Morningstar Growth Real Return Fund

Q42018

All data and information as at Portfolio Date: 31/12/2018

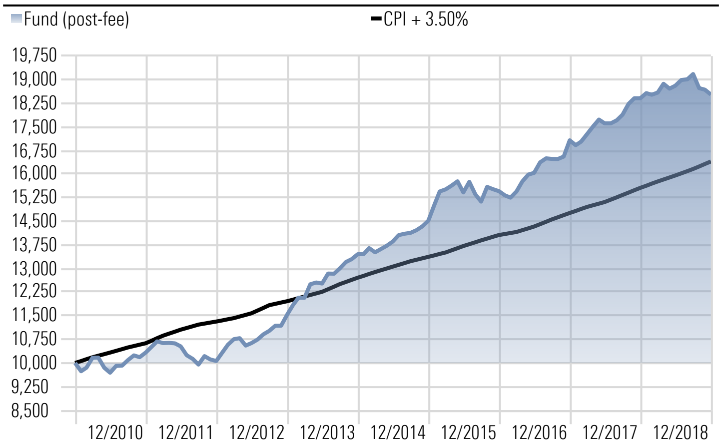
Quarterly Performance Update

Inception: 1 January 2010*
Size $m: 368.6
Unit pricing: Daily
Distributions: Quarterly
Management Costs: Up to 0.84% (effective from 30 September 2018)
Buy/Sell Spread: 0.10%/0.10%
Minimum investment: $10,000

Management Costs include Morningstar's management fee of 0.57% as well as our reasonable estimate of indirect costs which include performance-related fees charged by underlying managers.

What's the purpose of this fund?

The fund aims to earn a rate of return that exceeds the Consumer Price index by at least 3.5% pa over a rolling 7 year periods.

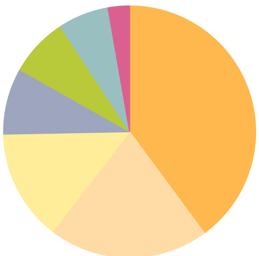


Past performance is not a reliable indicator of future performance.
Returns over 12 months are annualised.

How the investment portfolio has performed

	9yr (% p.a)	7yr (% p.a)	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (post-fee)	7.09	9.11	6.61	6.22	0.64	-3.40	7.09
CPI + 3.50%	5.65	5.45	5.24	5.26	5.39	1.48	5.65

Quarter-end Asset Allocation



	%
International Shares	39.9
Cash	20.5
International Bonds	14.3
Alternative Investments	8.5
Australian Bonds	7.6
Australian Shares	6.5
Global Property Securities & Infrastructure	2.7
Total	**100.0**

As we welcome 2019, we celebrate 9 years of our Valuation Driven Asset Allocation approach. With this, the portfolio has achieved it's 'inflation plus' investment objective across all key timeframes. Our focus on capital preservation has seen the portfolio perform better in weak markets, delivering top-quartile performance on a reward versus risk basis.

"Stock market corrections, although painful at the time, are actually a very healthy part of the whole mechanism, because there are always speculative excesses that develop, particularly during the long bull market."

— Ron Chernow, investor and business and finance journalist.

Key points:

- Q4 2018 saw a sharp retreat in key global share markets
- Share and bond markets still remain generally unattractive versus their long term fair value. In this challenging environment, U.K. shares, Japanese shares, Emerging Market shares and Emerging Market bonds remain our preferred investment opportunities

The blinding investor optimism that was a feature of much of 2018 (and 2017, for that matter) seems a distant memory, with the final quarter of the year bringing about a sharp reversal in sentiment and with it, substantial falls in global share markets. This weakness sees most major share markets now delivering a negative return, on a twelve-month view in local currency terms, leaving cash among the best performing asset classes over the calendar year for the first time since the Global Financial Crisis. Numerous reasons have been put forward by market pundits in an attempt to justify this weakness – escalation in the so-called 'trade wars' between the U.S. and China, uncertainty in the outlook for U.S. interest rates and the looming spectre of Brexit, to name a few. More recently, the plunging oil price and concerns around Trump's ability to implement his agenda now that the Republicans no longer control both houses have exacerbated investor anxiety.

