

Balanced Managed Account Portfolio

Q3 2018

Quarterly Performance Update

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

Risk Level: Moderate
Inception: 1 July 2012
Investment Horizon: 5 Years
Management Fee: 0.61%
Indirect Cost Ratio: 0.20%

"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

What's the purpose of this portfolio?

This is a portfolio of investments hand-picked by our team of professional investors. It targets around 50% growth assets like shares and property, and 50% defensive assets such as cash and bonds. We actively buy, hold or sell each investment depending on market conditions, with an aim to optimise your rewards, whilst preserving your savings over the targeted investment horizon.

Key points:

- The escalation of trade tensions continues to see divergent sentiment toward key share and bond markets, while Brexit and the upward path of U.S. interest rates pose potential challenges for investors looking forward
- Recent weakness in Emerging Market shares and bonds sees them stand out in a world of few opportunities

How the investment portfolio has performed

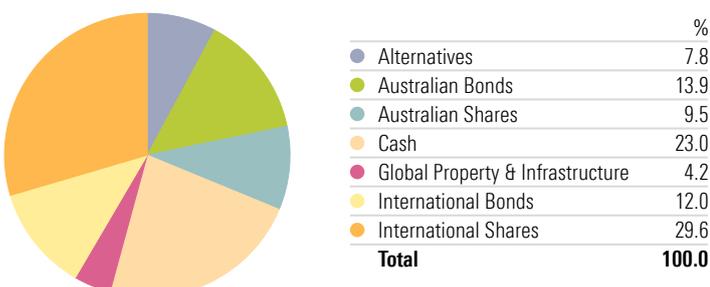
	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	1mth (%)	Incp (% p.a)
Portfolio*	6.18	5.49	6.28	2.74	0.52	7.27
CPI + 2.50%^	4.30	4.23	4.58	1.24	0.41	4.51

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



The portfolio aims to earn a rate of return that exceeds inflation by at least 2.5% per annum over rolling 5 year periods.

Quarter-end Asset Allocation



As we march through 2018, we look back on the continuation of what has been a strong period for equity markets, particularly the U.S. This is perhaps a surprising outcome when you consider how overvalued a number of 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.

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). While this is understandable human behaviour, it 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 more recent times, we've seen positive sentiment toward less attractive opportunities like U.S. shares persist, with investors looking to strong corporate earnings, a flourishing U.S. economy and expectations that the U.S. stands to benefit (or lose the least?) from Trump's policies regarding trade. Such an approach appears sensible but, in our view, we think much of this is already in the price and recent prices moves have only stretched valuations further, exacerbating our already cautious stance to this market.

By contrast, more attractive assets, such as Emerging Market shares and bonds, have endured significant pressure. Much of this poor sentiment centres on the historical relationship between Emerging Market assets and the U.S. dollar (specifically that a stronger U.S. dollar typically has negative implications for the outlook of most Emerging Market economies). In this respect, many fear that the stronger U.S. dollar, combined with the unfolding economic trouble in Argentina and Turkey (to name a few concerns), may in fact be the start of a broader Emerging Market crisis. While this cannot be discounted, we believe Emerging Market economies and financial systems to be much more resilient than in years gone by, with current valuations compensating investors for this uncertainty, in our view. Similarly, anxiety reigns among investors in U.K. shares, as the U.K. moves toward the finalisation of its divorce from the European Union. Again, while its difficult to know how these negotiations progress, U.K. equity valuations appear favourable on a reward for risk basis.

