

Morningstar International Shares (Hedged) Fund

Quarterly Performance Update

Q3 2018

All data and information as of September 30, 2018

Inception	07 Jul 2000
Size \$m	492.6
Unit Pricing	Daily
Distributions	Quarterly
Management Costs	Up to 0.47%
Buy/Sell Spread	0.13% / 0.10%
Minimum Investment	\$10,000

Investment Objective

To achieve meaningful capital growth over the medium to long term, while minimising the risk of permanent capital loss, by investing predominantly in listed international shares, supplemented by a passive currency overlay.

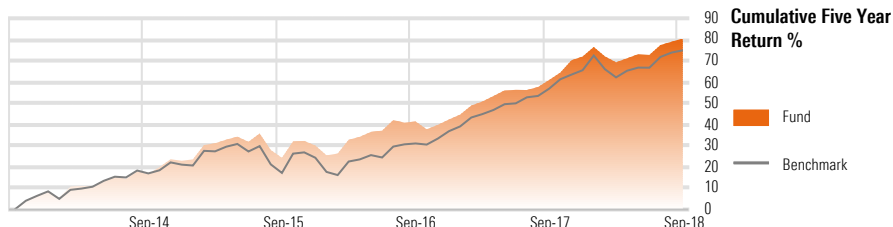
Investment Strategy

The Fund invests in listed international shares with the aim of producing superior long-term total returns relative to the benchmark. To achieve this aim, Morningstar constructs a well-diversified portfolio of companies that exhibit desirable fundamental quality and/or value characteristics, supplemented by a passive currency overlay.

Key Features

Exposure to a diversified portfolio of international shares, provided at a low cost.

Performance¹



Total Return %	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)
Fund (Net of Fees)	4.54	6.67	12.18	13.26	12.55
Benchmark	4.91	7.84	11.48	14.27	11.83
Active Return	-0.38	-1.17	+0.70	-1.01	+0.71

Portfolio Analysis²

Sector Allocations	%	Top 10 Portfolio Holdings	%
Consumer Discretionary	22.8	Microsoft	1.3
Information Technology	20.4	Cisco Systems	1.2
Industrials	16.7	Raytheon	1.0
Healthcare	16.2	Chemed	1.0
Consumer Staples	11.1	AbbVie	1.0
Materials	5.1	Quest Diagnostics	1.0
Telecommunication Services	4.9	Tapestry	1.0
Financials	1.2	Sysco	1.0
Energy	1.2	Taiwan Semiconductor Manufacturing	0.9
Utilities	0.1	BANDAI NAMCO	0.9
Cash	0.3		

Notes

- Performance measures are expressed after fees, costs and before taxes. Performance may not sum due to the rounding of individual components.
- Allocations may not add up to 100% due to the rounding of individual components.
- 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.
- Please refer to the Product Disclosure Statement on the Morningstar website for more information on how to apply.

How the portfolio performed

The Morningstar International Shares (Hedged) Fund generated 4.54% over the quarter, continuing its long-term outperformance of the benchmark. That said, it remains a challenging environment for quality and valuation focussed investors, with the market seemingly preoccupied with stocks exhibiting a “growth” style (e.g. stocks which have had a strong growth rate, with the market further anticipating this trend), therefore paying little regard to valuations.

The portfolio continues to favour Japanese stocks ahead of their North American peers. At a sector level, the portfolio retains an overweight exposure to health care, industrials, and consumer driven stocks, while being less exposed to stocks within the financial, communications services, and energy sectors.

Chemed Corporation operates two market leading subsidiaries, Vitas Healthcare and Roto-Rooter. Vitas focuses on hospice care, sustaining the quality of care for critically ill patients by providing access to team of doctors, nurses, home health aides, and social workers. Vitas provides direct medical services to patients, as well as emotional counselling to patients and their family. Roto-Rooter provides plumbing to both residential and commercial customers through its network of company-owned branches, independent contractors, and franchisees.

Despite the odd combination of subsidiaries, the business has successfully generated operating margins in the high-twenties, and generates steady amounts of cash flow. This allows the company to buyback shares, pay generous dividends, and keep low debt levels. It has made great contribution to performance and is likely to remain a one of the long-term holdings in the portfolio, so long as it does not get overly expensive, or allow its business model to “go down the drain.”

Contact Details

Morningstar Investment Management
Australia Limited
Level 3, International Tower 1
100 Barangaroo Avenue
Barangaroo NSW 2000
Tel: +61 2 9276 4550
Fax: +61 2 9276 4560
Web: www.morningstarinvestments.com.au
Email: AUDistribution@morningstar.com

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.



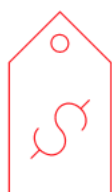
We're valuation-driven investors. Anchoring decisions to an investment's fair value — or what it's really worth — can lead to greater potential for returns.

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.