High Growth Managed Account Portfolio

Quarterly Performance Update

Q32018

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

Risk Level: High
Inception: 1 July 2012
Investment Horizon: 9 Years

Management Fee: 0.72%
Indirect Cost Ratio: 0.24%

"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

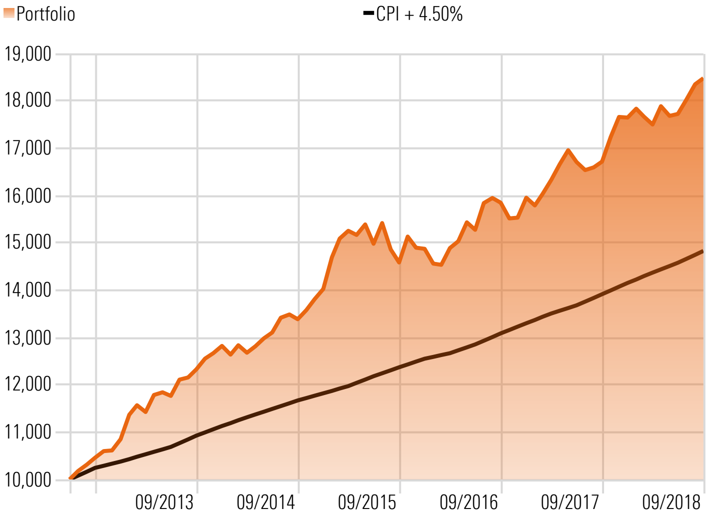
What's the purpose of this portfolio?

This is a portfolio of investments hand-picked by our team of professional investors. It targets around 90% growth assets like shares and property, and 10% 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

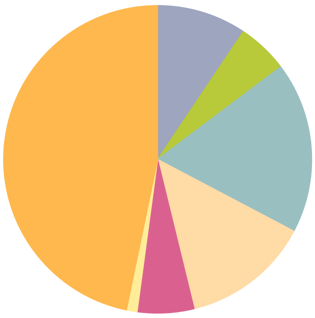
	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	1mth (%)	Incp (% p.a)
Portfolio*	8.44	8.21	10.55	4.26	0.71	10.33
CPI + 4.50%^	6.30	6.23	6.58	1.72	0.57	6.51

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 4.5% per annum over rolling 9 year periods.

Quarter-end Asset Allocation



	%
Alternatives	9.4
Australian Bonds	5.3
Australian Shares	18.0
Cash	13.5
Global Property & Infrastructure	5.9
International Bonds	1.1
International Shares	46.8
Total	**100.0**

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

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.

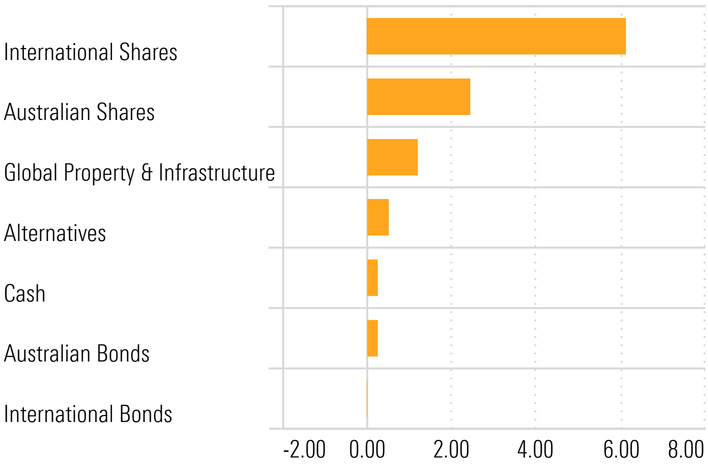
It remains near impossible to predict the short term movements of markets, given that they can be heavily influenced by investor sentiment, which can, and often does, change rapidly. However, as long term valuation driven investors, we can assess that the risk of loss remains elevated in a number of 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 0.72% (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.

MORNINGSTAR

Information about the portfolio's performance

What drove portfolio performance over the past year?



