

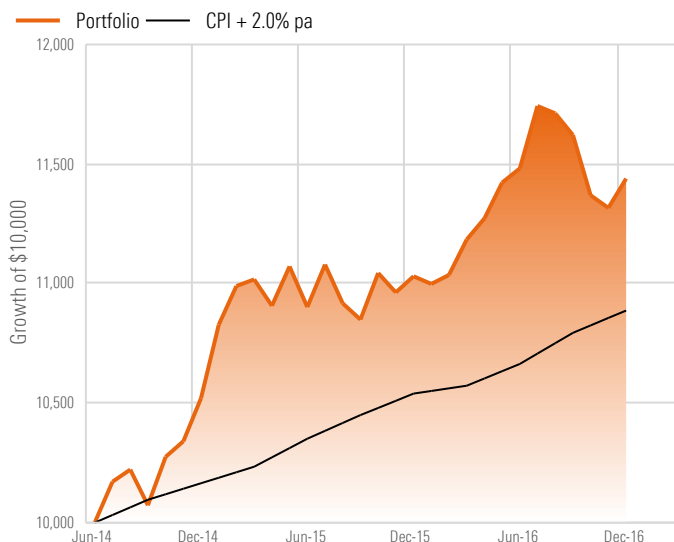
Diversified Income Managed Account Portfolio

Q4 2016

All data and information as of December 31, 2016

Quarterly Performance Update

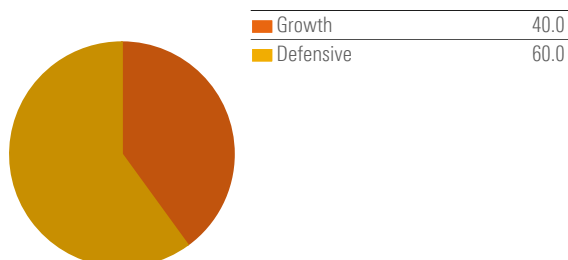
Compound Returns %



Total Returns %

	3m	6m	1y	2y	Inception (pa)
Portfolio ^{1,2}	-1.56	-0.37	3.71	4.27	5.53
CPI + 2.0% pa ⁴	0.86	2.09	3.30	3.49	3.46
Outperformance	-2.43	-2.46	0.41	0.78	2.07
Distribution Return	0.51	1.42	2.31	2.31	2.48
Cash Benchmark	0.44	0.92	2.07	2.20	2.31

Long Term Target %



An eventful fourth quarter of 2016 capped a truly remarkable year for financial markets. Donald Trump's surprise election as U.S. President dominated headlines as investors tried to digest what his protectionist views and polarising opinions mean for the U.S. (and global) economy. However, one of the more important events of the last quarter, that had significant implications for portfolio returns and asset class valuations, appeared to have been overlooked by many. This is in relation to an apparent change in tactics by the world's Central Banks, having realised that they have reached, or are reaching, their limits in terms of their ability to provide monetary stimulus. This was highlighted by the Japanese Central Bank adopting a more targeted approach, reduced, albeit prolonged, support from the European Central Bank and the U.S. Federal Reserve raising interest rates, whilst signalling that inflation and interest rates will probably rise faster than current expectations. These developments resulted in material losses across interest rate sensitive assets. Indeed, November was the worst month ever for global bonds.

Although the speed and severity of the falls in bond markets was noteworthy, the outcome itself was hardly surprising, given the extreme valuations on offer in Australian and global bond markets at the start of the quarter. For this reason, the portfolio held much lower allocations to bonds than normal, with our positioning tailored toward specific sectors where we saw the best relative opportunities. Nonetheless, returns for the portfolio were impacted by the broader moves across global bond markets. This same theme spilled over into quality-focused Australian equities, with returns further weighed down by a number of stock specific issues.

