

# Australian Shares Income Managed Account Portfolio

# Q32018

## Quarterly Performance Update

All data and information as at Portfolio Date: 30/09/2018

### Top Holdings

	Weighting %
Cash Account	10.6
Telstra Corp Ltd	8.0
QBE Insurance Group Ltd	6.0
Wesfarmers Ltd	5.7
Crown Resorts Ltd	5.4
Medibank Private Ltd	5.4
Sydney Airport	5.3
Vicinity Centres	5.0
National Australia Bank Ltd	4.6
Commonwealth Bank of Australia	4.4

*"Investors should favor strategies, managers and approaches that emphasize limiting losses in declines above ensuring full participation in gains. You simply can't have it both ways".*

- Howard Marks

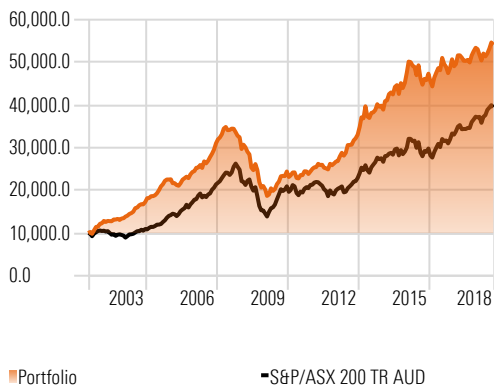
### Key points:

- Australian equities have performed relatively well over the course of 2018, exacerbating our already cautious stance on this market
- Beaten up names, Telstra, Brambles and QBE enjoyed an exceptional quarter as poor sentiment subsided

As we march through 2018, we look back on the continuation of what has been a strong period for equity markets. This is, perhaps, a surprising outcome when you consider how overvalued a many share and bond markets were at the start of the year, which raised the likelihood of lower future returns. However, periods of strong investment returns in an environment that otherwise looks challenging are not unprecedented. Indeed, expensive assets can become even more so in the short term as sentiment drives markets well beyond what we might rationally expect, and what fundamentals reasonably support.

### Investment Growth of \$10,000

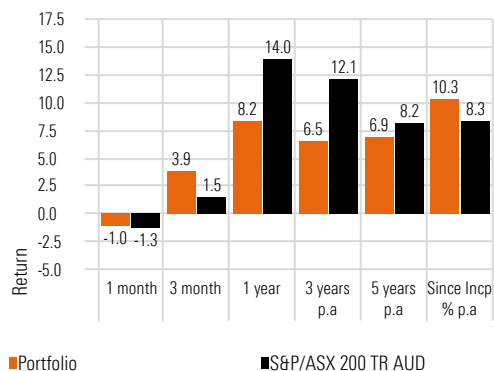
Time Period: 1/08/2001 to 30/09/2018



This can happen in reverse too – i.e. investors become too negative in the face of fear and uncertainty. In fact, what we typically see is that sentiment leads investors to overshoot at both market extremes. They become euphoric in buying those assets that feel good to buy (which usually means that it feels like everyone else is doing it too) ... or they sell, amid overwhelming pessimism, those assets that feel uncomfortable to own (and where it feels lonely to hold the investment). Telstra and Brambles, two of the portfolio's larger holdings, certainly encountered this latter situation in recent times, yet their shares soared 26.0% and 24.4% respectively, over the quarter, as prolonged poor sentiment toward the companies subsided. Similarly, fellow portfolio constituent QBE rallied more than 16%, over the same period.

### Returns Relative to Benchmark

As of Date: 30/09/2018

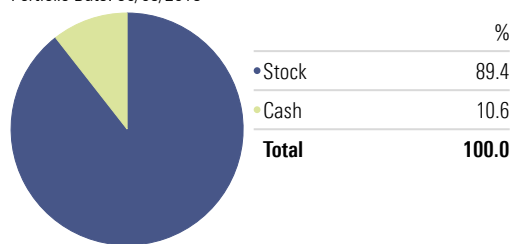


While this is understandable human behaviour, investing based on emotion consistently leads to poorer longer term investment outcomes because investors lose sight of what the asset is truly worth, in their efforts to buy (or sell) to satisfy their emotional needs. It is these poor behavioural decisions by others that we seek to exploit as contrarian investors, buying and selling only when valuations compel us to do so. In this regard, Australian equities have performed relatively well, enjoying buoyant sentiment over the course of 2018. In our view, recent prices moves have only stretched valuations further, exacerbating our already cautious stance on this market.