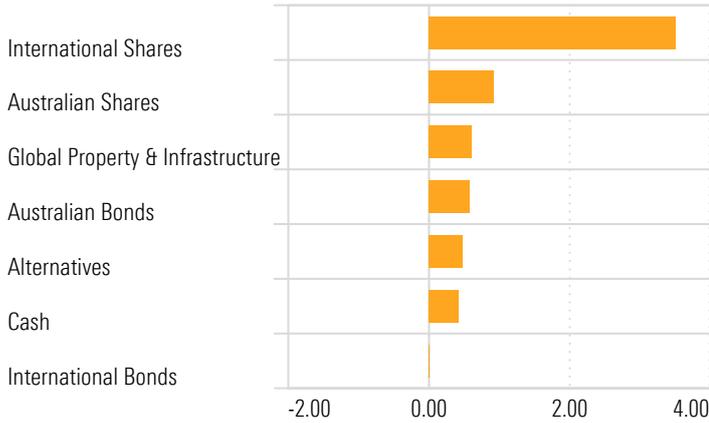
It remains near impossible to predict the short term movements of markets, given that they can be heavily influenced by investor sentiment, which can, and often does, change rapidly. However, as long term valuation driven investors, we can assess that the risk of loss remains elevated in a number of key asset classes. 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.

*Investment performance is before tax and the post-fee return is after the standard management fee of 0.61% (inclusive of GST). Investment performance is shown from 01/07/2012 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. The portfolio may include exchange traded funds which charge management fees and these are an additional cost to individual investors and impact their return.

^The CPI was not available for the current quarter at the time of creation of this report. 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.

Information about the portfolio's performance

What drove portfolio performance over the past year?



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

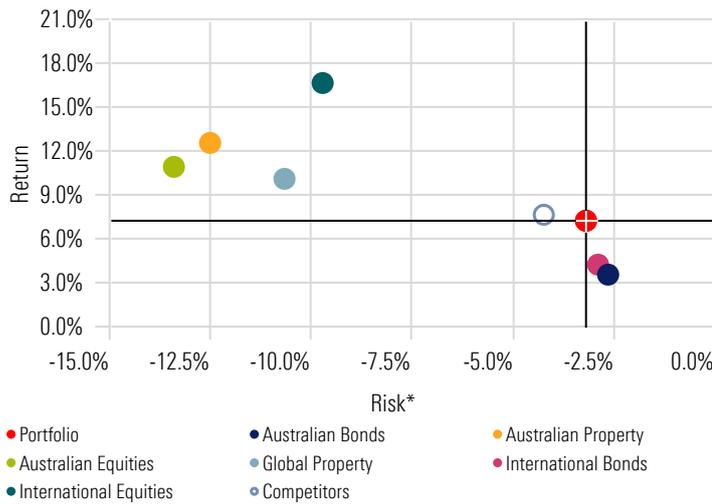
International shares were the key driver of portfolio performance over the past year.

U.S. and Japanese shares have been a key source of positive returns, particularly where those investments have been exposed to the falling Australian dollar. That said, valuations in U.S. shares are generally unattractive with us continuing to prefer U.K, Emerging Market and Japanese shares.

Australian shares have further contributed to portfolio returns, with a number of previously unloved portfolio holdings, such as Telstra, Brambles and QBE, rebounding on improved sentiment.

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

Risk versus reward since inception^



This chart shows how a number of investments have performance on average since 1 July 2012.

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.

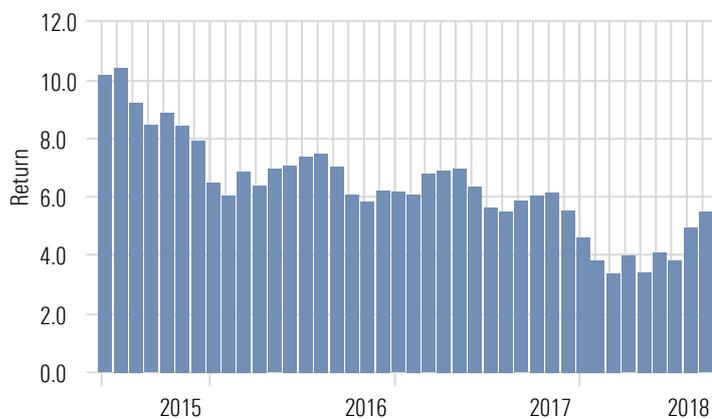
You want to be as close to the top right corner of the chart as possible, as this indicates high returns achieved with less risk. You would expect cash to be towards the bottom right of the chart, with little to no risk and consequently, low returns.

