Morningstar Conservative Fund

Q12021

Quarterly Performance Update

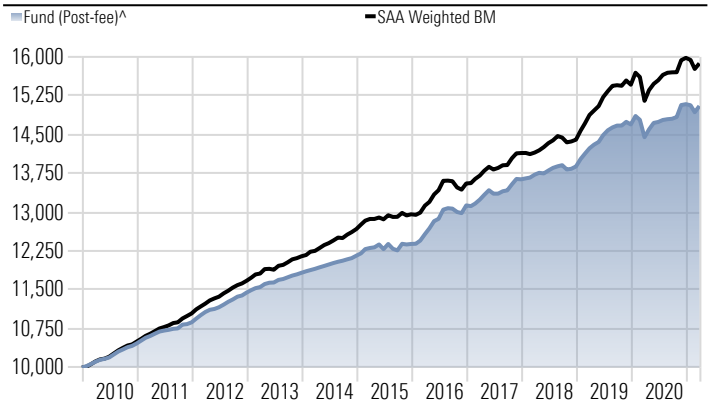
All data and information as at Portfolio Date: 31/03/2021

Inception: 1 January 2010*
Size $m: 22.6
Unit pricing: Daily
Distributions: Quarterly
Management fees and costs:** Up to 0.31%***
Performance fees: 0.01%***
Transaction costs: 0.00%***
Buy-Sell spread: 0.08%/0.08%

Management Fees and Costs include Morningstar's management fee of 0.31% as well as our reasonable estimate of excluded indirect costs which represent that portion of expenses charged by underlying funds which Morningstar do not pay out of its management fee.

What's the purpose of this fund?

The Fund aims to achieve a stable return by investing in a diversified portfolio of predominantly defensive asset classes, with a small proportion of growth asset classes.

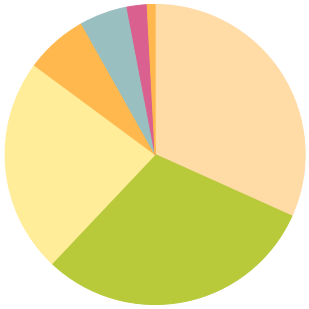


Past performance is not a reliable indicator of future performance.
Returns over 12 months are annualised.

How the investment portfolio has performed

	10yr (% p.a)	7yr (% p.a)	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (Post-fee)^	3.56	3.40	3.66	3.12	4.17	-0.24	3.70
SAA Weighted BM	4.07	3.77	3.87	3.90	4.77	-0.67	4.19

Quarter-end Asset Allocation



	%
Australian Bonds	31.7
Cash	30.3
International Bonds	23.1
International Shares	6.7
Australian Shares	5.2
Property & Infrastructure	2.2
Alternatives	0.9
Total	**100.0**

At a Glance

- Economically sensitive sharemarket sectors have roared to life, given improving confidence around the outlook for global growth, with the rollout of the COVID-19 vaccine.
- In bond markets, previously dormant expectations for inflation have begun to emerge, leading to losses across interest-rate-sensitive parts of the market.
- Recent portfolio returns have been strong, but we must remain focused on longer-term outcomes and not become complacent.

What a difference a few months makes. Indeed, an improving economic outlook, following enormous stimulus from global governments and central banks has buoyed investor sentiment. This has been further sustained by encouraging news on corporate profitability, with recent company reporting broadly exceeding expectations. The main catalyst has been the COVID-vaccine rollout. While it hasn't necessarily been smooth sailing, there is nonetheless an expectation that a significant percentage of the world's population will have the opportunity to be vaccinated over the course of this year, raising hopes that we may be able to return to some version of "normal" in the foreseeable future.

But with an improving outlook for global growth comes a renewed focus on inflation (which can best be described as the tendency for the prices of goods and services to go up, over time). Having been starved of signs of noteworthy inflation for so long, rising inflation expectations may well come as a relief for central bankers, partly because it would enable a return to more traditional tools (such as lifting interest rates) to help keep things under control but, more importantly, because it means that deflationary fears that rose to prominence when entire economies were plunged into COVID-induced lockdowns, have now generally receded (prices typically fall during periods of deflation, all things being equal, presenting a very challenging situation for central banks to manage). In truth, like many macroeconomic factors, inflation remains difficult to predict. But, in our view, the risk of an uptick in inflation expectations was unappreciated by most investors. This has profound implications for portfolio construction, particularly with regard to interest-rate sensitive assets, and goes some way to explaining some of the moves in asset prices that we have seen in recent months.