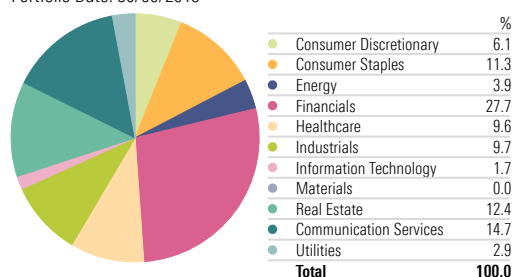
It remains near impossible to predict the short term movements of markets, given that they can be heavily influenced by investor sentiment, which can, and often does, change rapidly. However, as long term valuation driven investors, we can assess that the risk of loss remains elevated in Australian equities. While these risks have so far failed to materialise into something more significant, we continue to proceed with caution, investing when and where markets are most fairly priced for the risks we currently face. As such, for this income focused portfolio, we remain underweight overvalued cyclical sectors, like materials, preferring to invest in better value, and more defensive, sectors like telecommunications, healthcare and select insurers. Cash, however, remains a key allocation as we seek to preserve capital in a generally overvalued environment, while also giving the flexibility to act should valuations return to more attractive levels.

**Asset Allocation**

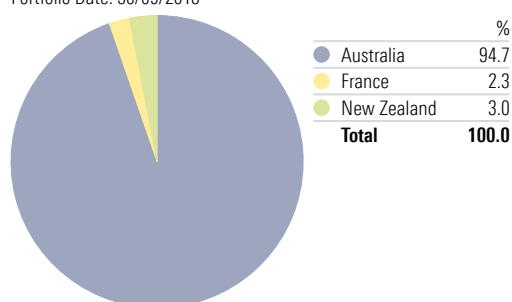
Portfolio Date: 30/09/2018

**Equity Sectors (GICS)**

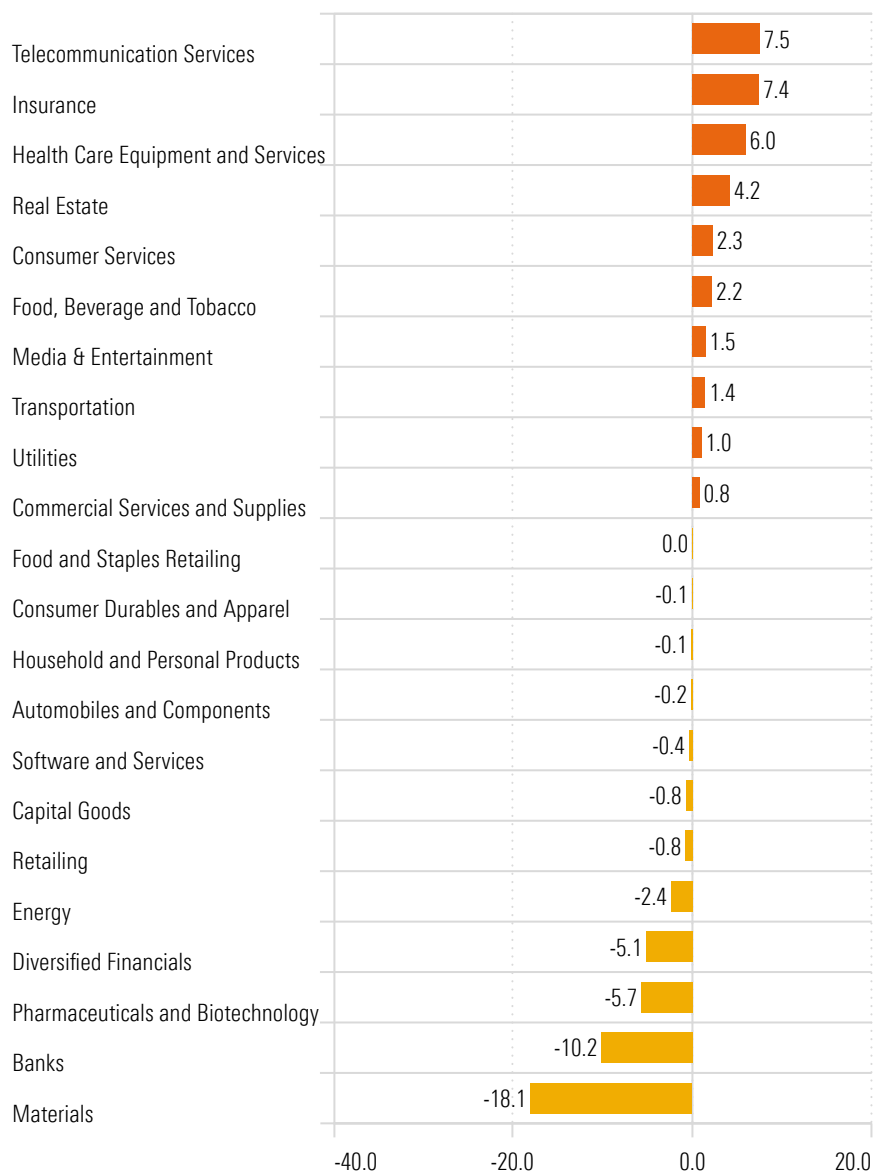
Portfolio Date: 30/09/2018

**Equity Region Exposure**

Portfolio Date: 30/09/2018

**Transactions in the Quarter**

There were no transactions in the Quarter

**Average Relative Weights over the Quarter**

## Market Performance

Time Period: Since Inception to 30/09/2018

	Inv	Bmk1
Up Period Percent	63.11	63.11
Down Period Percent	36.89	36.89
Best Month	8.47	7.98
Worst Month	-11.51	-12.61
Best Quarter	17.12	21.50
Worst Quarter	-15.78	-18.25

