Conservative Managed Account Portfolio

Q32017

All data and information as at Portfolio Date: 30/09/2017

Quarterly Performance Update

(Previously Defensive Managed Account Portfolio)

Risk Level: Low
Inception: 20 December 2013
Management Fee: 0.55%
Investment Horizon: 2 Years

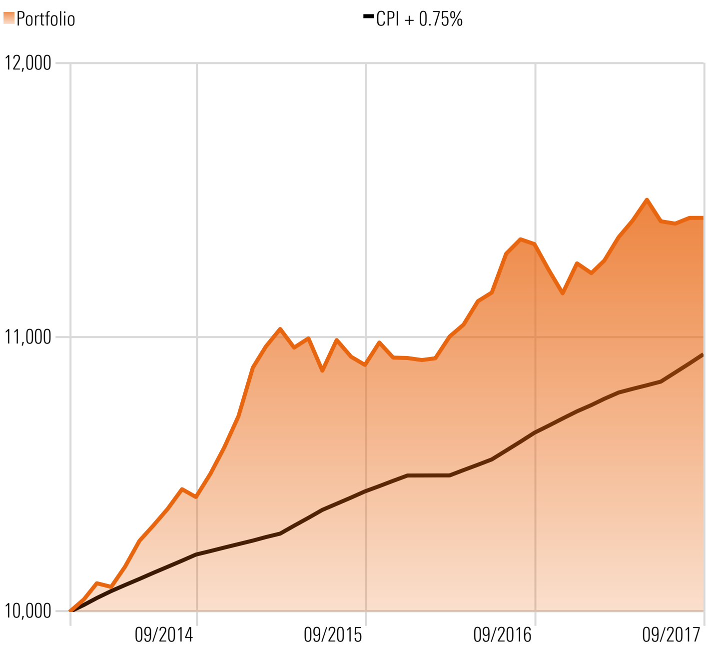
What's the purpose of this portfolio?

This is a portfolio of investments hand-picked by our team of professional investors. It targets around 15% growth assets like shares and property, and 85% 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.

How the investment portfolio has performed

	3yr (% p.a)	2yr (% p.a)	1yr (%)	3mth (%)	Incp (% p.a)
Portfolio*	3.15	2.43	0.84	0.11	3.64
CPI + 0.75%^	2.33	2.36	2.68	0.92	2.42

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 0.75% per annum over rolling 2 year periods.

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." – Warren Buffett

Key Takeaways

- The portfolio continues to exceed its longer-term objectives
- Global share markets continue to grind higher, defying expensive valuations
- Bond markets also appear overvalued, leading us to hold higher levels of cash than normal

The future looks different to the past

Longer term portfolio returns continue to be above what we might reasonably expect to receive. Indeed, as financial journalists mark the 10-year anniversary of the start of the global financial crisis (GFC), it is prudent to pause and consider where we have been, and the environment that we now find ourselves in. A glance at returns from global shares since the GFC sees double digit annual gains across most major regions. Bond markets too, have been equally well supported, largely driven by stimulus measures deployed by the Central Banks of the United States, Europe and Japan. This has been a boon for investors but, in our view, is simply an unsustainable expectation of returns from these asset classes going forward.

In this respect, it is perhaps ironic that this quarter marks a key turning point in the direction of the monetary policies that have underpinned these extraordinary gains, with the U.S. Federal Reserve formally announcing that it will begin to unwind its stimulus program. The European Central Bank (ECB) is similarly looking to reduce its support and, while it is difficult to say with certainty what may happen under these circumstances, these events occur at a time when valuations in key share and bond markets appear increasingly expensive and as our perception of quality in these asset classes is in many cases deteriorating.

Let the good times roll…

Nonetheless, positive investor sentiment has so far failed to budge. While elevated economic and geopolitical risks remain, money continues to flow into markets given the strong recent returns and a perception of calm has led many others to see this as "a good time to invest". This is most notable in European shares, where after period of uncertainty due to elections, Brexit/EU negotiations and concerns regarding ECB policy, investors again feel comfortable to invest. This is highly irrational behaviour. In our view, the key driver of longer term performance is the price you pay for your assets - and typically the most attractive prices come in times of heightened uncertainty and fear.