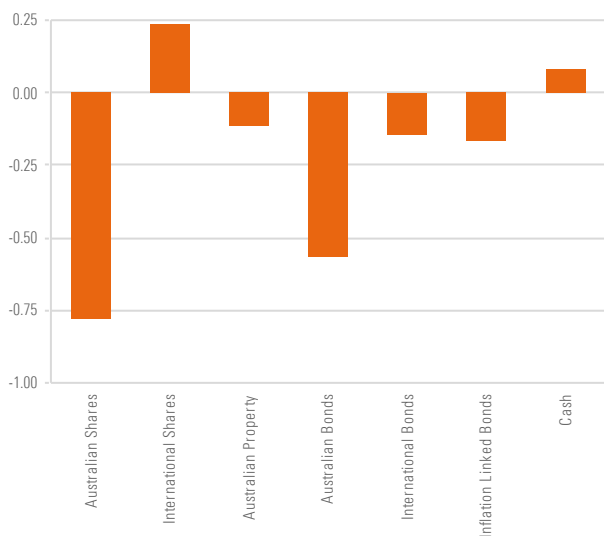
Perhaps surprisingly against this backdrop, global equities generally performed well. This was partly due to investors taking the view that, despite the lack of clarity, Trump's policies should on balance be good for growth. This may well be the case, but improved growth is already more than captured in the price of U.S. equities, which repeatedly hit all-time highs during the quarter. Global markets were also well supported by investors responding positively to the more targeted approach to monetary stimulus undertaken by the respective Central Banks. This was particularly the case for the Financials sector, given that higher interest rates should make it easier for banks to make money. Energy stocks were also stronger, especially in Europe, as the oil price pushed toward 2016 highs, following confirmation of an agreement between OPEC members to cut oil production.

What happened to valuations and how is the portfolio positioned?

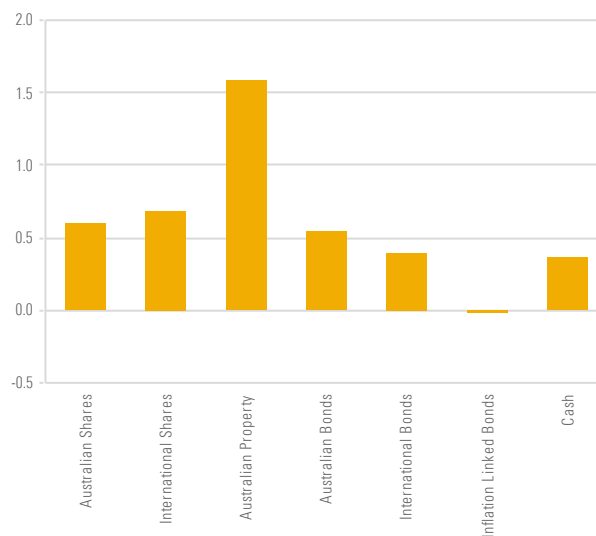
Critically now, valuation pressures continue to mount in many key markets, creating a growing sense of caution that we think is both prudent and warranted. This is leading us to increase our focus on the preservation of capital, whilst still thoughtfully allocating assets towards pockets of opportunity that offer compelling valuation opportunities and give an adequate margin of safety. In this respect, over the course of the last quarter, we have increased the levels of cash held in the portfolio whilst reducing the allocation to both Australian equities and Australian listed property, given our concerns regarding overvaluation. Valuations in bond markets saw us become more nuanced, adjusting the portfolio in favour of inflation-linked bonds and global credit.