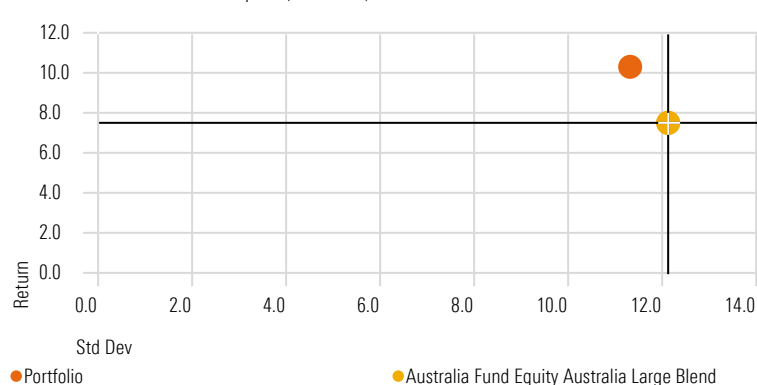
## Risk

Time Period: Since Inception to 30/09/2018

	Inv	Bmk1
Return % pa	10.32	8.32
Std Dev	11.30	12.51
Max Drawdown	-46.34	-47.18

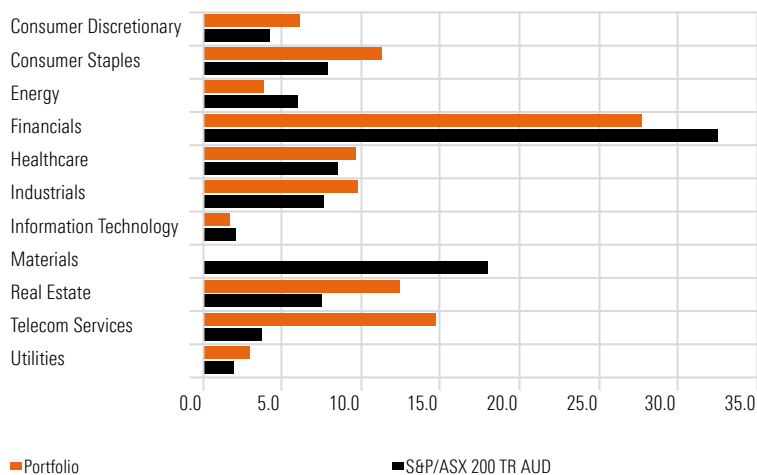
## Risk-Reward

Time Period: Since Common Inception (1/08/2001) to 30/09/2018



## Sector Exposure

Portfolio Date: 30/09/2018



## Complete List of Holdings

Portfolio Date: 30/09/2018

Franking (%) (est): 60.7%   Forecast Div Yield (%): 4.5%	Code	Style Box	Total Ret 3 Mo (Qtr-End)	Portfolio Weight %
Cash Account			0.516	10.566
Telstra Corp Ltd	TLS	■	25.954	8.038
QBE Insurance Group Ltd	QBE	■	16.427	6.045
Wesfarmers Ltd	WES	■	3.424	5.730
Crown Resorts Ltd	CWN	■	3.630	5.449
Medibank Private Ltd	MPL	■	2.123	5.396
Sydney Airport	SYD	■	-3.771	5.328
Vicinity Centres	VCX	■	1.158	5.015
National Australia Bank Ltd	NAB	■	1.459	4.572
Commonwealth Bank of Australia	CBA	■	1.166	4.418
Coca-Cola Amatil Ltd	CCL	■	8.370	4.339
Westpac Banking Corp	WBC	■	-4.676	4.317
Scentre Group	SCG	■	-7.043	4.030
Sonic Healthcare Ltd	SHL	■	3.547	3.947
Woodside Petroleum Ltd	WPL	■	10.852	3.449
Brambles Ltd	BXB	■	24.381	3.378
Healthscope Ltd	HSO	■	-3.394	3.109
Spark New Zealand Ltd	SPK	■	11.502	2.716
AGL Energy Ltd	AGL	■	-10.454	2.634
Carsales.com Ltd	CAR	■	-2.798	2.410
Unibail-Rodamco-Westfield Chess Depository Interest	URW	■	-3.749	2.024
Ramsay Health Care Ltd	RHC	■	3.362	1.567
MYOB Group Ltd	MYO	■	4.498	1.525

## Glossary of Terms

Term	Description
Active Return	A performance measure of a portfolio relative to its benchmark.
Allocation Effect	Refers to the portion of an investment manager's value-add attributable to the manager's decision on how much to allocate to each market sector, in other words, a manager's decision to overweight and underweight certain sectors compared with the benchmark.
Alpha	A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta.
Average Market Cap (mil)	Average Market Cap (mil) This is an estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share.
Best Month	The highest monthly return of the investment since its inception or for as long as Morningstar has data available.
Best Quarter	The highest quarterly (3-month) return of the investment since its inception or for as long as Morningstar has data available.
Beta	A measure of systematic risk with respect to a benchmark. Systematic risk is the tendency of the value of the fund and the value of benchmark to move together. Beta measures the sensitivity of the fund's excess return (total return minus the risk-free return) with respect to the benchmark's excess return that results from their systematic co-movement.