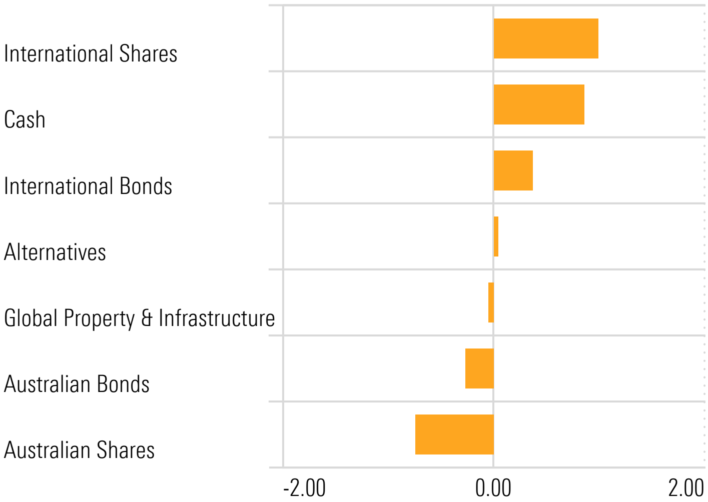
The current environment reinforces the need to have a robust investment strategy and to be mindful of human behavioural biases when investing. Indeed, we continue to believe that portfolio returns going forward will be driven as much by as what investors don't own (in terms of expensive assets) … as what they do. Accordingly, the portfolio remains positioned toward those investments offering the most attractive reward for risk, for example, shares in select Emerging Market countries, while holding ample cash in wait for more compelling investment opportunities. While identifying the timing and catalyst for markets to return closer to their fair value (or what they are really worth) is challenging, we remain fearful when others are greedy.

*Investment performance is before tax and the post-fee return is after the standard management fee of 0.55% (inclusive of GST). Investment performance is shown from 19/12/2013 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.

MORNINGSTAR

Information about the portfolio

What drove portfolio performance over the past year?



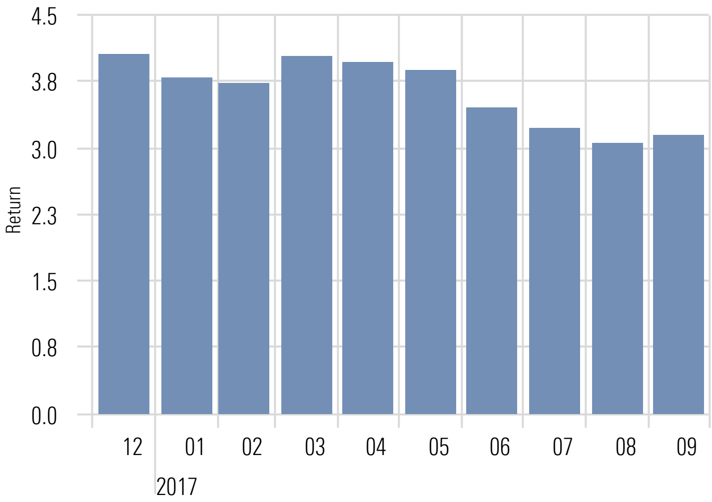
This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

International shares were the key driver of portfolio performance over the past year, although recent strength in the Australian dollar has impacted these returns.

Emerging market shares have been a key source of positive returns. That said, they still remain attractively priced in our view. European shares have also done well, with improving investor sentiment toward the region.

Australian shares have affected returns as the performance of a number of recently added companies have weighed on portfolio returns. Nonetheless, we believe that these investments will reward investors over the longer term.

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

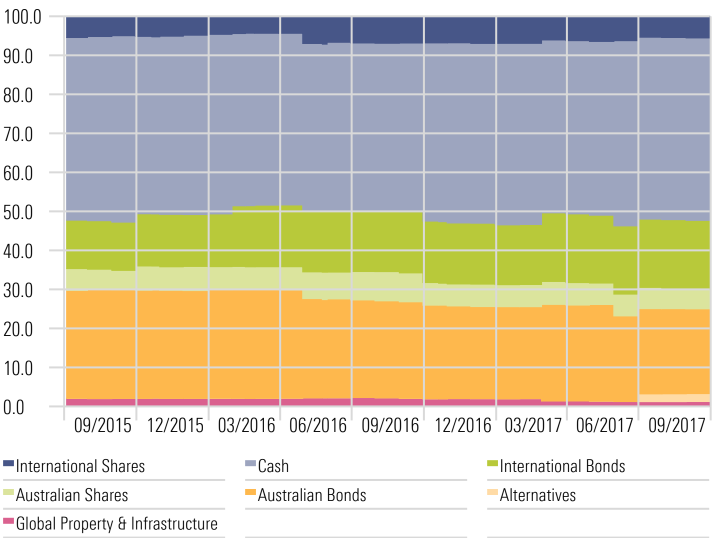


Past performance is not a reliable indicator of future performance.

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).

How we navigated investment markets over time



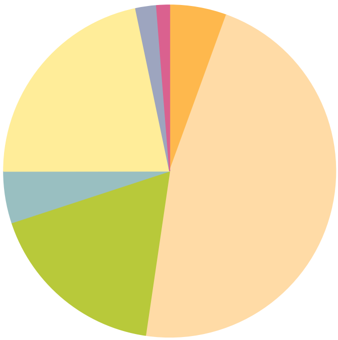
This chart shows how the portfolio positioning has changed over time in accordance with our valuation-driven asset allocation process.

