Morningstar Growth Real Return Fund

Q42019

Quarterly Performance Update

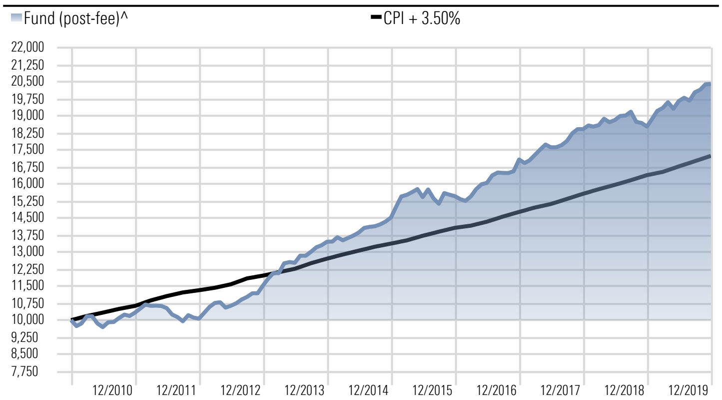
All data and information as at Portfolio Date: 31/12/2019

Inception: 1 January 2010*
Size $m: 403.3
Unit pricing: Daily
Distributions: Quarterly
Management costs: Up to 0.71% (effective from 30 September 2019)**
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 Consumer Price Index by at least 3.5% pa over a rolling 7 year periods.

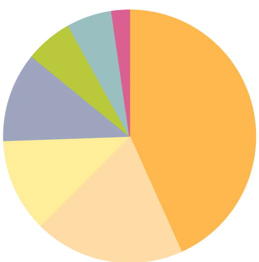


Past performance is not a reliable indicator of future performance.
Returns over 12 months are annualised.

How the investment portfolio has performed

	10yr (% p.a)	7yr (% p.a)	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	Since inception (% p.a)
Fund (post-fee)^	7.39	8.49	7.04	6.12	10.12	1.84	7.39
CPI + 3.50%^^	5.59	5.36	5.21	5.29	5.18	1.38	5.59

Quarter-end Asset Allocation



	%
International Shares	43.3
Cash	19.2
International Bonds	12.0
Alternative Investments	11.4
Australian Shares	6.0
Australian Bonds	5.8
Global Property Securities & Infrastructure	2.3
Total	**100.0**

With the end of 2019, we celebrate 10 years since the inception of our Valuation Driven Asset Allocation process. Over this period, 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.

At a Glance

- Expectations of 'lower for longer' interest rates, both domestically and abroad has resulted in an exceptional period for share and bond markets.
- Understandably, investors are feeling confident, but we must be mindful of behavioural biases that may lead others to look beyond the increasing risk of loss in key markets.
- As such, we continue to focus on achieving the highest return for the level of risk taken; holding more cash than we otherwise might and looking to identify unloved opportunities.

Shares rallied in late 2019 to cement a strong year of gains across major equity markets around the world. Looking back over one of the stronger years on record, the common catalyst was the influence of central banks, whose support came in response to sluggish growth (both economically and in terms of corporate profitability). That said, counter to earlier signals, the global economy proved more resilient than many expected as the year wound to a close. This coupled with trade fears subsiding and greater clarity regarding a potential Brexit outcome (following Boris Johnson's convincing victory in the U.K. election), sent shares to record highs in many parts of the world.

All equity sectors gained ground, but energy was relatively weak as concerns around oil oversupply tempered gains and healthcare took some heat amid political developments. Booming technology stocks and the internet-oriented names in the communications-services sector underpinned the "growth" style's outperformance of "value" through 2019. Regarding size, larger companies dominated smaller equivalents over the last three quarters of the year, partly buoyed by bigger global weights in technology and financials.

Turning to bonds, the Federal Reserve's policy reversal (that has given investors a renewed confidence in the "lower for longer" interest rate outlook) drove strong returns across fixed income markets through 2019, although this ran out of steam as the year came to an end. The broad message was clear, however, with central bank easing, low defaults and manageable inflation expectations helping bond investors. Even the riskier corners of the bond market did well, with high yield bonds and emerging markets debt delivering double-digit gains.