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

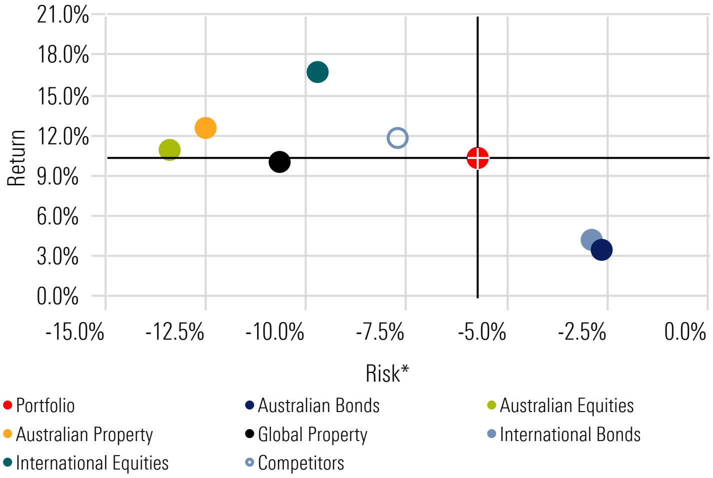
This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

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.

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 1 July 2012.

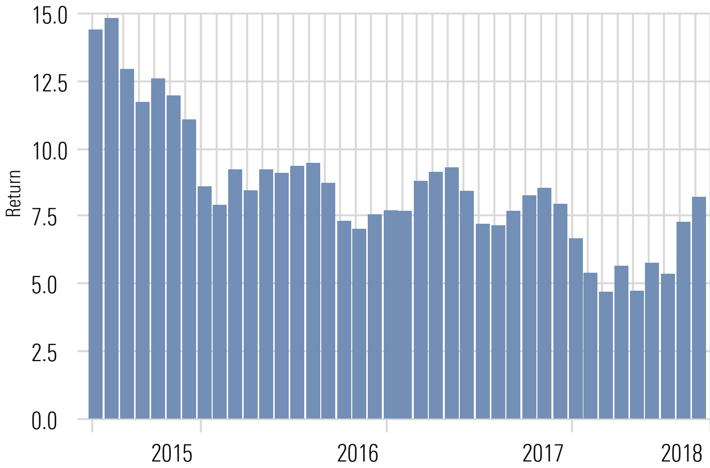
Returns alone are not the full picture. You cannot generate returns without taking on a level of risk. The chart shows the 'riskiness' of each investment relative to its average return.

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.**

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

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



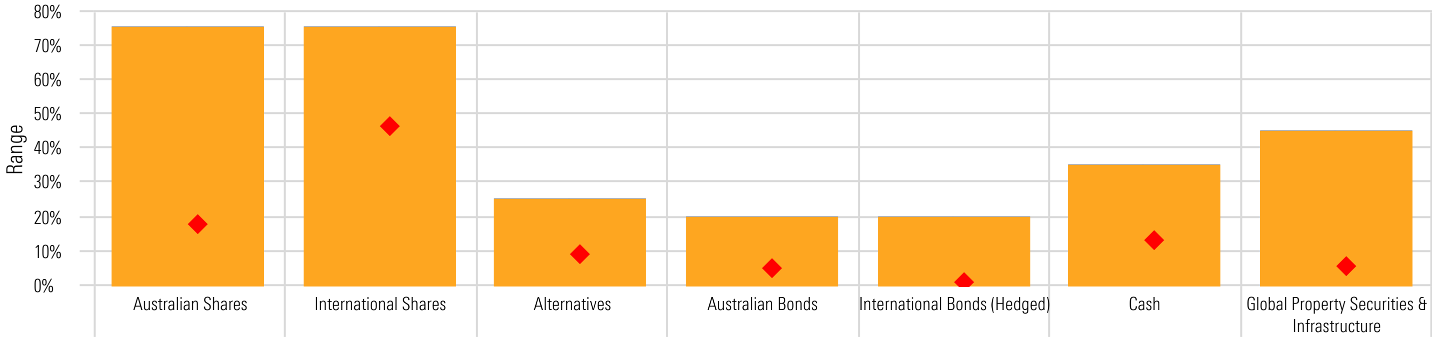
Past performance is not a reliable indicator of future performance.

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).