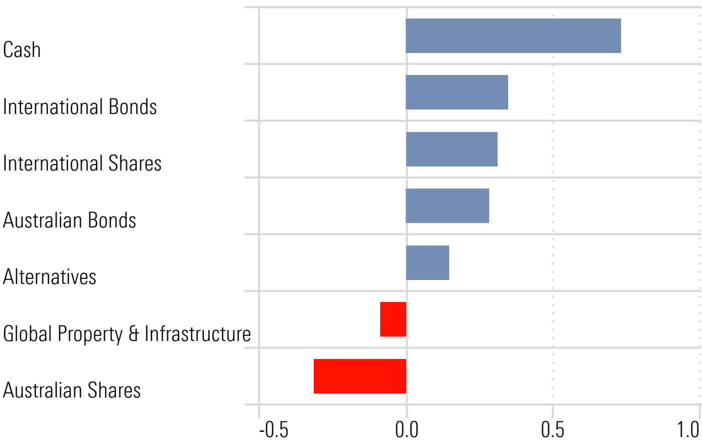
The portfolio was relatively defensively positioned leading into this period of uncertainty, given less attractive valuations in key share and bond markets and consequently, the heightened risk of losses. **In this regard, it is pleasing to observe that the portfolio has delivered an exceptional result in falling markets, consistent with our focus on capital preservation in more difficult market conditions.** This is crucial as experiencing significant losses can lead investors to make irrational decisions at the worst time. For example, selling down after the market has already fallen, in an effort to relieve the uncomfortable feeling that portfolio losses often trigger. Our approach to investing is not to try and predict what may happen in the economic and political environment, which is important but generally unknowable, but rather to position the portfolios based on how attractively we are being rewarded for investing. If the reward for risk is less than what we might reasonably expect, as it was throughout much of 2018, then we look to simply hold more cash until such time as we are being adequately compensated to invest.

Volatility can be uncomfortable. However, for valuation-driven investors, volatility can present the opportunity to buy assets that have been discarded by other investors during fearful and uncertain times. The challenge is to understand when and what to buy. Just because an asset's price has fallen, doesn't necessarily make it an attractive opportunity. As always, we consistently apply our approach to investing, governed by the framework of our investment principles. This sees us seeking to find high quality assets that offer a reasonable margin of safety. In this respect, while markets, in general, represent better value, the risk of loss remains elevated. While we were able to take advantage of select opportunities that emerged throughout the last quarter, the portfolio remains relatively defensively positioned, as we continue to wait for further opportunities to invest, when and where it makes sense to do so.

* The Fund's inception date used is 1 January 2010, the start of the full impementation of the Valuation Driven asset allocation process.

Information about the portfolio's performance

What drove portfolio performance over the past year?



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

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

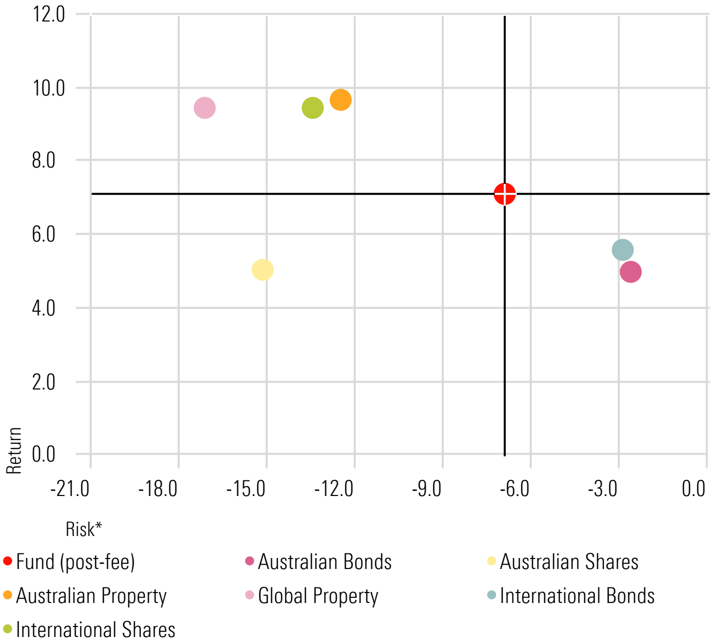
The contribution of cash was the key driver of portfolio returns over the past year as defensive assets came into favour amid turbulent share market conditions.