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.**

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

^Asset classes are represented by the respective Morningstar Fund Category Peer Average. Competitors are represented by the Morningstar Australia Fund Multisector Balanced Category Average.

How stable has performance been? (Rolling 3 year returns)



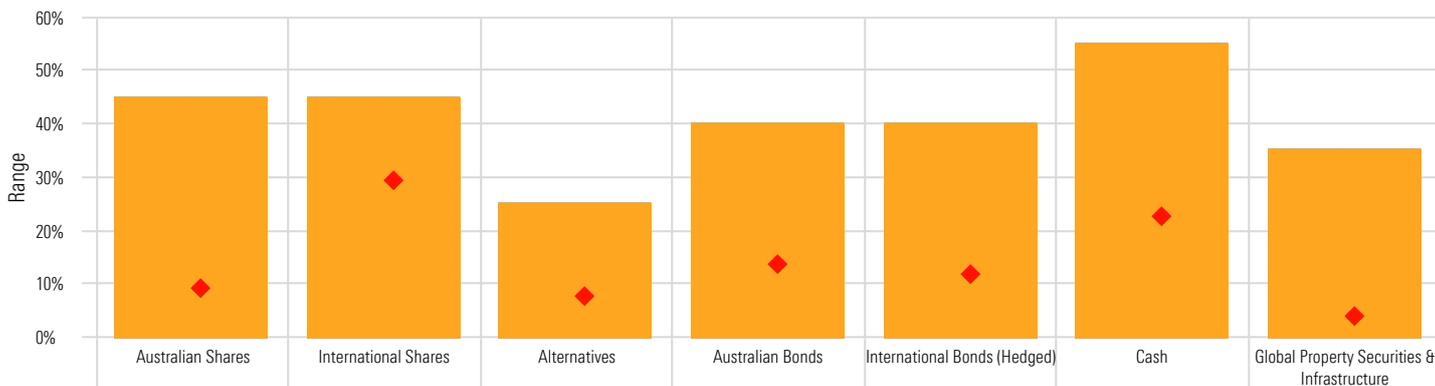
Past performance is not a reliable indicator of future performance.

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).

Information about what the portfolio is invested in

How asset allocation is positioned vs the allowable ranges

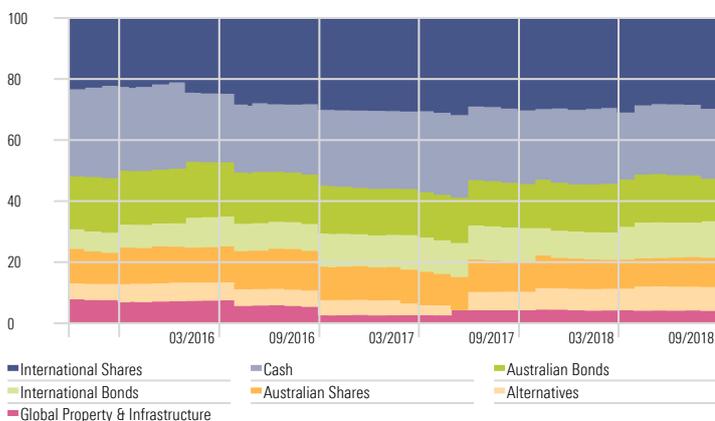


◆ Quarter end asset allocation

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

We prefer international shares over Australian shares, particularly those from 'Emerging Markets', such as developing Asia, Japan and Western Europe. We further favour Australian bonds over international bonds, given superior valuations. The portfolio continues to hold high levels of cash as we wait for more compelling investment opportunities.

How we navigated investment markets over time

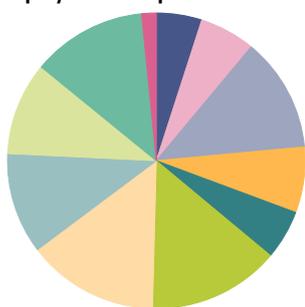


This chart shows how the portfolio positioning has changed over time in accordance with our valuation-driven asset allocation process.

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).

With markets generally expensive, the portfolio is cautiously positioned with a focus on the best value opportunities.

