Multi Asset Real Return Fund

Quarterly Performance Update

Q12017

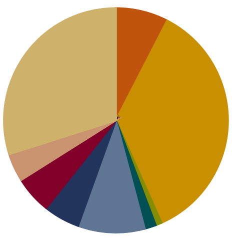
All data and information as of March 31, 2017

APIR Code (Class A)	INT0040AU
Strategy Inception	01 Feb 2017
Size $m	61.8
Unit Pricing	Daily
Distributions	Quarterly
Management Fee	Up to 0.72%
Buy/Sell Spread	0.17% / 0.17%
Minimum Investment	$20,000

Total Returns %

	1m	Inception (pa)
Fund [1,2]	1.32	2.04
CPI + 4.0% pa	0.47	0.95
Outperformance	0.85	1.09

Current Asset Allocation %



Australian Shares	7.6
International Shares	35.8
Property	0.9
Global Infrastructure	1.6
Alternatives	9.6
Australian Bonds	5.2
International Bonds	5.4
Inflation Linked Bonds	4.1
Cash	29.9

(Formerly known as the Morningstar Aggressive Real Return Fund, the fund's name, investment objective and investment strategy has changed as of 1 February 2017. Underpinned by the same investment process, the Morningstar Multi-Asset Real Return Fund is a high conviction portfolio of Morningstar Investment Management's best ideas that invests without regard to a target long-term split between growth and defensive assets. Please refer to the Product Disclosure Statement for more information).

Financial markets have enjoyed a good start to 2017. Whilst these returns are welcome, worryingly they come as investors appear to be looking beyond expensive valuations in both equity and bond markets. For now, investors seem to be being lulled into a false sense of security that the strong gains (and smooth sailing) over the last 12 months are indicative and sustainable expectations of future returns. This is all at a time when events like the formal triggering of Brexit, U.S. interest rate rises, Trump's delays in implementing tax and healthcare reform, as well as, growing fears for our housing market highlight the heightened risks to key fundamentals. Worries about the threats to both valuations and fundamentals are further compounded by rising tensions in numerous pockets of the world, for which negative outcomes could have dramatic impacts on asset prices.

The key driver of returns has been the strong performance of equities, which have delivered returns well in excess of their long-term averages witnessed throughout history. This has come as a result of improved global growth expectations under a Trump presidency, although we believe this is more than priced into equity markets, particularly in the U.S. With this in mind, the portfolio has been tilted to regions and sectors where we see better value. In this respect, it is worth noting the strength in Emerging Market equities, a high conviction position within the portfolio. Sentiment toward Emerging Market equities would typically be negative in a rising U.S. interest rate/rising U.S. dollar environment and whilst this was the case throughout much of 2016, Emerging Market equities have delivered solid returns and indeed continue to be well supported as one of the few equity regions that still offers attractive valuations supported by improving fundamentals.

Following recent market moves, and with the change in the investment objective and investment strategy, we have undertaken some adjustments to reduce risk across the portfolio, in order to best preserve capital in line with objectives, whilst also adjusting allocations to reflect where we see the best reward for risk in a low return environment. As part of this, we have materially decreased our allocation to growth assets, including Australian and global equities, listed property and infrastructure, given that strong recent performance sees future expected returns fall. Notwithstanding the reduction at a headline level, our preference for select Emerging Market, European and Japanese equities remains. We have however, also allocated in favour of U.S. healthcare equities. Having fallen on the back of Trump's anticipated healthcare reforms, we were presented with an attractive opportunity to enter this high quality sector which we believe will outperform in the long term. Other changes included introducing an allocation to alternative investments, whilst we used the rise in bond yields to rebuild our Australian bond holdings. With the heightened risk of the permanent loss of capital from investing in overvalued assets, cash levels in the portfolio increased significantly, being much higher than normal, as we await more compelling investment opportunities.