Information about what the portfolio is invested in

How asset allocation is positioned vs the allowable ranges

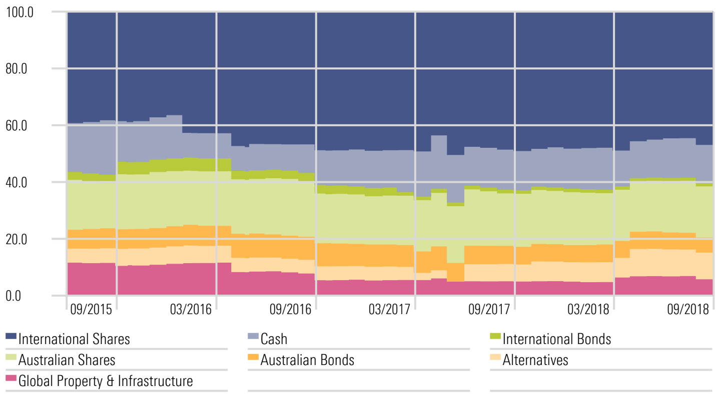


◆ Quarter end asset allocation

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

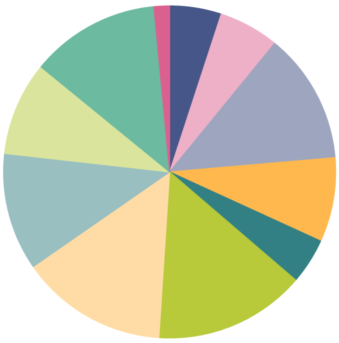


This chart shows how the portfolio positioning has changed over time in accordance with our valuation-driven asset allocation process.

The portfolio has the flexibility to move towards opportunities that offer the best regard 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

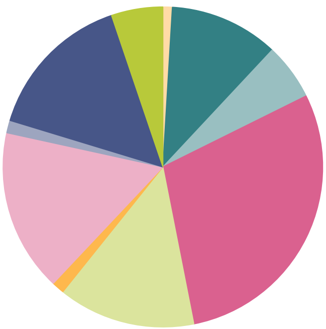


	%
Basic Materials	5.0
Communication Services	5.9
Consumer Cyclical	12.7
Consumer Defensive	8.2
Energy	4.5
Financial Services	14.7
Healthcare	14.3
Industrials	11.4
Real Estate	9.1
Technology	12.6
Utilities	1.5
Total	**100.0**

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



	%
Africa/Middle East	0.9
Asia Developed	11.0
Asia Emerging	5.7
Australasia	29.2
Europe Developed	13.9
Europe Emerging	1.3
Japan	16.4
Latin America	1.3
North America	15.1
United Kingdom	5.2
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, U.K./European and Japanese shares.

Detailed Trade List

Action		Security/ APIR Code	Security Name	Previous Weighting (%)	New Weighting (%)
Australian Equities				**17.8%**	**18.0%**
x	**Removed**	VRT-AU	Virtus Health Limited	0.6%	0.0%
Rationale		Virtus Health is a leading provider of in vitro fertilisation, or IVF, services, with 36% of the national market. While being the dominant player with an integrated service offering brings scale, IVF market conditions remain subdued with competition increasing in the space, particularly at the low-cost end. With no economic MOAT, this raises earnings uncertainty, with the company further targeting offshore markets for future expansion. With the stock trading closer to our fair value estimates, we are no longer being as attractively compensated for the range of possible outcomes, leading us to exit the holding.			
↓	**Decreased**	BXB-AU	Brambles Limited	1.6%	1.7%
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.			
x	**Removed**	CWN-AU	Crown Resorts Limited	1.4%	0.0%
Rationale		Crown Resorts Limited is a gaming and entertainment company, with businesses and investments in the integrated resort and entertainment sectors, primarily in Australia. We view Crown Resorts as a high-quality company offering both stable earnings and an attractive growth profile. Its Melbourne and Perth casinos have a proven track record of delivering resilient earnings, underpinned by long-dated licences. Each boasts a privileged position as the sole casino operator in the relevant state, building up scale that is likely to deter new entrants, in the unlikely event that further licences are granted. In future years, the Crown Sydney development will be a key source of growth, leveraging both the rapidly growing Chinese middle class and Australia's attractiveness as a tourist destination. That said, while we see opportunity in the stock, recent share price strength sees reduced reward for risk at this level.			
↑	**Increased**	RHC-AU	Ramsay Healthcare Limited	0.5%	1.5%
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				**44.9%**	**46.8%**
↓	**Decreased**	INT0017AU	Morningstar International Shares Fund (Unhedged)	5.4%	4.1%
Rationale		The Morningstar International Shares Fund is a diversified portfolio of international securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued quality securities. Almost 50% of the fund is invested in U.S. companies and while we would expect the quality style (e.g. low debt levels, strong cash flow) of this portfolio to deliver superior returns over time, valuations in U.S. equities, in general, have become increasingly unattractive. In addition, recent market movements have seen valuations in Japanese and Emerging Market equities, in particular, become relatively more attractive. As such, we have trimmed our allocation to this broad-based international equity strategy in favour of an increased investment in Japanese and Emerging Market shares. In each case, we have elected to retain the foreign currency exposure of the respective country/region, which we balance by reducing the unhedged version of the Morningstar International Shares Fund (thereby reducing our exposure to the U.S. dollar). Note: investors in the Morningstar International Shares Fund do not incur any additional underlying investment management fees when the fund is accessed via an investment in a Morningstar Multi Asset Portfolio.			