Weakness in the final quarter of 2018 saw returns from major global share markets, including U.S. Japanese and Australian shares, finish negative for the year.

This impacted portfolio performance although the portfolio's focus on preserving capital in difficult markets, and strong stock selection in European equities, saw the portfolio perform relatively well under these circumstances.

We continue to prefer U.K, Emerging Market and Japanese shares.

Risk versus reward since inception



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

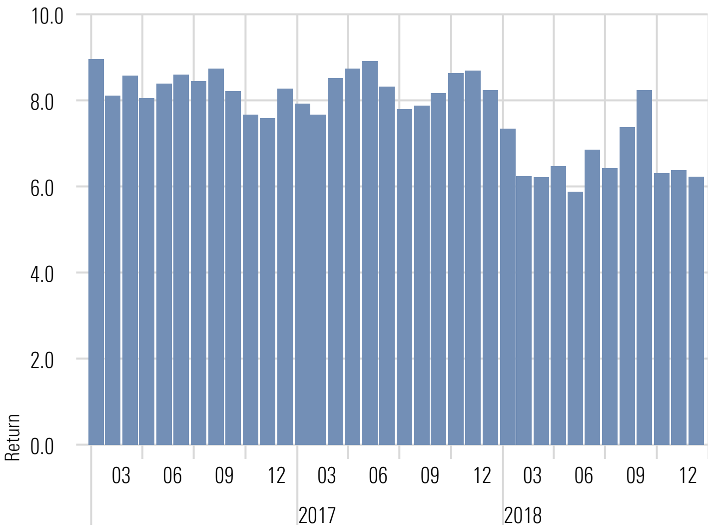
This chart shows how a number of investments have performance on average since full implementation of the Valuation Driven Asset Allocation process, which occured on 1 January 2010.

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.**

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



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

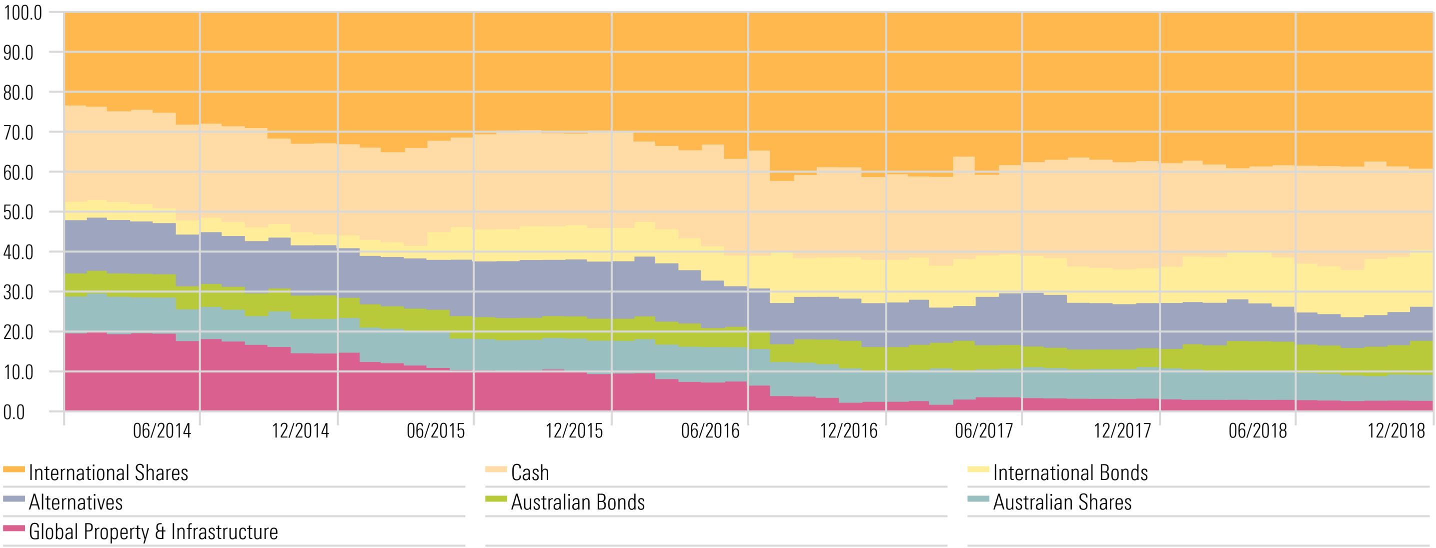
How asset allocation is positioned vs the allowable ranges