We should not underestimate the significance of the 2019 rally—with both shares and bonds rising quite substantially, fuelling strong portfolio returns. Upon reflection, however, it only seems right to call 2019 the year of contrast. On the one hand, it was a great year for investors. Double-digit returns in share markets will usually put a smile on most faces. But on the other, we've endured one of the more unpredictable periods in history, with low interest rates, heightened geopolitical uncertainty and stretching asset prices dominating question time. Indeed, these returns have been achieved with very little regard for risk.

Regardless of how we got here, it is hard to look past the evidence linking expensive valuations to lower future returns. As such, we must be mindful of behavioural biases that paint these recent returns as reasonable and sustainable expectations for the future. With this in mind, we continue to focus on delivering the maximum amount of return, for a given level of risk, as opposed to just generating returns without regard for the risk taken in achieving them. Ultimately, our process looks to identify unloved assets that we think will help deliver investor outcomes over the longer term.

*The Fund's inception date used is 1 January 2010, the start of the full implementation of the Valuation Driven Asset Allocation process.
**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. This and any other indirect costs incurred by the portfolio is captured within 'Management Costs' above.
^Investment performance is before tax and after the standard management fee (inclusive of GST).
^^The CPI was not available for the current period at the time of creation. CPI for the same period of previous year has been used as a proxy for the current period. Please note the actual CPI for the current quarter will differ to the proxy used.

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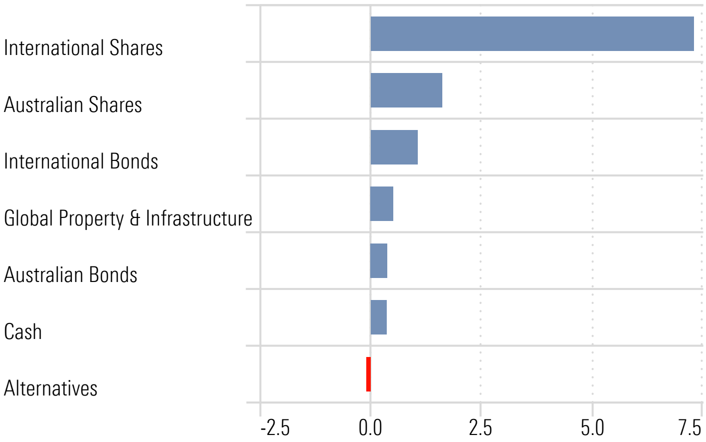
Information about the portfolio's performance

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.

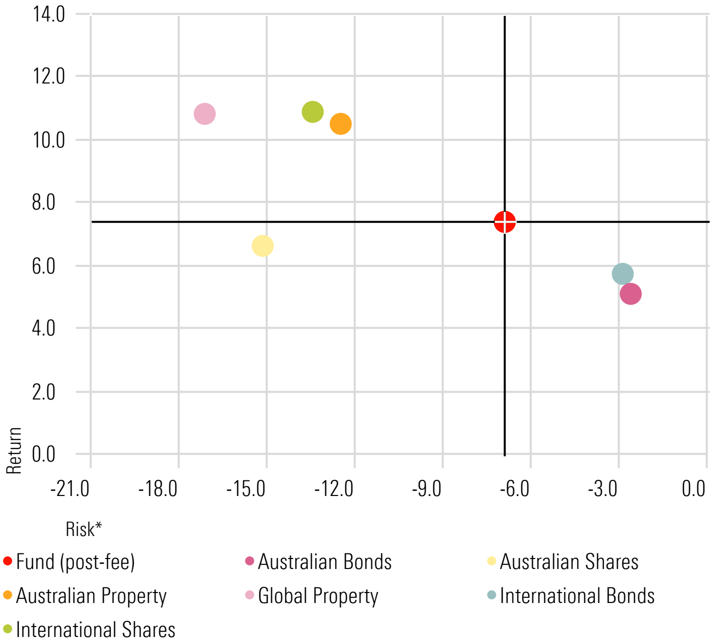
This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

The performance of international and Australian shares were the key driver of portfolio returns over the past year.