Debt to Capital % (TTM)	A ratio measuring a firm's financial leverage. This ratio is calculated by dividing long-term debt (excluding other liabilities) by total capitalisation (the sum of common equity plus preferred equity plus long-term debt).
Down Capture Ratio	Downside Capture Ratio measures manager's performance in down markets. A down-market is defined as those periods (months or quarters) in which market return is less than 0. In essence, it tells you what percentage of the down-market was captured by the manager. For example, if the ratio is 110%, the manager has captured 110% of the down-market and therefore underperformed the market on the downside.
Down Period Percent	Number of months below 0 divided by the total number of months.
Downside Deviation	This measures only deviations below a specified benchmark.
Moat Company Pct	Percentage of the portfolio, by market value, having a narrow or wide moat.
P/E Ratio (TTM)	A measure of value. It is the average price divided by latest earnings.
Portfolio Price/Fair Value	Ratio of the portfolio's market value to the fair value of the portfolio.
R2	Reflects the percentage of a portfolio's movements that can be explained by movements in its benchmark.
ROA % (TTM)	Return on assets (ROA) measures a firm's performance in using assets to generate earnings independent of how the firm financed acquisition of those assets.
ROE % (TTM)	Return on equity (ROE) is the percentage a company earns on its total equity in a given year. ROE shows how much profit a company generates on the money shareholders have invested in the firm.
Selection Effect	Represents the portion of performance attributable to the manager's stock picking ability.
Sharpe Ratio (arith)	Is calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance.
Std Dev	A statistical measurement of dispersion about an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that are most likely for a given fund.
Tracking Error	A measure of the volatility of excess returns relative to a benchmark.
Turnover (2 Yr Avg)	Measures the portfolio manager's trading activity by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.
Up Capture Ratio	Upside Capture Ratio measures a manager's performance in up markets relative to the market (benchmark) itself. It is calculated by taking the security's upside capture return and dividing it by the benchmark's upside capture return.
Up Period Percent	Number of months above 0 divided by the total number of months.
Worst Month	The lowest monthly return of the investment since its inception or for as long as Morningstar has data available.
Worst Quarter	The lowest quarterly (3-month) return of the investment since its inception or for as long as Morningstar has data available.

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