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, 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.

Asset Allocation over 5 years %

Time Period: 1/01/2014 to 31/12/2018

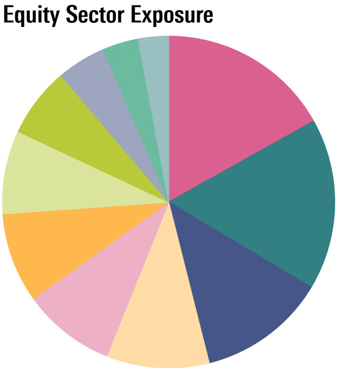


This chart shows how the portfolio positioning has changed over time in accordance with our valuation driven asset allocation process.

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).

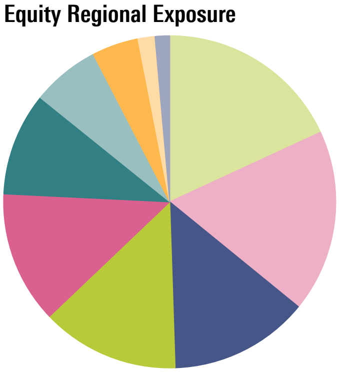
With markets generally expensive, the portfolio is cautiously positioned with a focus on the best value opportunities.

Equity Sector Exposure



	%
Financials	16.9
Telecom Services	16.7
Energy	12.5
Healthcare	10.0
Information Technology	9.0
Consumer Staples	8.7
Consumer Discretionary	8.1
Industrials	6.8
Materials	4.8
Real Estate	3.5
Utilities	2.9
Total	**100.0**