Portfolio Analytics

Contribution to Return by Asset Class % over the Quarter

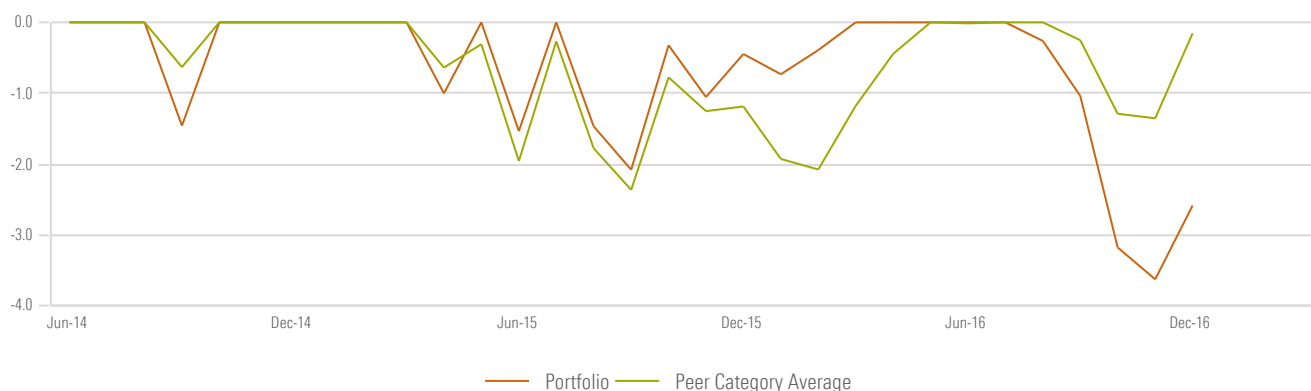


Contribution to Return by Asset Class %pa over One Year



Risk Overview vs Peer Average³

Drawdown %



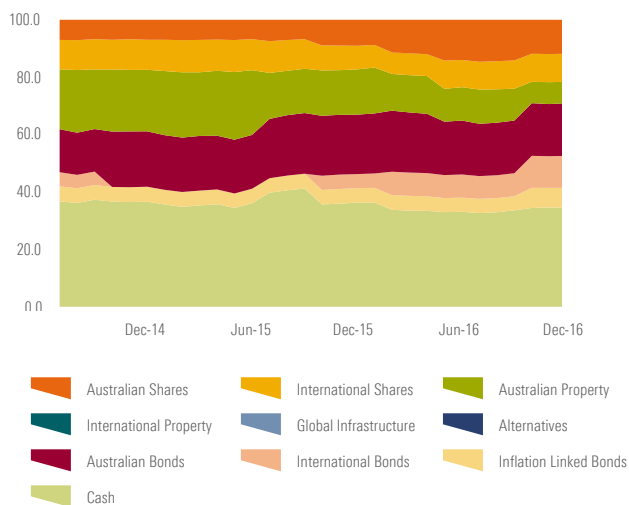
Returns and Drawdown % Since Inception



- Investment performance is before tax and after the standard management fee of 0.605% (inclusive of GST). Investment performance is shown from 30/06/2014 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.
- 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.
- Peer Average is the Morningstar Australia Open End Multisector Moderate category, which contains multi-sector funds with 20.0 - 40.0 percent of their investments in growth assets such as shares and property.
- The CPI was not available for the current quarter at the time of creation. 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.