2019 has been a very strong period for share markets, with investor sentiment buoyed by key Central Banks (notably the U.S. Federal Reserve, European Central Bank and our own Reserve Bank) reaffirming their focus on maintaining a low interest rate for the foreseeable future.

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

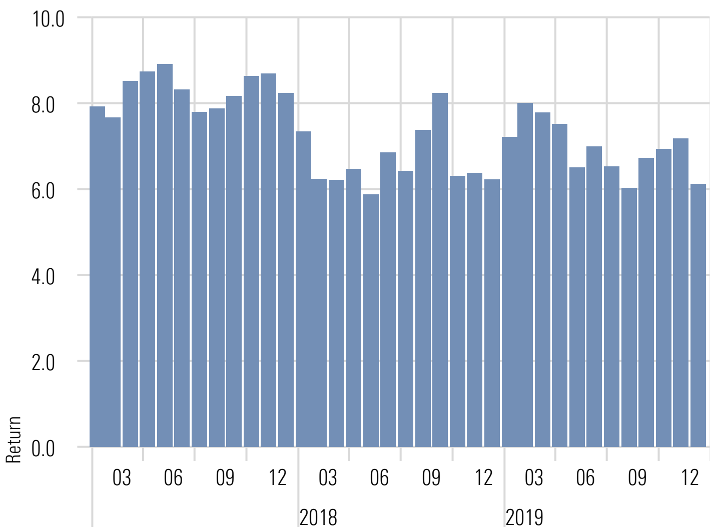
This chart shows how a number of investments have performance on average since full implementation of the Valuation Driven Asset Allocation process, which occured on 1 January 2010.

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)

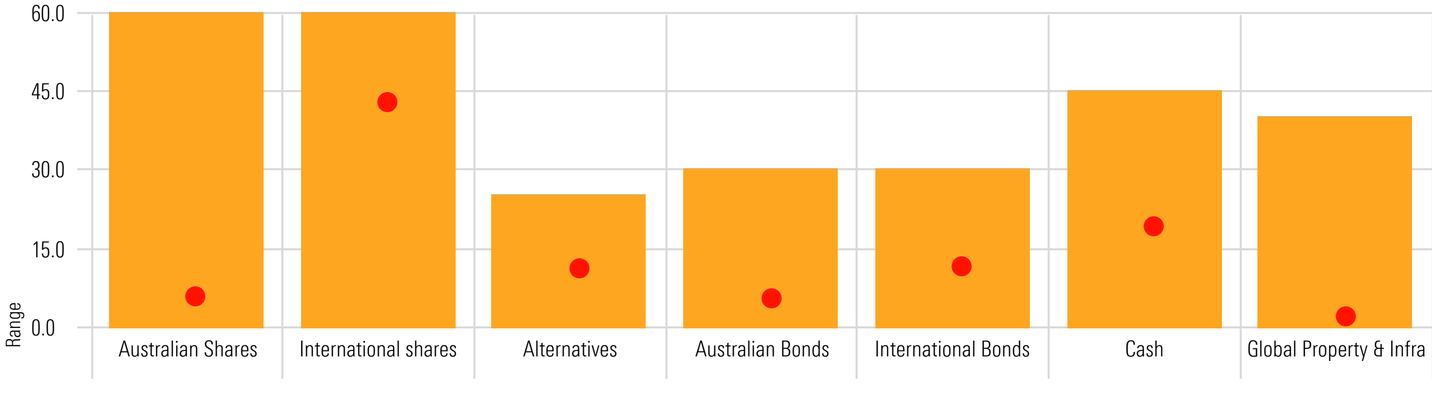


This chart shows the annual performance of the portfolio over rolling 3 year periods – e.g. your average annual return for each of the three years for any given month. In other words, this chart shows that the portfolio has delivered consistent positive returns over longer-term periods.