Generally speaking, equities performed well. However, it was the more economically sensitive sectors, such as energy and financials that have especially surged, year-to-date (we added materially to these positions in 2020, having identified great value in these assets). By contrast, previously much-loved technology stocks were among the worst performers in recent times. These same themes have further contributed to the European and Japanese sharemarkets outperforming U.S. peers 2021-to-date. That said, while sharemarkets understandably continue to attract media headlines, recent developments in bond markets have been equally, if not more, remarkable. Indeed, the current yield on the Australian Government 10-year bond (of around 1.7%) is almost double what it was in the days before the COVID-19 vaccine announcement and near triple what it was in the COVID-19-selloff 12-months ago. This has resulted in seemingly rare losses for this asset class, over 2021, especially for bonds with longer maturities.

All in all, portfolio returns appear strong, with rolling 12-month numbers as high as they have been for a number of years – but we must apply a note of caution in assessing over such a short time frame. While returns associated with this recovery are gratefully received, now is not the time to drop our guard when managing our behaviour. With this in mind, we continue to draw on the insight from our valuation framework in order to identify attractively priced assets that we think will help deliver longer term returns to the portfolio.

*The Fund's inception date used is 1 January 2010, the start of the full implementation of the Valuation Driven Asset Allocation process.
**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. This and any other excluded indirect costs incurred by the portfolio is captured within 'Management Fees and Costs' above.
***All fees and costs are estimates for the 2020/21 financial year and are expressed as a percentage of net asset value of the Fund excluding accrued fees.
^Investment performance is before tax and after the standard management fee (inclusive of GST).

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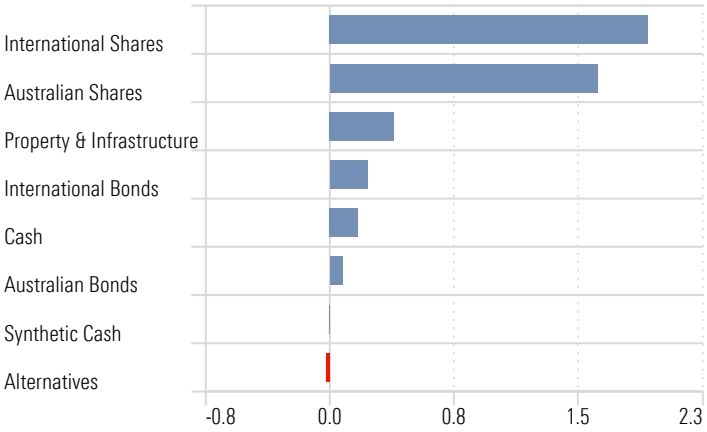
Information about the portfolio's performance

What drove portfolio performance over the past year?

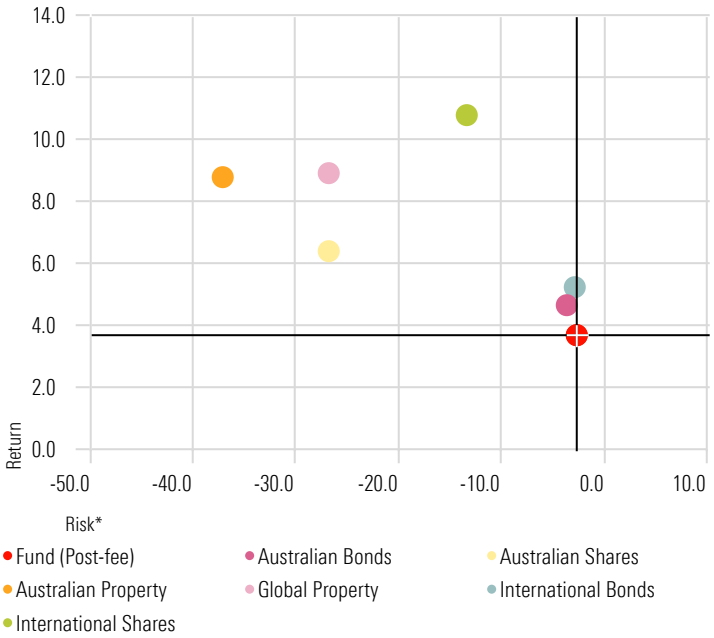


Actual outcomes may differ, as the chart has been prepared using a monthly 'buy and hold' approach.