Allocation Overview

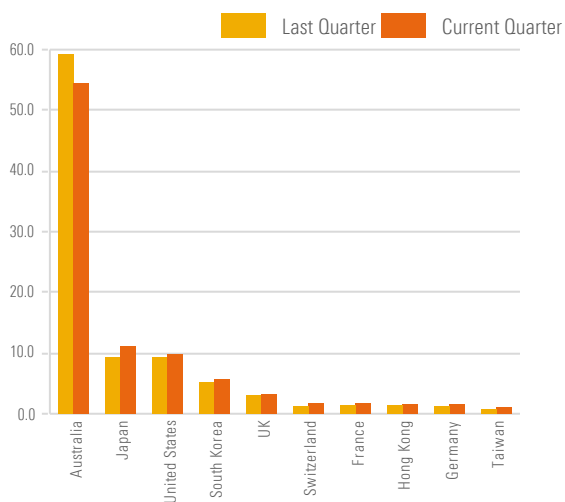
Asset Allocation %



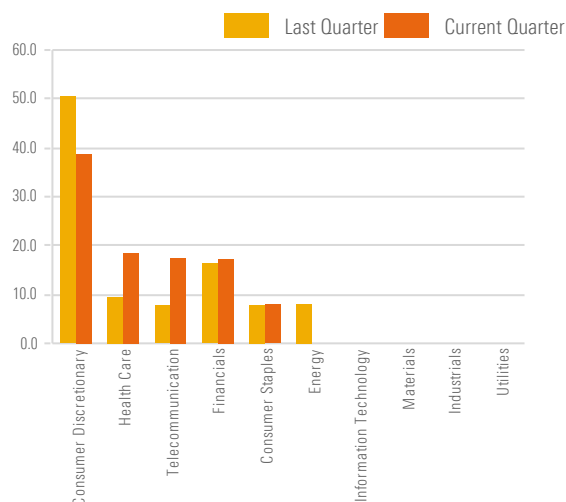
Asset Allocation vs Range %



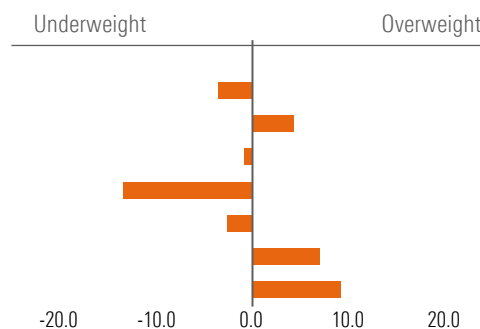
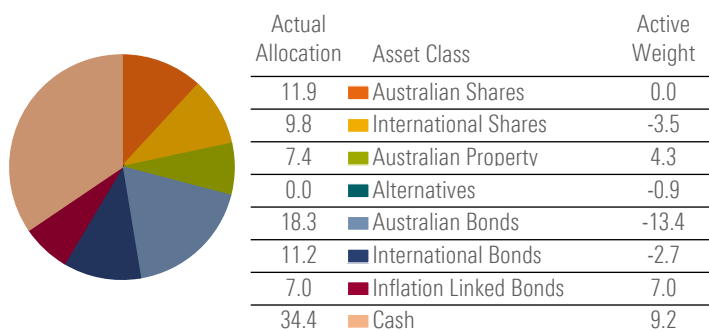
Equity Sector Regional Allocations %



Australian Shares Sector Allocations %



Current Asset Allocation Vs Peer Average % ¹



1. Peer Average is the Morningstar Australia Open End Multisector Moderate category, which contains multi-sector funds with 20.0 - 40.0 percent of their investments in growth assets such as shares and property.