↓	Decreased	IXJ-AU	iShares Global Healthcare ETF	3.9%	2.2%
	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%	2.0%
	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 undoubtably 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	2.7%	4.7%
	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	7.7%	8.7%
	Rationale	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.			
Property & Infrastructure				**7.1%**	**5.9%**
x	Removed	GMG-AU	Goodman Group	0.9%	0.0%
	Rationale	Goodman Group is a leading industrial property group with operations around the globe. Following release of better than expected earnings, the company has enjoyed a strong share price rally and is now trading slightly ahead of our fair value estimates. With lower expected reward on offer for this stock (and indeed the sector in general), we exit the holding in favour of further investment in other, more appealing, asset classes.			

Australian Bonds				**6.1%**	**5.3%**
↓	**Decreased**	IAF-AU	iShares Core Composite Bond ETF	3.6%	3.0%
Rationale	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.				
International Bonds				**1.2%**	**1.1%**
Alternatives				**9.6%**	**9.4%**
Cash				**13.4%**	**13.5%**
↓	**Decreased**	CASH_AUD	Platform Cash	7.1%	4.6%
Rationale	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.				
↑	**Increased**	BILL-AU	iShares Core Cash ETF	6.3%	8.9%
Rationale	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.				

What you're invested in

Holding	Code	Asset Class	Morningstar Sector	Portfolio Weighting %
Morningstar Intl Shares Fund Hedged	11745	International Shares		9.793
Morningstar Multi Asset Real Return Fund Tr Z	11736	Alternatives		9.385
iShares Core Cash ETF	BILL	Cash		8.909
iShares Europe ETF (AU)	IEU	International Shares		8.804
iShares MSCI Japan ETF (AU)	IJP	International Shares		8.712
iShares MSCI Emerging Markets ETF (AU)	IEM	International Shares		4.934
iShares MSCI South Korea ETF (AU)	IKO	International Shares		4.663
Cash Account		Cash		4.556
Morningstar Intl Shares Fund Unhedged	11743	International Shares		4.117
Morningstar Australian Shares	10605	Australian Shares		3.903
iShares Core Composite Bond ETF	IAF	Australian Bonds		2.953
iShares Government Inflation ETF	ILB	Australian Bonds		2.387
SPDR® Dow Jones Global Real Estate ETF	DJRE	Global Property & Infrastructure		2.243
iShares Global Healthcare ETF (AU)	IXJ	International Shares		2.215
Vanguard FTSE Emerging Markets Shrs ETF	VGE	International Shares		2.033
Telstra Corp Ltd	TLS	Australian Shares	Communication Services	1.884
QBE Insurance Group Ltd	QBE	Australian Shares	Financial Services	1.856
Brambles Ltd	BXB	Australian Shares	Industrials	1.657
Ramsay Health Care Ltd	RHC	Australian Shares	Healthcare	1.505
Vanguard FTSE Europe Shares ETF	VEQ	International Shares		1.484
Medibank Private Ltd	MPL	Australian Shares	Financial Services	1.391
Commonwealth Bank of Australia	CBA	Australian Shares	Financial Services	1.302
Crown Resorts Ltd	CWN	Australian Shares	Consumer Cyclical	1.205
GPT Group	GPT	Global Property & Infrastructure	Real Estate	1.135
Morningstar Intl Bonds Hedged Fund	17381	International Bonds		1.119
Scentre Group	SCG	Global Property & Infrastructure	Real Estate	1.050
Sonic Healthcare Ltd	SHL	Australian Shares	Healthcare	0.875
Coca-Cola Amatil Ltd	CCL	Australian Shares	Consumer Defensive	0.847
Woodside Petroleum Ltd	WPL	Australian Shares	Energy	0.841
Vicinity Centres	VCX	Global Property & Infrastructure	Real Estate	0.823
Healthscope Ltd	HSO	Australian Shares	Healthcare	0.733
Dexus	DXS	Global Property & Infrastructure	Real Estate	0.687