This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

While it is important to understand how each asset class has contributed to overall performance, one year is a very short time in financial markets. Returns over such a short period are often heavily influenced by investor sentiment and are not necessarily indicative of longer-term outcomes. Morningstar encourages investors to consider this information in the context of achieving their longer-term goals

Risk versus reward since inception



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

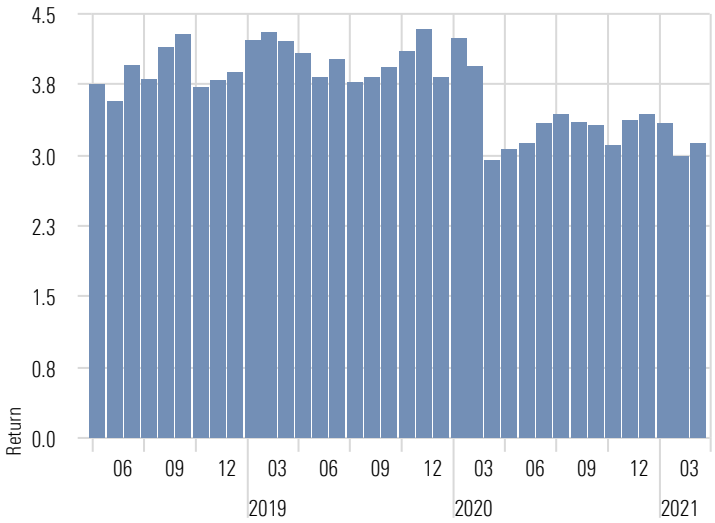
This chart shows how a number of investments have performance on average since full implementation of the Valuation Driven Asset Allocation process, which occured on 1 January 2010.

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.**

How stable have returns been? (Rolling 3 year returns)



This chart shows the annual performance of the portfolio over rolling 3 year periods – e.g. your average annual return for each of the three years for any given month. In other words, this chart shows that the portfolio has delivered consistent positive returns over longer-term periods.

Long-term investing helps you ride out the market's ups and downs. It also lets you take advantage of opportunities that arise due to other investors making short-term, emotion-led investment decisions (e.g. irrationally selling investments at the first sign of fear and uncertainty).

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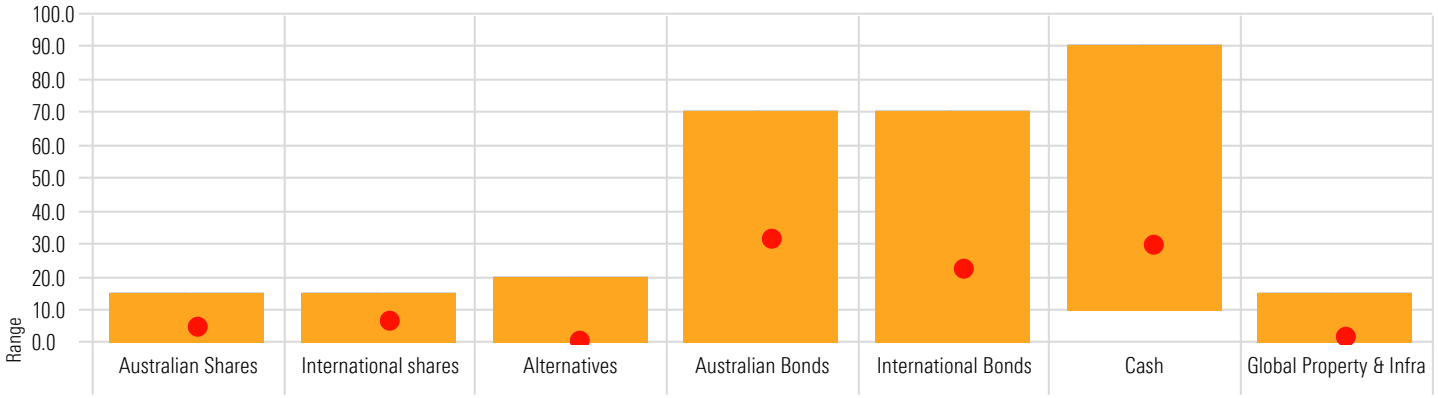
Information about what the portfolio is invested in