Portfolio Holdings

Holding	Code	Morningstar® Economic Moat Rating™ ¹	Morningstar/ Chant West/ Lonsec Rating ¹	Current Portfolio Weight (%)	Price (\$)	Trailing Yield/ Distribution Return (%) ²	Market Capitalisation (\$ million)
Australian Shares				11.86			
Consumer Discretionary							
Navitas Ltd.	NVT	None	Hold	1.25	4.98	5.59	1,850
Sky City Entertainment Group Ltd	SKC	Narrow	Hold	1.21	3.81	4.56	2,503
Super Retail Group Limited	SUL	None	Reduce	1.20	10.35	5.73	2,041
Sky Network Television Ltd.	SKT	Narrow	Hold	0.91	4.43	6.39	1,724
Consumer Staples							
Woolworths Ltd.	WOW	Narrow	Hold	0.93	24.10	4.56	31,045
Financials							
ASX Ltd.	ASX	Wide	Reduce	1.22	49.74	5.69	9,629
Platinum Asset Management Ltd.	PTM	Narrow	Accumulate	0.73	5.28	8.66	3,098
Health Care							
Sonic Healthcare Ltd.	SHL	Narrow	Accumulate	1.16	21.40	3.90	8,909
Virtus Health Ltd	VRT	None	Accumulate	1.12	6.24	6.64	502
Telecommunication							
Spark New Zealand	SPK	Narrow	Hold	1.21	3.29	6.57	6,020
Telstra Corp. Ltd.	TLS	Narrow	Accumulate	0.91	5.10	8.68	62,351
International Shares				9.78			
Morningstar International Shares (Hedged) Fund	INT0016AU	-	4 Apples	3.56	0.42	3.27	-
iShares MSCI Japan ETF	IJP	-	Bronze	1.91	67.70	1.90	27,347
iShares Europe ETF	IEU	-	Neutral	1.75	53.60	2.96	3,130
iShares MSCI Emerging Markets ETF	IEM	-	Neutral	1.62	48.35	1.83	36,124
iShares MSCI South Korea Capped ETF	IKO	-	-	0.94	74.49	1.09	4,020
Australian Property				7.44			
Scentre Group	SCG	Narrow	Hold	1.82	4.64	4.55	24,646
Westfield Corp	WFD	Narrow	Accumulate	1.69	9.38	3.60	19,492
GPT Group	GPT	Narrow	Hold	1.54	5.03	4.65	9,044
Dexus Property Group	DXS	Narrow	Hold	1.42	9.62	4.50	9,312
Goodman Group	GMG	Narrow	Hold	0.98	7.13	3.48	12,756
Australian Bonds				18.31			
iShares Composite Bond ETF	IAF	-	Silver	18.31	105.43	3.05	201
International Bonds				11.18			
Morningstar International Bonds (Hedged) Fund	INT0082AU	-	Investment Grade	8.17	1.03	5.00	-
Vanguard International Credit Securities Index Fd (Hedged) ETF		-	Neutral	3.01	51.11	3.11	1,410
Inflation Linked Bonds				6.98			
iShares Government Inflation ETF	ILB	-	-	6.98	113.43	1.39	32
Cash				34.45			
Cash & Cash Equivalents		-	-	18.23	1.00	0.95	-
BetaShares Australian High Interest Cash ETF	AAA	-	Neutral	16.21	50.15	2.30	781

1. Any Morningstar Ratings or Economic Moat Ratings contained in this report are based on the full research report available from Morningstar or your adviser.

2. Calculated as either the last 12 month distribution return or last 12 months of dividends divided by current share price.

