00	-20.91

Understanding the capital preservation metrics

An upside capture ratio over 100 indicates a fund has generally outperformed the benchmark during periods of positive returns for the benchmark. Meanwhile, a downside capture ratio of less than 100 indicates that a fund has lost less than its benchmark in periods when the benchmark has been in the red.

Max drawdown is the peak to trough decline during a specific record period of an investment or fund. It is usually quoted as the percentage between the peak to the trough.

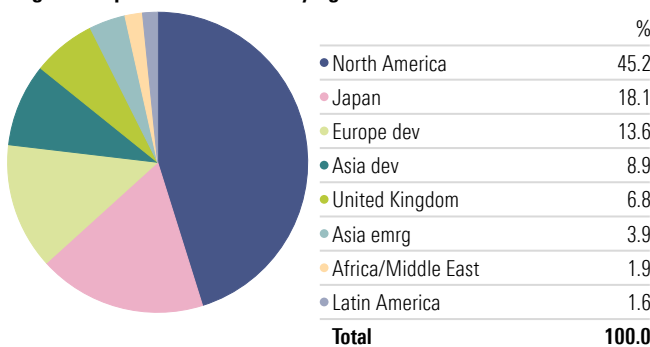
[^] Returns are expressed in Australian dollars, net of fees and expenses, and before any taxes. It is based on published actual net asset value (NAV) prices with all distributions assumed to be reinvested.

MSTR has commenced operations from 12 November 2019. To give a longer term view of our performance in this asset class, the performance graph shows returns for the Morningstar International Shares (Hedged) Fund (Underlying Fund) (which has been operating since June 2013). MSTR invests substantially all of its assets in the Underlying Fund with some cash investments. We have adjusted the returns of the Underlying Fund to reflect fee differences (inclusive of net GST).

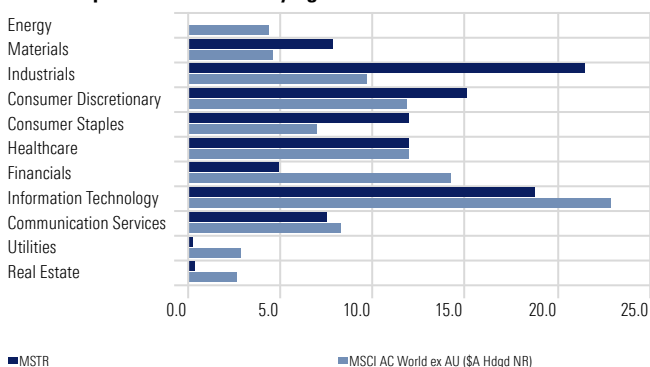
All investments carry risk. Different strategies may carry different levels of risk, depending on the assets that make up the strategy. The investment strategy of MSTR is not identical to the investment strategy of the Underlying Fund. MSTR is authorised to use derivatives as outlined in Morningstar's Derivatives Risk Statement ('DRS'). The DRS can be obtained free of charge by contacting Morningstar. Derivative valuations may not move in line with the underlying asset and can be highly volatile. The use of derivatives may magnify any losses incurred and impact the performance of MSTR.

The performance information is not intended to be a forecast. It is merely an indication of what MSTR and Underlying Fund have achieved over time. Neither may be successful in achieving this performance in the future. Past performance is not a reliable indicator of future performance. Returns are not guaranteed.

Regional exposure of the Underlying Fund



Sector exposure of the Underlying Fund



How the portfolio has performed

The Morningstar International Shares (Hedged) Fund returned -6.16% over the first quarter of 2022, while the benchmark MSCI All Country World Ex-Australia (NR AUD Hedged) returned -5.25%. Relative performance for the quarter was hindered by our underweight exposure to the US and overweight exposure to Japan.

The largest individual contributors to quarterly performance were Atacadao SA (+47.7%), followed by Kumba Iron Ore (+49.9%), FirstRand (+30.1%), KDDI (+21.1%), and M&T Bank (+11.1%). The largest detractors were TE Connectivity (-18.5%), Home Depot (-27.4%), Richemont (-13.8%), IGG (-46.0%), and Meta (-33.9%).

Japanese based Pilot Corp began producing pens around the globe over a century ago. The company has a range of ballpoint pens, mechanical pencils, and other writing instruments that it sells in over 190 countries. With the digitisation of media taking the fore, the writing instrument market faces increasing challenges. The group remains committed to its purpose to inspire creativity and design products focused on the upcoming generation.

Over the last decade, sales have steadily ticked higher. Last year, however, was an exception with COVID regulations limiting retail sales. Despite this temporary setback, operating margins remained in the mid-teens. The company has a rock-solid balance sheet with cash and cash equivalents to cover total liabilities. The company has an insignificant amount of intangible assets. The cash flow statement suggests that management are cautious allocators of capital, buying back shares when opportunities prevail and trickling through a steady stream of dividends. The company also replenishes its asset base to keep up with common trends and maintain manufacturing efficiency.