Equity Sector Exposure - Portfolio

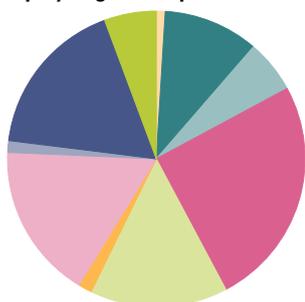


Sector	%
Basic Materials	4.9
Communication Services	6.1
Consumer Cyclical	12.5
Consumer Defensive	7.2
Energy	5.4
Financial Services	14.3
Healthcare	14.3
Industrials	11.0
Real Estate	10.2
Technology	12.5
Utilities	1.6
Total	100.0

This chart shows which Morningstar Sectors the portfolio holds shares in.

Financials and Healthcare are our two largest sector exposures while our allocation towards technology includes investments in quality businesses like Microsoft, Cisco and Oracle.

Equity Regional Exposure - Portfolio



Region	%
Africa/Middle East	1.0
Asia Developed	10.3
Asia Emerging	5.8
Australasia	25.2
Europe Developed	15.0
Europe Emerging	1.5
Japan	17.0
Latin America	1.3
North America	17.4
United Kingdom	5.6
Total	100.0

This chart shows which geographic regions the portfolio holds shares in.

Australia remains our largest region with the portfolio also having significant investments in Emerging Market, U.K./European and Japanese shares.

Detailed Trade List

Action	Security/ APIR Code	Security Name	Previous Weighting (%)	New Weighting (%)
Australian Equities			9.3%	9.5%
↓ Decreased	BXB-AU	Brambles Limited	0.9%	0.8%
Rationale	Through its CHEP and IFCO divisions, Brambles is the largest global provider of pallet, reusable plastic crates and container pooling services. Its global scale provides cost advantages, and the extensive network helps to lock in customers. Brambles holds relationships with some of the world's largest retailers, consumer goods, and automotive manufacturers, and has strong growth prospects in Emerging Markets. While we remain positive on the outlook for the company, recent share price gains, as concerns around increasing competition and new management uncertainty ease, sees us trim our holding.			
↑ Increased	RHC-AU	Ramsay Healthcare Limited	0.6%	0.8%
Rationale	Narrow MOAT rated Ramsay Healthcare is a leading global hospital operator with 223 hospital and day surgery facilities providing day and complex surgery, psychiatric and rehabilitation services to patients. Ramsay is the largest private hospital operator in both Australia & France but also has operations in the U.K. and increasingly in Asia. While this scale underpins a sustainable competitive advantage, Ramsay's earnings are relatively defensive, with demand supported by the aging populations of their key markets. Recent share price weakness due to slowing earnings growth and some regulatory uncertainty have made the valuation more attractive, with investors becoming overly pessimistic, in our view. We consider Ramsay a strong franchise with above average growth potential in the long-run. In this respect, we would view Ramsay's recent move into community pharmacy favourably, with their decision to centralise purchasing expected to deliver margin expansion.			
International Equities			28.1%	29.6%
↓ Decreased	IXJ-AU	iShares Global Healthcare ETF	3.0%	1.8%
Rationale	The iShares Global Healthcare ETF seeks to track the results of an index composed of global healthcare equities, before fees and expenses. Following the election of Donald Trump in late 2016, U.S. healthcare equities, in particular, came under pressure amid expectations that Trump would repeal Obamacare and make changes to drug pricing policy that would adversely affect the earnings of leading global pharmaceutical names. This led to weakness in the sector, with investors exiting to avoid the uncertainty, thereby creating a valuation opportunity. Since that time, healthcare reform has been delayed and watered down, with previously pessimistic investors feeling more comfortable investing in this sector again. The resulting strength sees future expected returns fall, and we move to lock in profits by trimming our holding.			
+ Added	VGE-AU	Vanguard FTSE Emerging Markets Shares ETF	0.0%	1.0%
Rationale	The Vanguard FTSE Emerging Market Shares ETF seeks to track the results of an index composed of equities from Emerging Market countries, before fees and expenses. Emerging Markets have borne the brunt of negative sentiment in recent months as concerns around the impact of trade tariffs as well as esoteric issues, notably in Argentina and Turkey, have led to outflows (and weakness) in these markets. While risks undoubtedly remain, we believe that investors have become overly pessimistic on the outlook for key Emerging Market assets, with current valuations providing an attractive opportunity to increase our weighting to the region. As at 31 July 2018, the top 5 sectors represented by the ETF are Financials (23.4%), Information Technology (20.9%), Consumer Cyclical (11.8%), Materials (8.7%) and Energy (7.7%). The top 5 country weightings are China (34.1%), Taiwan (14.5%), India (11.5%), Brazil (7.1%) and South Africa (6.8%). The management fee on this ETF is 0.48% p.a.			
↑ Increased	IKO-AU	iShares MSCI South Korea ETF	1.7%	2.4%
Rationale	The iShares MSCI South Korea ETF seeks to track the results of an index composed of South Korean equities, before fees and expenses. Like many other Asian countries, South Korean equities have been under pressure as developments regarding trade tariffs, dictated by the United States, escalate. In addition, geopolitical uncertainty continues to weigh on sentiment. While risks undoubtedly remain, investors in South Korean equities are being more than adequately compensated, in our view, with recent weakness adding further to our positive view. A deeper look at South Korean companies is encouraging. Index heavyweight, Samsung (diversified electronics manufacturer), for instance, is Narrow MOAT rated by Morningstar, complementing its attractive valuation. As at 31 July 2018, the top 5 sectors represented by the ETF are Information Technology (41.0%), Financials (13.1%), Consumer Cyclical (10.3%), Industrials (9.3%), and Materials (8.1%). The management fee on the ETF is 0.62% p.a.			