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

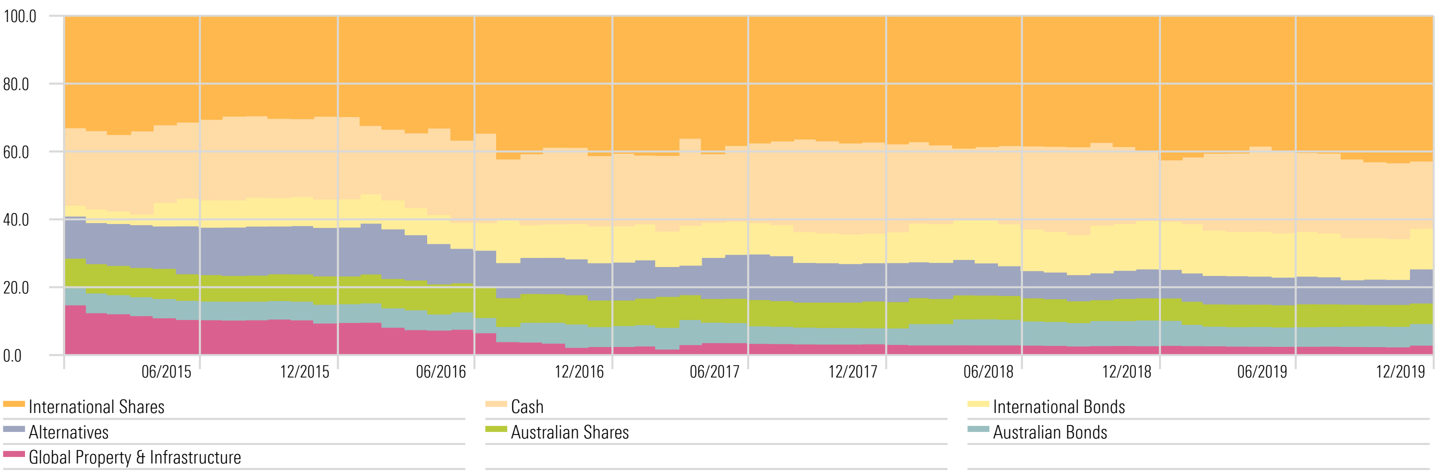


The above chart shows the current breakdown of how the portfolio is invested.

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: 1/01/2015 to 31/12/2019

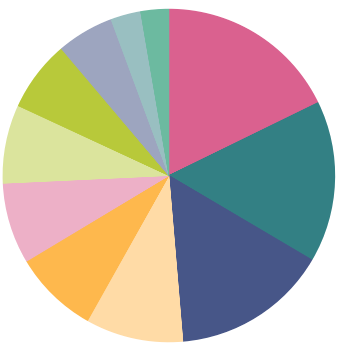


This chart shows how the portfolio positioning has changed over time in accordance with our valuation driven asset allocation process.

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	17.8
Communication Services	15.7
Energy	15.2
Healthcare	9.5
Consumer Staples	8.2
Information Technology	7.9
Consumer Discretionary	7.6
Industrials	6.9
Materials	5.5
Utilities	2.9
Real Estate	2.7
Total	**100.0**

Equity Regional Exposure

	%
Europe dev	23.7
Japan	17.5
United Kingdom	16.4
North America	11.6
Australasia	11.4
Asia dev	7.0
Asia emrg	5.9
Europe emrg	3.1
Latin America	1.8
Africa	1.6
Total	**100.0**

