

# Morningstar International Bonds (Hedged) Fund

## Quarterly Performance Update

# Q3 2018

All data and information as of September 30, 2018

Inception	31 Oct 2006
Size \$m	222.9
Unit Pricing	Daily
Distributions	Quarterly
Management Costs	Up to 0.55%
Buy/Sell Spread	0.14% / 0.14%
Minimum Investment	\$500,000

### Investment Objective

Aims to outperform the benchmark over rolling 3 year periods by investing predominantly in investment-grade international government and corporate bonds.

### Investment Strategy

An actively managed Fund invested predominantly in investment-grade international bonds hedged back to Australian dollars with the aim of providing investors with a consistent income while preserving underlying capital. To achieve this aim, the Fund invests in fixed income securities and/or managed investment schemes that exhibit desirable risk-return characteristics.

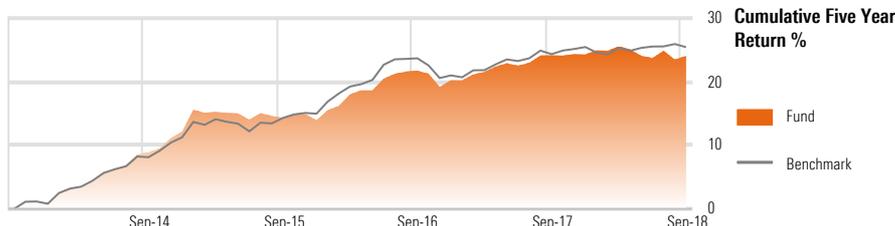
Available to wholesale investors, and indirectly to retail investors via select retail platforms.

### Key Features

Manager diversification and active manager evaluation maximises the potential for enhanced long-term portfolio performance.

The ability to identify exceptional managers throughout the world is assisted by our access to global resources.

### Performance<sup>1</sup>



Total Return %	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)
Fund (Net of Fees)	0.28	-1.23	-0.06	2.78	4.41
Benchmark	-0.07	0.08	0.89	3.15	4.64
Active Return	+0.35	-1.31	-0.95	-0.38	-0.23

### Portfolio Analysis<sup>2</sup>

Sector Allocations	Fund %	Bmark %	Regional Allocations	Fund %	Bmark %
Government	75.1	56.4	North America	30.3	41.9
Corporates	12.3	18.9	Emerging Markets	27.3	5.6
Securitized	8.5	15.2	Japan	14.5	17.1
Agency/Semi	1.6	9.5	Europe ex-UK	12.8	25.4
High Yield	0.6	0.0	Australia/N.Z.	5.0	1.8
Cash	1.8	0.0	United Kingdom	3.2	5.5
			Pacific ex-Japan	2.3	0.4
			Other	1.6	0.2
			Supranational	1.2	2.2
			Cash	1.8	0.0

### Manager Weightings



Manager	Style	%
Standish	Diversified	44.2
Colchester	Sovereign	30.4
T Rowe Price	Diversified	14.8
Ashmore	Core	10.2
Others <sup>5</sup>	Cash	0.4

### Manager Styles

**Sovereign:** An approach that seeks to add value primarily through interest rate and currency management by applying active top down macro views across global sovereign markets.

**Diversified:** An approach that seeks to add value through multiple fixed income sources which may include top-down and bottom-up strategies across sovereign, credit and currency markets that focuses on interest rate management, credit selection and/or currency management.

Characteristics	Fund	Bmark
Modified Duration (years)	5.4	7.0
Yield to Maturity (%)	3.1	2.0

### Notes

1. Performance measures are expressed after fees, costs and before taxes. Performance may not sum due to the rounding of individual components. Fund inception date 31 October 2006, performance reporting commenced November 2006.

2. Allocations may not add up to 100% due to the rounding of individual components.

3. The Management fee is inclusive of GST (after taking into account Reduced Input Tax Credits) and can be negotiated for direct investors. Refer to the current disclosure document for more information on fees and costs.

4. Please refer to the Product Disclosure Statement on the Morningstar website for more information on how to apply.

5. Others can include all non-manager holdings such as derivatives exposure due to dynamic asset allocation, cash and cash like securities held for currency hedging and the general operation of the Fund.

## How the portfolio performed

The key themes that drove fixed income returns in the June quarter remained intact in the September quarter. This included an improved outlook on macroeconomic fundamentals in the developed world, which continued to support global central banks' mission to scale back their extraordinary stimulatory policies that have been in place for just over a decade. Government bonds in response sold off through the quarter, while the credit sector remained well supported by investors. Emerging market debt volatility again spiked on US dollar strength and fears of the impact of falling global liquidity, exacerbated by country-specific issues out of Argentina and Turkey. Overall, the Bloomberg Barclays Global Aggregate Index (A\$ hedged) was flat for the quarter, masking the often-significant volatility at individual constituent level.

In this environment, the Morningstar International Bonds (Hedged) Fund generated a positive return after fees of 0.3%, outperforming the benchmark which returned -0.1%. The result was pleasing as it clawed back the underperformance from the last quarter and leaves the portfolio well placed to deliver on its objectives over the full market cycle.

Looking at the underlying managers, all of them beat their respective benchmarks with Standish contributing the most to the outperformance. Standish had a solid September quarter on the back of their exposure to agency bonds that benefitted from the rising price of oil, and their overweight to US investment grade and high yield corporate bonds. Colchester's bond and currency allocation contributed to excess returns, with its underweight position in Japanese government debt helping the most. T.Rowe Price and Ashmore also fared well, as their exposure to emerging market debt began to retrace some of its losses from earlier in the quarter.

The manager allocations were maintained through the quarter, not seeing the need to take on additional emerging market debt exposure given the existing exposure to the sector, while the portfolio's sensitivity to interest rates was broadly unchanged.

## Contact Details

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## 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.

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**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.

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**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.

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**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.

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**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.

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**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.

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**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.