↑	Increased	IJP-AU	iShares MSCI Japan ETF	4.5%	5.4%
Rationale	<p>The iShares MSCI Japan ETF seeks to track the results of an index composed of Japanese equities, before fees and expenses. Japanese equities have had a weak start to 2018, in local currency terms, weighed down by broader poor sentiment toward export sensitive economies. With greater expected returns and a greater margin of safety to invest, we take this opportunity to increase our holding accordingly. In addition to presenting with attractive valuations, Japanese equities further appeal given the strong fundamentals of the asset class. Specifically, we note the focus of Japanese corporates on improving corporate governance, which typically leads to more efficient use of capital. We expect this trend to continue, resulting in better outcomes for shareholders through increased dividends and buybacks, improved profit margins, earnings growth, and returns on equity. As at 31 July 2018, the top 5 sectors represented by the ETF are Industrials (18.6%), Consumer Cyclical (17.1%), Information Technology (16.1%), Financials (11.9%) and Consumer Defensive (8.2%). The fee on this ETF is 0.49% p.a.</p>				
Property & Infrastructure				4.3%	4.2%
Australian Bonds				15.8%	13.9%
↓	Decreased	IAF-AU	iShares Core Composite Bond ETF	11.7%	9.9%
Rationale	<p>The iShares Core Composite Bond ETF seeks to track the results of an index composed of investment grade bonds issued in the Australian debt market, before fees and expenses. Bond prices move in opposite directions with interest rates, all things equal. Bond prices have increased of late as expectations of future domestic rate rises are pushed back and major banks move to make out of cycle interest rate hikes on outstanding loans. With these gains, we trim our investment, notwithstanding that Australian bonds remain reasonably priced and continue to appeal relative to global peers. Indeed, at these levels, we view Australian bonds (and cash) as our preferred risk diversifiers, when compared to global bonds and inflation-linked bonds.</p>				
International Bonds				11.7%	12.0%
↑	Increased	INT0082AU	Morningstar International Bonds Fund (Hedged)	11.7%	12.0%
Rationale	<p>The Morningstar International Bonds Fund (Hedged) is a diversified portfolio of global fixed income securities. Approximately 30% of the fund is invested in Emerging Market debt, i.e. bonds issued by Emerging Market countries. Emerging Market debt stands out as offering one of the most attractive reward for risk profiles among our fixed interest universe. This has been particularly the case where the bonds are issued in the currency of the Emerging Market nation (as opposed to being issued in U.S. dollars) but more recent moves in hard currency (i.e. USD denominated) debt, in response to rising U.S. interest rates and uncertainty regarding the outlook for Argentinian and Turkish bonds, see valuations in this space becoming increasingly attractive. With this, we increase our allocation to the fund. Note: investors in the Morningstar International Bonds Fund do not incur any additional underlying investment management fees when the fund is accessed via an investment in a Morningstar Multi Asset Portfolio (even where that Morningstar fund, in turn, invests with external managers).</p>				
Alternatives				7.9%	7.8%
Cash				22.9%	23.0%
↓	Decreased	CASH_AUD	Platform Cash	7.0%	5.1%
Rationale	<p>While there is little overall change to our cash allocation (we continue to hold more than normal given generally expensive share and bond markets), we have made changes to the underlying composition of our cash investments. More specifically, we have trimmed our existing platform cash holdings in favour of an increased allocation toward the iShares Core Cash ETF.</p>				
↑	Increased	BILL-AU	iShares Core Cash ETF	11.4%	13.4%
Rationale	<p>The iShares Core Cash aims to outperform the S&P/ASX Bank Bill Index before fees and expenses. It offers the ability to achieve capital preservation and regular income with a diversified portfolio of high quality short-term money market instruments, including Commonwealth and State government securities or deposits, cash deposits, commercial paper, bank bills and certificates of deposit. With the portfolio's cash level remaining elevated in wait for more compelling investment opportunities, we take the opportunity to allocate further to this ETF, bringing diversification to this part of the portfolio. The management fee on the ETF is 0.07% p.a.</p>				