How asset allocation is positioned vs the allowable ranges



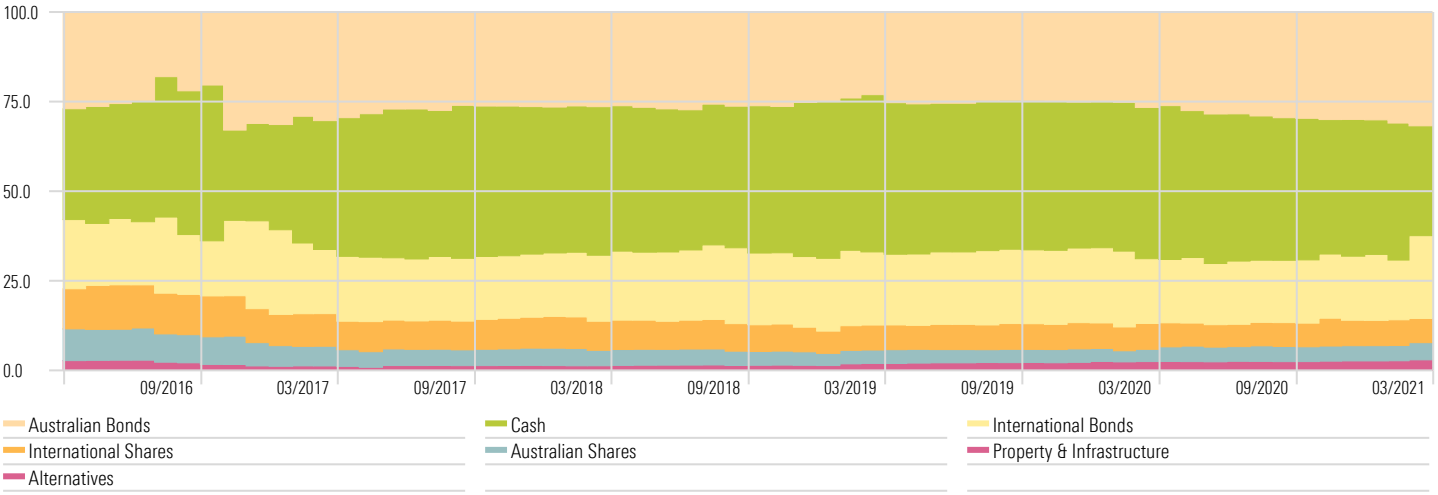
Actual

The above chart shows the current breakdown of how the portfolio is invested.

A key difference in Morningstar's approach is that we use wide asset class ranges when constructing the portfolio. This means that we have the flexibility to invest in an asset class (e.g. shares, bonds and property) only if it makes sense to do so. If the reward isn't worth the risk, we can avoid the asset class and hold higher levels of cash, in wait for better opportunities to arise.