Equity Regional Exposure

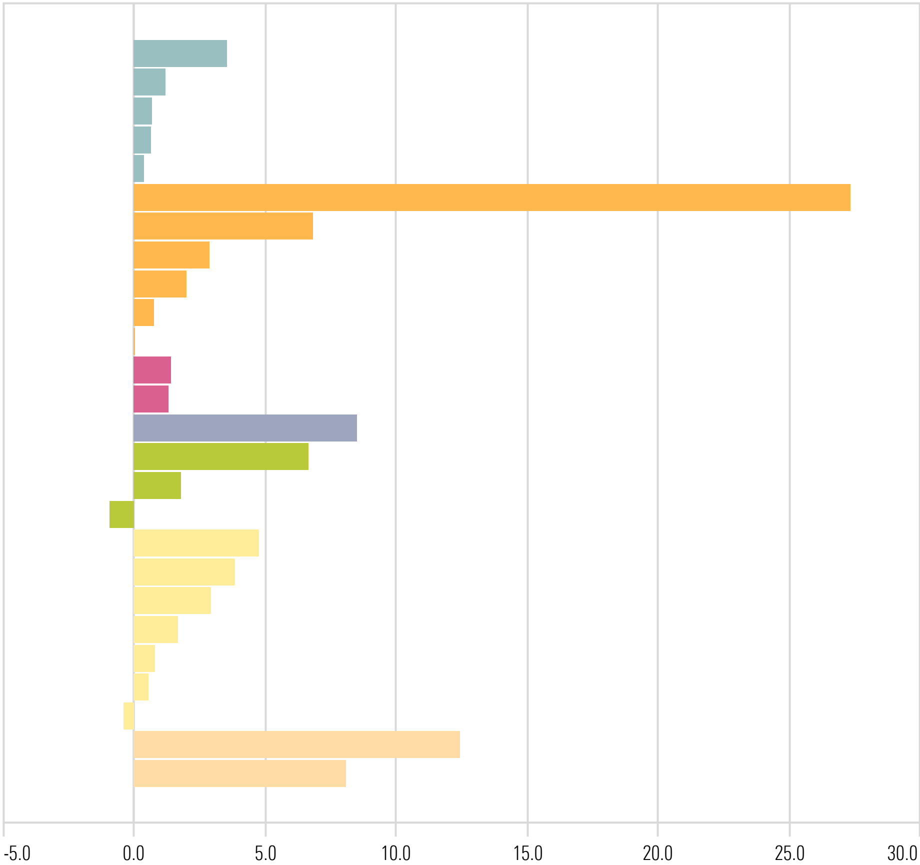


	%
Europe dev	18.1
Japan	17.8
North America	13.6
United Kingdom	13.4
Australasia	12.9
Asia dev	10.0
Asia emrg	6.6
Europe emrg	4.5
Africa	1.7
Latin America	1.4
Total	**100.0**

Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	3.6
Australian Shares - Vinva	1.2
Australian Shares - JCP Investment Partners	0.7
Australian Shares - Allan Gray Australia	0.7
Australian Shares - Platypus	0.4
International Shares - Morningstar	27.3
International Shares - Marathon	6.8
International Shares - Vanguard (ETF)	2.9
International Shares - iShares (ETF)	2.0
International Shares - Sands Capital	0.8
International Shares - Others	0.0
Global Property & Infrastructure - Omega	1.4
Global Property & Infrastructure - Morningstar	1.3
Alternative Investments - Alpha Strategies Fund	8.5
Australian Bonds - Omega	6.7
Australian Bonds - Metrics	1.8
Australian Bonds - Others	-0.9
International Bonds - Omega	4.8
International Bonds - Ashmore	3.9
International Bonds - Colchester	2.9
International Bonds - Standish	1.7
International Bonds - Shenkman	0.8
International Bonds - T Rowe Price	0.6
International Bonds - Others	-0.4
Cash - Omega	12.4
Cash - Others	8.1
Total	**100.0**



* Others can include futures, liquidity and transition cash, other exchange traded funds and direct stocks.

Top equity holdings

Top 20 holdings: 12.96%   Other: 87.04%

	Portfolio Weighting %	Country	Sector
Stock	**12.96**		
Telefonica SA	1.11	ESP	Communication Services
Vodafone Group PLC	1.08	GBR	Communication Services
BT Group PLC	0.94	GBR	Communication Services
Royal Dutch Shell PLC B	0.92	GBR	Energy
Total SA	0.82	FRA	Energy
Orange SA	0.73	FRA	Communication Services
BP PLC	0.73	GBR	Energy
Telenor ASA	0.70	NOR	Communication Services
Swisscom AG	0.63	CHE	Communication Services
GlaxoSmithKline PLC	0.59	GBR	Healthcare
Barclays PLC	0.57	GBR	Financial Services
Lloyds Banking Group PLC	0.54	GBR	Financial Services
Eni SpA	0.50	ITA	Energy
Mitsubishi UFJ Financial Group Inc	0.47	JPN	Financial Services
Sumitomo Mitsui Financial Group Inc	0.47	JPN	Financial Services
Rosneft Oil Co GDR	0.45	RUS	Energy
Gazprom PJSC ADR	0.44	RUS	Energy
Banco Bilbao Vizcaya Argentaria SA	0.44	ESP	Financial Services
KBC Group SA/NV	0.43	BEL	Financial Services
Millicom International Cellular SA DR	0.39	USA	Communication Services