What you're invested in

Holding	Code	Asset Class	Morningstar Sector	Portfolio Weighting %
iShares Core Cash ETF	BILL	Cash		13.419
Morningstar Intl Bonds Hedged Fund	17381	International Bonds		12.017
iShares Core Composite Bond ETF	IAF	Australian Bonds		9.874
Morningstar Intl Shares Fund Hedged	11745	International Shares		8.950
Morningstar Multi Asset Real Return Fund Tr Z	11736	Alternatives		7.839
iShares Europe ETF (AU)	IEU	International Shares		5.675
iShares MSCI Japan ETF (AU)	IJP	International Shares		5.421
Cash Account		Cash		5.087
BetaShares High Int Cash	AAA	Cash		4.446
iShares Government Inflation ETF	ILB	Australian Bonds		4.004
iShares MSCI Emerging Markets ETF (AU)	IEM	International Shares		3.308
iShares MSCI South Korea ETF (AU)	IKO	International Shares		2.439
SPDR® Dow Jones Global Real Estate ETF	DJRE	Global Property & Infrastructure		2.149
Morningstar Australian Shares	10605	Australian Shares		2.038
iShares Global Healthcare ETF (AU)	IXJ	International Shares		1.765
Telstra Corp Ltd	TLS	Australian Shares	Communication Services	1.169
QBE Insurance Group Ltd	QBE	Australian Shares	Financial Services	1.142
Vanguard FTSE Emerging Markets Shrs ETF	VGE	International Shares		1.015
Vanguard FTSE Europe Shares ETF	VEQ	International Shares		1.009
Woodside Petroleum Ltd	WPL	Australian Shares	Energy	0.838
Brambles Ltd	BXB	Australian Shares	Industrials	0.799
Ramsay Health Care Ltd	RHC	Australian Shares	Healthcare	0.765
Commonwealth Bank of Australia	CBA	Australian Shares	Financial Services	0.762
GPT Group	GPT	Global Property & Infrastructure	Real Estate	0.740
Sonic Healthcare Ltd	SHL	Australian Shares	Healthcare	0.739
Scentre Group	SCG	Global Property & Infrastructure	Real Estate	0.672
Medibank Private Ltd	MPL	Australian Shares	Financial Services	0.644
Crown Resorts Ltd	CWN	Australian Shares	Consumer Cyclical	0.643
Dexus	DXS	Global Property & Infrastructure	Real Estate	0.633

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