In our view, Pilot Corp is an undiscovered gem. It has little-to-no sell-side analyst coverage and an ownership base of predominantly Japanese investors. We think Pilot Corp is in a steady state, allowing it to grow shareholders' wealth slowly. We are happy to hold the share in our portfolios.

Our discipline is to seek such opportunities of stable profitability and balance sheet strength trading at reasonable valuations. We believe this approach serves us well both now and in a future in which markets are more discerning about the interest and profits of their investments.

The Fund employs lower fundamental risk and valuation compared to the benchmark, with estimated Net Debt-to-EBITDA of 0.85 versus the benchmark's 1.79 (ex-Financials), and Enterprise Value-to-EBIT of 20.64 versus the benchmark's 31.87 (ex-Financials).

About Morningstar

Morningstar is a leading provider of investment management, asset allocation, portfolio construction and investment research services with over 35 years' experience in the United States, Australia and other international markets. Morningstar advises and manages funds for superannuation funds, institutions, platform distributors, financial advisers and individuals.

Morningstar's disciplined investment approach delivers objective, cost-effective and holistic solutions for our clients – helping them reach their financial goals. This long-term, valuation-driven approach is underpinned by an emphasis on preserving capital and undertaking fundamental analysis of global asset classes and securities.

Top 40 Holdings of the Underlying Fund

Portfolio Date: 31/03/2022

	Domicile	Sector	Sub-Industry	Portfolio Weighting %
Apple Inc	United States	Information Technology	Technology Hardware, Storage and Peripherals	1.19
General Mills Inc	United States	Consumer Staples	Packaged Foods and Meats	1.01
Compagnie Financiere Richemont SA	Switzerland	Consumer Discretionary	Apparel, Accessories and Luxury Goods	0.98
Oracle Corp	United States	Information Technology	Systems Software	0.97
TE Connectivity Ltd	Switzerland	Information Technology	Electronic Manufacturing Services	0.95
M&T Bank Corp	United States	Financials	Regional Banks	0.94
Phison Electronics Corp	Taiwan	Information Technology	Semiconductors	0.88
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	Information Technology	Semiconductors	0.87
nVent Electric PLC	Ireland	Industrials	Electrical Components and Equipment	0.87
JM Smucker Co	United States	Consumer Staples	Packaged Foods and Meats	0.85
Gentex Corp	United States	Consumer Discretionary	Auto Parts and Equipment	0.85
GlaxoSmithKline PLC	United Kingdom	Health Care	Pharmaceuticals	0.82
AutoZone Inc	United States	Consumer Discretionary	Automotive Retail	0.81
BorgWarner Inc	United States	Consumer Discretionary	Auto Parts and Equipment	0.80
Fox Corp Class A	United States	Communication Services	Broadcasting	0.77
Pfizer Inc	United States	Health Care	Pharmaceuticals	0.75
Greatek Electronics Inc	Taiwan	Information Technology	Semiconductors	0.72
Nitto Denko Corp	Japan	Materials	Specialty Chemicals	0.70
Burberry Group PLC	United Kingdom	Consumer Discretionary	Apparel, Accessories and Luxury Goods	0.68
KDDI Corp	Japan	Communication Services	Wireless Telecommunication Services	0.67
Ulta Beauty Inc	United States	Consumer Discretionary	Specialty Stores	0.67
Flexium Interconnect Inc	Taiwan	Information Technology	Electronic Components	0.66
The Middleby Corp	United States	Industrials	Industrial Machinery	0.64
Atacadao SA	Brazil	Consumer Staples	Hypermarkets and Super Centers	0.60
Johnson & Johnson	United States	Health Care	Pharmaceuticals	0.59
Roche Holding AG	Switzerland	Health Care	Pharmaceuticals	0.59
Tractor Supply Co	United States	Consumer Discretionary	Specialty Stores	0.56
The Home Depot Inc	United States	Consumer Discretionary	Home Improvement Retail	0.53
Meta Platforms Inc Class A	United States	Communication Services	Interactive Media & Services	0.52
Kanematsu Electronics Ltd	Japan	Information Technology	IT Consulting and Other Services	0.52
Booz Allen Hamilton Holding Corp Class A	United States	Industrials	Research and Consulting Services	0.51
Amdocs Ltd	Guernsey	Information Technology	IT Consulting and Other Services	0.51
Walmart Inc	United States	Consumer Staples	Hypermarkets and Super Centers	0.50
O'Reilly Automotive Inc	United States	Consumer Discretionary	Automotive Retail	0.50
Cummins Inc	United States	Industrials	Construction Machinery and Heavy Trucks	0.50
Infosys Ltd	India	Information Technology	IT Consulting and Other Services	0.49
GungHo Online Entertainment Inc	Japan	Communication Services	Interactive Home Entertainment	0.49
Accenture PLC Class A	Ireland	Information Technology	IT Consulting and Other Services	0.49
Tong Ren Tang Technologies Co Ltd Class H	China	Health Care	Pharmaceuticals	0.48
Mabuchi Motor Co Ltd	Japan	Industrials	Electrical Components and Equipment	0.47

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