Transactions over the quarter

Action		Security/Fund Name
Australian Equities		**Asset Allocation Change:Increase**
↑	**Increased**	Morningstar Australian Shares Fund
Rationale		The Morningstar Australian Shares Fund focuses on quality and value principled investing. The Fund seeks to identify companies that exhibit quality characteristics (such as low debt, sustainable earnings and strong cash flow growth), along with those that are attractively valued (under a price to cash earnings metric). With this, the Fund tends to exhibit a bias to small and mid-cap companies, with the strategy expected to complement other holdings in the portfolio. Importantly, the Fund typically performs well on a relative basis in down markets, consistent with our focus on the preservation of capital. Recent weakness in the Australian market sees valuations in Australian equities improve slightly, warranting an additional investment in the Fund. Note: investors in the Australian 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.
International Equities		**Asset Allocation Change:Increase**
↓	**Decreased**	Vanguard U.S. Healthcare ETF
Rationale		The Vanguard U.S. Healthcare ETF seeks to track the results of an index composed of U.S. healthcare equities, before fees and expenses. Following the election of Donald Trump in late 2016, U.S. healthcare equities came under pressure, based on 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**	Vanguard Consumer Staples ETF
Rationale		The Vanguard Consumer Staples ETF seeks to track the results of an index composed of U.S. consumer staples equities, before fees and expenses. The consumer staples sector typically represents companies with relatively defensive earnings profiles, including those that operate in the food, beverage, tobacco and household products industries. In recent times, competitive threats and changing consumer tastes have weighed on the sector. This has created a valuation opportunity, with consumer staples now among the most attractive sectors in the U.S., which otherwise remains a generally expensive market (even accounting for recent falls). In addition, the ETF provides investment into a range of high-quality household names. Indeed nine out of the top ten companies in the ETF are 'wide moat' rated by Morningstar, in recognition of the expected sustainability of their earning over time. These companies include Procter & Gamble, Coca-Cola, PepsiCo, Walmart, Costco & Colgate Palmolive.
↓	**Decreased**	Morningstar Emerging Markets
↑	**Increased**	iShares Core MSCI Emerging Markets ETF
Rationale		Emerging Markets have borne the brunt of negative sentiment around the impact of trade tariffs as well as country-specific issues, notably in Argentina and Turkey. This has lead to outflows (and weakness) in these markets over the course of 2018. 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 invest. With these improving valuations, we have less requirement to invest via a tailored strategy in this asset class. As such, we switch part of the allocation from Morningstar's Emerging Market strategy into the iShares Core MSCI Emerging Markets ETF, which seeks to track the results of an index composed of equities from Emerging Market countries, before fees and expenses.
↑	**Increased**	Japan Nikkei 400 Equity Futures
↑	**Increased**	Topix Bank Index Futures
Rationale		Japanese equities rank among our preferred equity regions, with attractive valuations following recent falls supported by structural reform that sees corporate governance, profit margins and dividend payouts all improving. The opportunity is most pronounced within Japanese financials, which have been out of favour as a consequence of the Japanese Central Bank's ultra-accommodative stance on monetary policy. With the increasing attractiveness of this sector we have switched part of our allocation to broad-based Japanese equities into Japanese financials.
↑	**Increased**	Morningstar International Shares Fund
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 U.S. equities are unattractive at an index level on our analysis, they represent much better value than they did prior to the recent falls. In addition, the quality style (e.g. low debt levels, strong cash flow) of this portfolio is expected to deliver superior returns over time. Importantly, the fund typically performs well (on a relative basis) in down markets, consistent with our focus on the preservation of capital. As such, we anticipate that an increased allocation to this fund will further improve the overall reward for risk in the broader portfolio. Note: investors in the fund do not incur any additional underlying investment management fees when they access this fund via a Morningstar Real Return Managed Fund.
Property & Infrastructure		**Asset Allocation Change:No Change**
Australian Bonds		**Asset Allocation Change:No Change**
International Bonds		**Asset Allocation Change:Increase**
↑	**Increased**	Colchester Emerging Markets Local Currency Bond Fund
Rationale		Among the current global bond universe, Emerging Market Bonds look to offer some of the more attractive return opportunities, particularly where they are issued in the currency of the Emerging Market country. With this, we increase our weighting to the Colchester Emerging Markets Bond Fund which we believe will complement our existing Emerging Market Debt investments (most notably the Ashmore Emerging Market Debt Fund).
Alternatives		**Asset Allocation Change:No Change**
Cash		**Asset Allocation Change:Decrease**
↓	**Decreased**	Morningstar Cash Fund
Rationale		With equity and fixed interest markets increasingly expensive, on our analysis, 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.

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.