1. Fund Performance measures are expressed after management fees, costs and before taxes. The management fee is inclusive of GST (after taking into account Reduced Input Tax Credits). The Fund also has exposure to underlying investment managers which charge performance fees and these are an additional cost to you and impact the return.

2. Inception date for the Strategy is 1/02/2017. The inception return is calculated from the first month end after the inception date.

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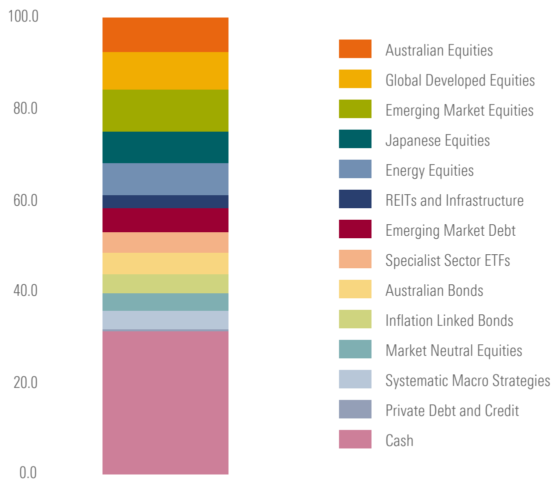
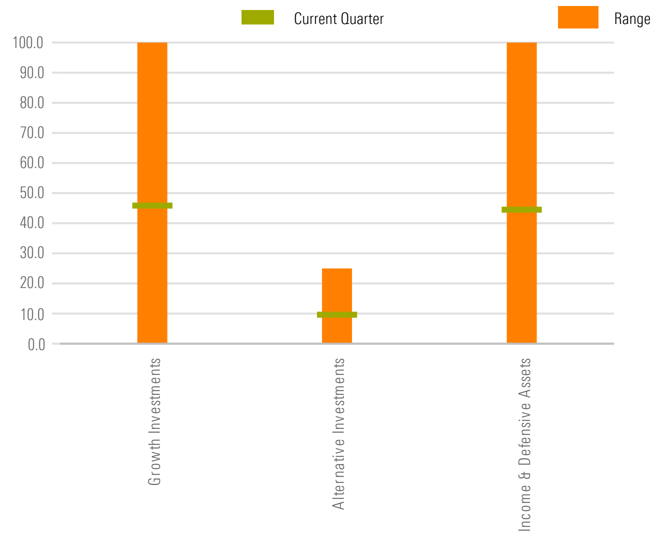
Allocation Overview