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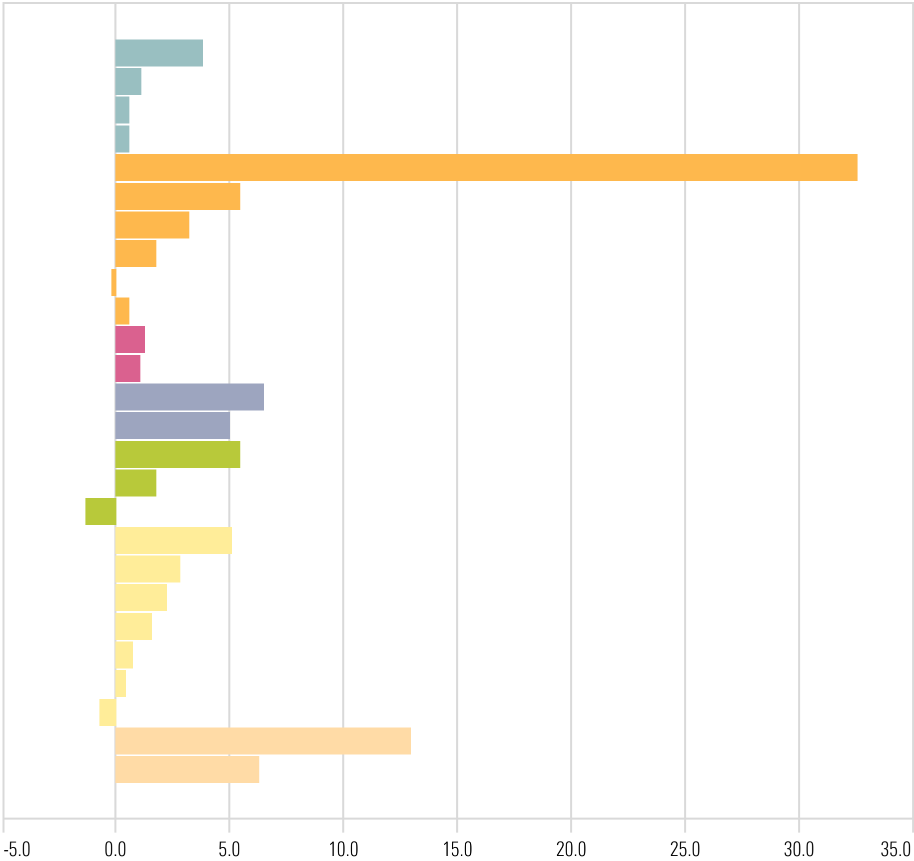
Information about who manages the fund

Fund Holdings

	%
Australian Shares - Morningstar	3.8
Australian Shares - Vinva	1.1
Australian Shares - Allan Gray Australia	0.6
Australian Shares - Platypus	0.6
International Shares - Morningstar	32.5
International Shares - Marathon	5.4
International Shares - Vanguard (ETF)	3.2
International Shares - iShares (ETF)	1.8
International Shares - Others*	-0.2
International Shares - Sands Capital	0.6
Global Property & Infrastructure - Omega	1.2
Global Property & Infrastructure - Morningstar	1.1
Alternative Investments - Alpha Strategies Fund	6.5
Alternative Investments - Diversified Alternatives	5.0
Australian Bonds - Omega	5.4
Australian Bonds - Metrics	1.7
Australian Bonds - Others*	-1.4
International Bonds - Omega	5.1
International Bonds - Colchester	2.8
International Bonds - Ashmore	2.2
International Bonds - Standish	1.5
International Bonds - Shenkman	0.7
International Bonds - T Rowe Price	0.4
International Bonds - Others*	-0.8
Cash - Omega	12.9
Cash - Others*	6.3
Total	**100.0**



*Others can include futures, liquidity and transition cash, other exchange traded funds and direct stocks. Further information on the underlying holdings of the fund is available by contacting your financial adviser or Morningstar.