Asset Allocation over 5 years %

Time Period: 1/04/2016 to 31/03/2021



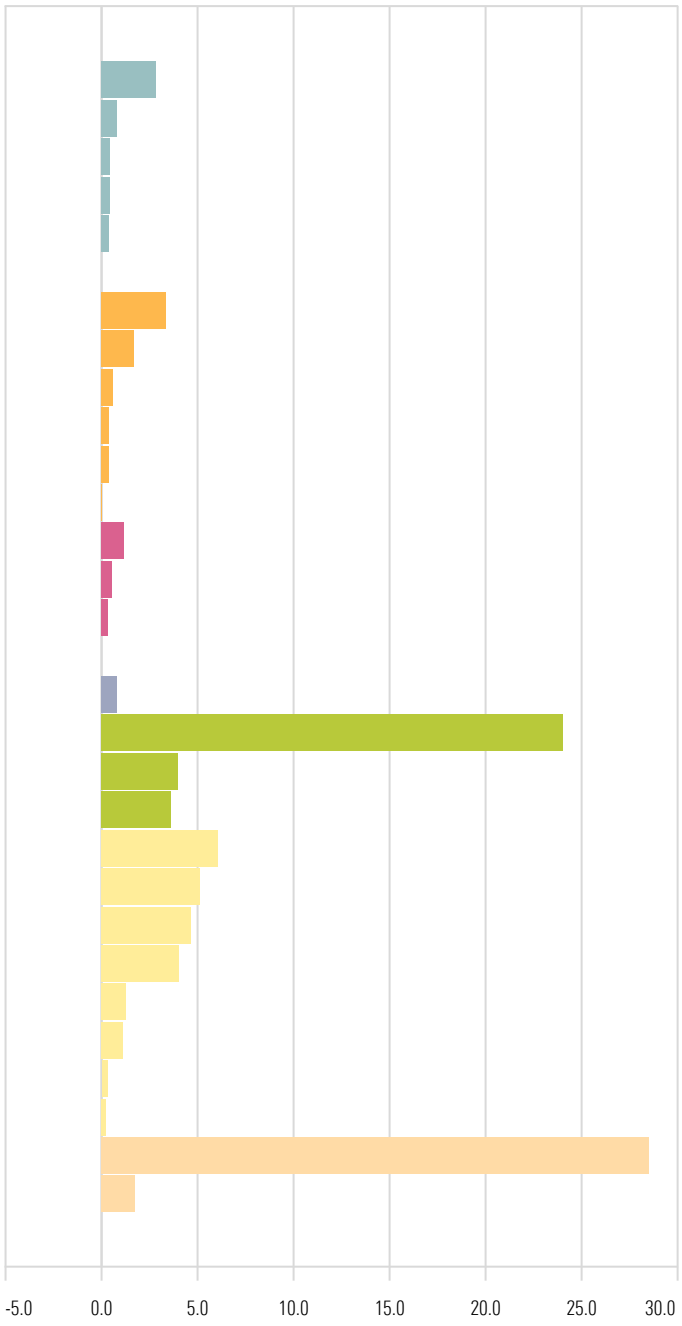
This chart shows how the portfolio positioning has changed over time in accordance with our valuation driven asset allocation process.

The portfolio has the flexibility to move towards opportunities that offer the best reward for risk (and away from those that we deem to be less attractive). As you can see, Morningstar's valuation driven approach has seen the portfolio positioning change over time, as we take advantage of prevailing investment opportunities to position the portfolio for longer term returns.

Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	2.9
Australian Shares - Vinva	0.9
Australian Shares - Allan Gray Australia	0.5
Australian Shares - Platypus	0.5
Australian Shares - iShares (ETF)	0.4
Australian Shares - Others	0.0
International Shares - Morningstar	3.4
International Shares - Marathon	1.7
International Shares - iShares (ETF)	0.7
International Shares - Vanguard (ETF)	0.4
International Shares - Sands Capital	0.4
International Shares - Others*	0.1
Global Property & Infrastructure - Morningstar	1.2
Global Property & Infrastructure - Omega	0.6
Global Property & Infra - State Street (ETF)	0.4
Global Property & Infrastructure - Others	0.0
Alternative Investments - Diversified Alternatives	0.9
Australian Bonds - Omega	24.0
Australian Bonds - Metrics	4.0
Australian Bonds - Others*	3.7
International Bonds - Colchester	6.1
International Bonds - Schwab (ETF)	5.2
International Bonds - Omega	4.7
International Bonds - Standish	4.1
International Bonds - Vanguard (ETF)	1.3
International Bonds - Shenkman	1.1
International Bonds - Others*	0.4
International Bonds - Ashmore	0.3
Cash - Omega	28.5
Cash - Others*	1.8
Total	**100.0**



*Others can include futures, liquidity and transition cash, other exchange traded funds and direct stocks. Further information on the underlying holdings of the fund is available by contacting your financial adviser or Morningstar.

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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.

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