Transactions over the quarter

Action		Security/ APIR Code	Security Name	Rationale
Australian Equities				Asset Allocation Decision: Decrease
-	Removed	IVC-AU	InvoCare Limited	Invocare Limited owns and operates funeral homes, cemeteries, crematoria and memorial gardens in Australia, New Zealand, Singapore and China. The company enjoys a dominant market position in Australia, with a strong brand and reputation. Nonetheless, it has been a solid performer (being up more than 33% in the 12 months to September 30, 2016) and so we exit the holding in favour of a higher quality business, with greater income, that presents better value, in Spark New Zealand Limited.
-	Removed	TME-AU	Trade Me Group Limited	Trade Me Group Limited is an online marketplace and classified advertising platform in New Zealand, with auctions and fixed price sales for new and used goods, as well as automotive, real estate and employment businesses. TME has been an exceptional performer being up almost 65% for the 12 months to 30 September, 2016. Whilst it remains a high quality business, it has become increasingly expensive and so we switch into an equally high quality company that presents better value, in Super Retail Group Limited.
-	Removed	WPL-AU	Woodside Petroleum Limited	Woodside Petroleum Limited is Australia's premier oil and gas player, being involved in the exploration, evaluation, development, production and marketing of liquid natural gas, natural gas, condensate, crude oil, and liquefied petroleum gas. Woodside has performed well with the recent strength in the oil price. Whilst it remains a high quality company, we remove the holding, at this time, in favour of a higher quality company that is more attractively priced, in Virtus Health Limited.
+	Added	SPK-AU	Spark New Zealand Limited	Spark New Zealand Limited is a leading NZ-based telecommunications provider with interests in home, mobile and business communication, as well as, digital (cloud-based) and network services. Following a period of business turnaround, Spark NZ presents with compelling valuations, whilst offering investors a relatively defensive earnings profile and exceptional yield.
+	Added	SUL-AU	Super Retail Group Limited	Super Retail Group Limited is an Australian based specialty retailer. The company has a portfolio of strong brands across its three main divisions- Auto (Supercheap Auto & Auto Trade Direct), Leisure (Boating Camping & Fishing (BCF) & Ray's Outdoors) and Sports (Rebel Sport, Amart Sports & Workout World). Super Retail is a high quality business and represents significantly better value than the stock it replaces (Trade Me Group), whilst offering a superior fully franked yield.
+	Added	VRT-AU	Virtus Health Limited	Virtus Health Limited is a healthcare services company which provides a variety of Assisted Reproductive Services, Specialised Diagnostics and Day Hospitals across the eastern states of Australia. Notwithstanding increasing competitive pressure, Virtus Health is a quality business that enjoys a dominant market position (they are a leading provider of in vitro fertilisation services (or IVF), with 36% of the national market). Further, it is attractively priced at this level, with a supportive fully franked yield.
International Equities				Asset Allocation Decision: No Change
Australian Property				Asset Allocation Decision: Decrease
-	Removed	MGR-AU	Mirvac Group	Following an extended period of strength, with our portfolio of listed property securities delivering returns of near 20%, for the 12 months to 30 September 2016, listed property is now looking significantly less attractive as an asset class, both in absolute terms and relative to other asset classes that we can invest in. Accordingly, we make reductions to the weighting of each of our listed property holdings and exit Mirvac Group and Vicinity Centres. We retain exposure to the retail shopping theme via Scentre Group and Westfield Group, which we believe have superior valuation and quality characteristics to Vicinity Centres. Regarding Mirvac, we have sought to effectively eliminate any exposure to residential property development (from which they generate a significant portion of their earnings). This is due to concerns regarding a slowing domestic economy, poor housing affordability, increasing housing supply and ongoing regulatory changes aimed at slowing property investment.
-	Removed	VCX-AU	Vicinity Centres	

Action	Security/ APIR Code	Security Name	Rationale
Alternatives			Asset Allocation Decision: No Change
Australian Bonds			Asset Allocation Decision: No Change
International Bonds			Asset Allocation Decision: Increase
+	Added	VCF-AU Vanguard International Credit Securities (Hedged) ETF	The Vanguard International Credit Securities (Hedged) ETF seeks to track the return of the Bloomberg Barclays Global Aggregate Government-related and Corporate Index, hedged into Australian dollars (before fees and expenses). Including issuance from such names as J.P. Morgan Chase, Bank of America, Apple and Microsoft, almost 97% of the portfolio is rated 'Investment Grade' or higher, as at 31 August 2016. Whilst developed world government bonds have become increasingly expensive, largely as a result of Central Bank policy action in buying up these securities, valuations in the corporate bond space are much more attractively priced. Accordingly, we take this opportunity to add this recently listed ETF to our portfolio. The ICR (management cost) on this ETF is 0.30% p.a.
Inflation-linked Bonds			Asset Allocation Decision: Increase
↑	Increased	ILB-AU iShares Government Inflation ETF	The iShares Government Inflation ETF seeks to track the results of an index composed of inflation-linked fixed income bonds issued by the Australian Treasury or Australian state and territory governments (before fees and expenses). With Inflation-linked bonds, the value of the principal rises (or falls) with changes in inflation expectations. We have increased our allocation to inflation-linked bonds following Australia's unexpectedly low March & June inflation readings (and subsequent cuts to the RBA cash rate in May & August) which has provided a compelling longer term opportunity to add cheap inflation protection. This is particularly timely given our concerns about the risk of rising inflation as a result of the recent strength in the oil price. The ICR (management cost) on this ETF is 0.26% p.a.
Cash			Asset Allocation Decision: No Change

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.