Top equity holdings

Top 20 holdings: 14.96%   Other: 85.04%

	Portfolio Weighting %	Country	Sector
Stock	**14.96**		
Total SA	1.19	FRA	Energy
Royal Dutch Shell PLC B	1.17	GBR	Energy
BT Group PLC	1.10	GBR	Communication Services
BP PLC	1.10	GBR	Energy
Vodafone Group PLC	1.07	GBR	Communication Services
Telefonica SA	0.97	ESP	Communication Services
WPP PLC	0.76	GBR	Communication Services
Credit Suisse Group AG	0.72	CHE	Financials
Orange SA	0.67	FRA	Communication Services
Lloyds Banking Group PLC	0.66	GBR	Financials
Eni SpA	0.66	ITA	Energy
Barclays PLC	0.65	GBR	Financials
GlaxoSmithKline PLC	0.61	GBR	Health Care
KBC Group SA/NV	0.61	BEL	Financials
Swisscom AG	0.55	CHE	Communication Services
Telenor ASA	0.54	NOR	Communication Services
BNP Paribas	0.53	FRA	Financials
ConvaTec Group PLC	0.50	GBR	Health Care
Repsol SA	0.47	ESP	Energy
Banco Bilbao Vizcaya Argentaria SA	0.44	ESP	Financials

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Transactions over the quarter

Action		Security/Fund Name	
Australian Equities			**Asset Allocation Change:** **Decrease**
↓	**Decreased**	Morningstar High Alpha Fund	
	Rationale	The Morningstar High Alpha Fund is a high conviction portfolio of Australian equity managed funds, chosen in keeping with Morningstar's manager selection process that seeks to identify highly-skilled managers. During the quarter, with the continued strength in the Australian share market, we trimmed our investment in core/quant manager, Vinva.	
International Equities			**Asset Allocation Change:** **Increase**
X	**Removed**	TOPIX Bank Index Futures	
+	**Added**	Morningstar Japanese Financials	
	Rationale	Japanese shares underperformed global peers for much of the year, with ongoing trade concerns affecting sentiment. However, they staged something of a resurgence in the final quarter of 2019, as these trade fears abated. This strength extended to the financial sector and while we still like the broad sector, it is less attractive following these gains. Indeed, it is becoming more of an individual stock selection story. With this in mind, we switch from investing via an index approach to the sector to a tailored strategy that identifies the most attractive opportunities, including Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, Mizuho Financial Group, Dai-ichi Life and Nomura.	
↓	**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. While the defensive qualities of global healthcare continue to appeal, improving valuations in sectors more sensitive to economic growth, most notably the energy sector, warrant slightly reducing our allocation to healthcare, with the proceeds being directed toward these better value opportunities.	
↓	**Decreased**	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 high-quality companies with relatively defensive earnings profiles, including those that operate in the food, beverage, tobacco and household products industries. When we initiated our position in this sector, competitive threats and changing consumer tastes weighed on many of these companies, which created a valuation opportunity. Since that time, sentiment has improved, with more recent gains coming as investors begin looking toward some unloved sectors for value in an otherwise expensive market. With lower future expected returns on offer, we take some profits and trim our investment in the sector.	
↑	**Increased**	Morningstar European Opportunities	
	Rationale	Morningstar's European Opportunities portfolio includes holdings in leading European companies, notably in the energy, financial, telecom and healthcare sectors. Throughout the quarter, we have added to our allocation in energy stocks, with concerns around oil oversupply in the face of an apparent slowing in global growth flowing through into poorer sentiment toward these companies. Our investments include many of the integrated oil and gas companies, most of which are household names, such as Shell, BP and Total.	
Property & Infrastructure			**Asset Allocation Change:** No Change
Australian Bonds			**Asset Allocation Change:** No Change
International Bonds			**Asset Allocation Change:** **Decrease**
↓	**Decreased**	Morningstar International Bonds Fund (Hedged)	
	Rationale	The Morningstar International Bonds Fund (Hedged) is a diversified portfolio managed by leading global fixed income managers. A lowering of interest rate expectations around the world has seen global bonds perform well, leading us to trim our investment in this asset class. Note: investors in the International Bonds Fund do not incur any additional underlying investment management fees when the fund is accessed via an investment in a Morningstar Multi Asset Portfolio. Where that Morningstar fund uses third party managers, Morningstar absorbs the management fee charged by the investment manager.	
Alternatives			**Asset Allocation Change:** No Change
Cash			**Asset Allocation Change:** **Increase**
↑	**Increased**	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.