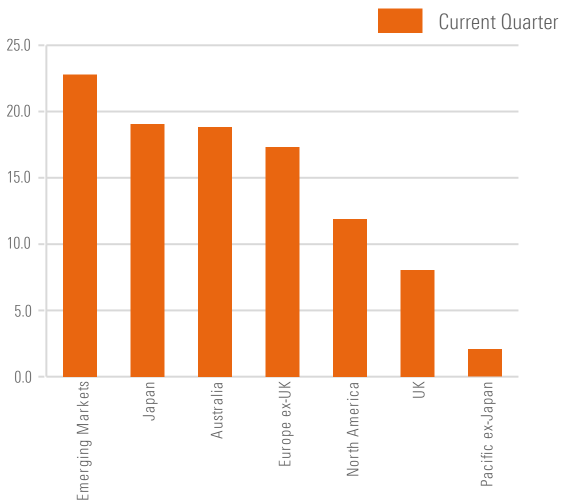
Portfolio Positioning %



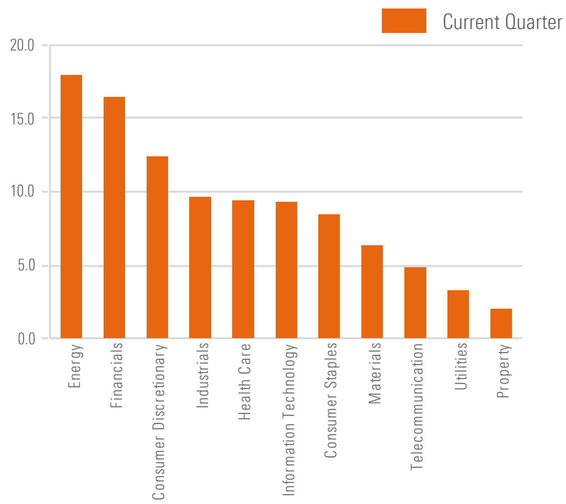
Asset Allocation vs Range %



Growth Assets Regional Allocations %



Growth Assets Industry Sector Allocations %



Growth Assets in the charts above include Australian Shares, International Shares, Global Property & Infrastructure and exclude Alternatives.

Portfolio Holdings

Asset Class	Allocation (%)	Type of Holdings	Manager
Australian Shares	7.6	Managed Fund	Allan Gray Australia
			JCP Investment Partners
			Omega
			Platypus
			Vinva
International Shares	35.8	Direct Shares	Morningstar
		ETF	iShares
			State Street
			Vanguard
		Managed Fund	Altrinsic
			Axiom
			Harding Loevner
			Marathon
			Morningstar
			Sands Capital
Property	0.9	Managed Fund	Omega
Global Infrastructure	1.6	Managed Fund	Omega
Alternatives	9.6	Managed Fund	Diversified Alternatives Fund
Australian Bonds	5.2	Managed Fund	Metrics
			Omega
International Bonds	5.4	Managed Fund	Ashmore
Inflation Linked Bonds	4.1	Managed Fund	Omega
Cash	29.9	Institutional Cash Account	J.P. Morgan
		Managed Fund	Omega

Transactions over the quarter

Action		Security/ APIR Code	Security Name	Rationale
Australian Equities				**Asset Allocation Decision: Decrease**
↓	Decreased	INT0022AU	Morningstar Australian Shares Fund	The Morningstar Australian Shares Fund is a diversified portfolio of Australian securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued, under-owned and quality securities. Following strength in Australian equities in Q4 2016 that extended into Q1 2017, we have reduced the allocation to the asset class in the portfolio, given that expected returns are now much less attractive, both in absolute terms and relative to other investment opportunities.
↓	Decreased	INT0074AU	Morningstar Australian Shares High Alpha Fund	The Morningstar Australian Shares High Alpha Fund is a high conviction portfolio of Australian equity managed funds, chosen in accordance with Morningstar's manager selection process that seeks to identify highly skilled managers. Following strength in Australian equities in Q4 2016 that extended into Q1 2017, we have reduced the allocation to the asset class in the portfolio, given that expected returns are now much less attractive, both in absolute terms and relative to other investment opportunities.
International Equities				**Asset Allocation Decision: Decrease**
↓	Decreased	INT0069AU	Morningstar International Shares High Opportunities Fund (Unhedged)	The Morningstar International Shares High Opportunities Fund is a high conviction portfolio of global equity managed funds, chosen in accordance with Morningstar's manager selection process that seeks to identify highly-skilled managers. Following strength in Australian equities in Q4 2016 that extended into Q1 2017, we have reduced the allocation to the asset class in the portfolio, given that expected returns are now much less attractive, both in absolute terms and relative to other investment opportunities.
↓	Decreased	N/A	Morningstar Global Energy Strategy	Morningstar's European Energy equities position includes direct holdings in high quality companies such as BP, Shell and Total. Following a period of strong price appreciation with the rebound in the oil price, expected returns from the sector have fallen. With this, we lower our conviction to the asset class, notwithstanding that it remains a key investment theme in the portfolio, using this opportunity to lock in some profits.
↓	Decreased	STZ:FP	SPDR MSCI Europe Financial UCITS ETF	We entered into our position in European Financials in the days post the Brexit decision when extreme fear and uncertainty about what Brexit might hold presented a compelling valuation opportunity. Since that time, these fears have receded, with European equities swept up in the euphoria of improved global growth under a Trump-led administration, even as the U.K. formally invokes Article 50 to leave the European Union. Whilst we still maintain conviction to the asset class, the strong price performance sees future expected returns fall and so we take this opportunity to trim the position.
↓	Decreased	N/A	Morningstar Emerging Markets Strategy	Following a strong Q1 2017, we trim the holding in Emerging Market equities slightly, although they remain a medium-to-high conviction position within the portfolio.
↓	Decreased	N/A	Marathon Japan Mandate	With Japanese equities having had an exceptional Q4 2016, in local currency terms, our conviction toward the asset class falls (as expected returns are increasingly being captured in current share prices), and we reduce our weighting accordingly. Nonetheless, valuations in Japanese equities remain reasonable and they still remain a key holding within the portfolio, post this reduction. In particular, we note the strong fundamentals in the asset class, as Japanese corporates continue to improve corporate governance, and focus on delivering higher shareholder returns.
+	Added	VHT:US	Vanguard U.S. Healthcare ETF	Whilst much of the developed world equity universe remains overvalued, there are pockets of opportunity. Indeed, U.S. healthcare stands out as offering reasonable expected returns due to concerns over potential adverse changes to drug pricing policy under a Trump-led administration. Whilst fundamental risks have increased, we believe that investors are being more than adequately compensated for these risks, leading us to initiate a position in the sector. The ETF provides exposure to some of the world's largest pharmaceutical and biotechnology companies, many of which are household names. These include Johnson & Johnson, Pfizer, Merck & Co., Bristol-Myers Squibb, Celgene, and Allergan. Further, the vast majority of companies that make up the U.S. healthcare index (by market capitalisation) are "Wide" or "Narrow" moat rated by Morningstar Equity Research, demonstrating the sustainability of earnings in the sector.