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.

Information about what the portfolio is invested in

How the portfolio is positioned



	%
International Shares	5.5
Cash	46.8
International Bonds	17.6
Australian Shares	5.0
Australian Bonds	21.7
Alternatives	2.0
Global Property & Infrastructure	1.3
Total	**100.0**

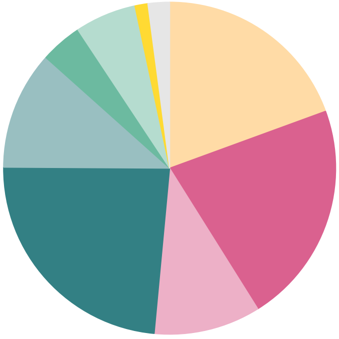
This chart shows the current breakdown of how the portfolio is invested.

We continue to prefer Australian bonds over international bonds, given superior valuations.

We further favour international shares over Australian shares, particularly those from 'Emerging Markets', such as developing Asia, Japan and Western Europe.

The portfolio continues to hold high levels of cash as we wait for more compelling investment opportunities.

Fixed-Income Maturity - Portfolio

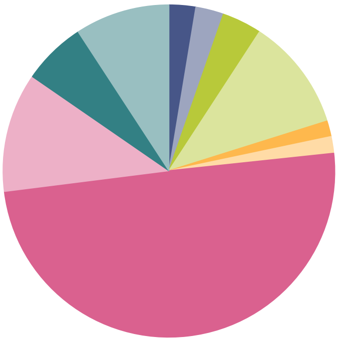


	%
1-3 Yr	19.4
3-5 Yr	21.7
5-7 Yr	10.4
7-10 Yr	23.6
10-15 Yr	11.5
15-20 Yr	4.1
20-30 Yr	6.0
30+ Yr	1.3
Other	2.1
Total	**100.0**

This chart shows the maturity profile of fixed income securities in the portfolio.

Bonds with longer term maturities are more sensitive to changes in interest rates. With interest rates at historic lows in much of the developed world, we remain cautious that potential global rate rises from here would affect bond prices (as long-term bonds are effectively locking in a lower rate). As such, we have a preference for shorter-dated securities where possible. The exception to this is with regard to longer-dated Australian bonds (and inflation-linked bonds) and Emerging Market debt (i.e. the bonds of emerging market nations) which generally have much more attractive valuations th...

Equity Regional Exposure- Portfolio



	%
North America	2.6
Latin America	2.7
United Kingdom	3.9
Europe Developed	11.0
Europe Emerging	1.5
Africa/Middle East	1.6
Australasia	49.7
Japan	11.6
Asia Developed	6.2
Asia Emerging	9.2
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 shares, especially in Taiwan and South Korea.

Our investments in U.S. shares are predominantly via our strategy to identify high quality companies although we also invest in U.S. health care shares, given their attractive valuations.

What you're invested in

Holding	Code	Asset Class	Morningstar Sector	Portfolio Weighting %
iShares Core Cash	BILL	Cash		23.26
Morningstar Intl Bonds Hedged Fund	17381	International Bonds		17.64
BetaShares High Int Cash	AAA	Cash		16.26
iShares Core Composite Bond ETF	IAF	Australian Bonds		15.85
Cash Account		Cash		7.25
iShares Government Inflation ETF	ILB	Australian Bonds		5.88
iShares MSCI Emerging Markets ETF (AU)	IEM	International Shares		2.44
Morningstar Multi Asset Real Return Fund Tr Z	11736	Alternatives		2.03
iShares Europe ETF (AU)	IEU	International Shares		1.64
iShares MSCI Japan ETF (AU)	IJP	International Shares		1.47
Telstra Corp Ltd	TLS	Australian Shares	Communication Services	0.81
Brambles Ltd	BXB	Australian Shares	Industrials	0.79
Westfield Corp	WFD	Global Property & Infrastructure	Real Estate	0.71
QBE Insurance Group Ltd	QBE	Australian Shares	Financial Services	0.69
Commonwealth Bank of Australia	CBA	Australian Shares	Financial Services	0.66
Ansell Ltd	ANN	Australian Shares	Healthcare	0.59
Medibank Private Ltd	MPL	Australian Shares	Financial Services	0.56
GPT Group	GPT	Global Property & Infrastructure	Real Estate	0.55
Coca-Cola Amatil Ltd	CCL	Australian Shares	Consumer Defensive	0.49
Crown Resorts Ltd	CWN	Australian Shares	Consumer Cyclical	0.43

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.