Transactions over the quarter

Action		Security/ APIR Code	Security Name	Rationale
Global Property Securities				**Asset Allocation Decision:** **Decrease**
↓	Decreased	INT0054AU	Morningstar Australian Property Securities Fund	The Morningstar Australian Property Securities Fund is a diversified portfolio of Australian listed property securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued, under-owned and quality securities. Sustained strength in Australian listed property securities sees reduced future expected returns and the heightened risk of loss of capital from these levels.
Global Infrastructure				**Asset Allocation Decision:** **Decrease**
↓	Decreased	N/A	Morningstar Infrastructure Strategy	The Morningstar Infrastructure Strategy is a diversified portfolio of global infrastructure securities selected in accordance with Morningstar's disciplined investment approach to identifying undervalued, under-owned and quality securities. A strong Q1 2017 sees the infrastructure asset class increasingly unattractive both in absolute terms and relative to other opportunities.
Australian Bonds				**Asset Allocation Decision:** **Increase**
+	Added	INT0020AU	Morningstar Australian Bonds Fund	Following weakness in the Australian bond market, as investors priced in higher interest rate and inflation expectations, Australian bonds look to offer better value than they have in recent years. Accordingly, we increase our weighting with Australian bonds (and cash) being our preferred risk diversifiers, for Australian-domiciled portfolios.
International Bonds				**Asset Allocation Decision:** **No Change**
Global Inflation-Linked Bonds				**Asset Allocation Decision:** **No Change**
Cash				**Asset Allocation Decision:** **Increase**
↑	Increased	INT0030AU	Morningstar Cash Fund	With equity markets increasingly expensive and fixed income yields still low in a historical sense, we continue to hold higher levels of cash in wait for more compelling investment opportunities and to help minimise the risk of permanent impairment of capital by otherwise investing in overvalued asset classes.
Alternatives				**Asset Allocation Decision:** **Increase**
↑	Increased	INT0095AU	Morningstar Diversified Alternatives Fund	The Morningstar Diversified Alternatives Fund is a diversified portfolio of global alternative investments that, importantly, offers daily liquidity. An allocation to the fund has been selected given that alternative investments have little relationship with the performance of traditional asset classes like equities and bonds and are, thus, instrumental in helping to grow and protect client wealth.

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.