Morningstar International Bonds (Hedged) Fund

Quarterly Performance Update

Q42016

All data and information as of December 31, 2016

APIR Code (Class A)	INT0080AU
Inception	31 Oct 2006
Size $m	155.2
Unit Pricing	Daily
Distributions	Quarterly
Management Fee	Up to 0.62%
Buy/Sell Spread	0.13% / 0.13%
Minimum Investment	$500,000

Investment Objective

Aims to maximise outperformance relative to the benchmark (Barclays Global Aggregate A$ Hedged Index) over rolling 3 year periods by investing in international government and corporate bonds.

Investment Strategy

An actively managed Fund with a 100% exposure to hedged international investment grade bonds. The Fund aims to provide investors with a consistent income, whilst also looking to preserve the investors underlying capital.

To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund.

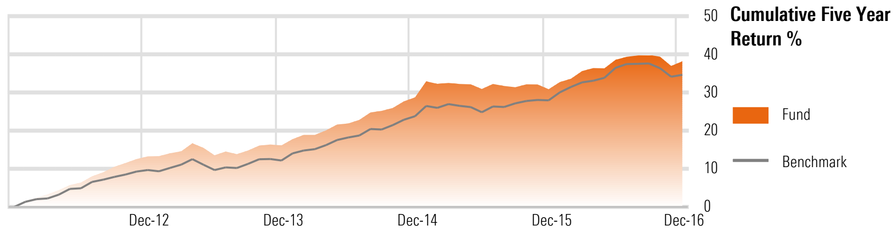
Available to wholesale investors, and indirectly to retail investors via select retail platforms.

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 [1]

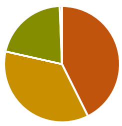


Total Return %	3 Months	6 Months	1 Year	3 Years (pa)	5 Years (pa)
Fund (Net of Fees)	-1.22	-0.28	5.59	5.96	6.68
Benchmark	-2.17	-1.36	5.24	6.28	6.13
Active Return	+0.95	+1.08	+0.35	-0.32	+0.55

Portfolio Analysis [2]

Sector Allocations	Fund %	Bmark %
Government	75.7	56.3
Corporates	11.7	18.6
Securitized	6.2	15.2
Agency/Semi	2.4	9.8
High Yield	1.2	0.0
Cash	2.8	0.0

Manager Weightings



Manager	Style	%
Colchester	Sovereign	42.6
Standish	Diversified	35.9
T Rowe Price	Diversified	20.9
Others [5]	Other	0.6

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.

Regional Allocations	Fund %	Bmark %
Europe ex-UK	24.6	24.9
North America	20.5	42.0
Emerging Markets	19.0	5.2
Japan	16.1	17.5
Australia/N.Z.	8.6	1.8
Supranational	3.0	2.2
Pacific ex-Japan	2.8	0.4
United Kingdom	2.3	5.7
Other	0.5	0.2
Cash	2.8	0.0

Characteristics	Fund	Bmark
Modified Duration (years)	5.2	6.9
Yield to Maturity (%)	2.6	0.0

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.

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How the portfolio performed

The Morningstar International Bond (Hedged) Fund fell 1.2% over the December quarter after fees. This was because of a sharp rise in yields on the back of increased expectations for both growth and inflation, particularly following the election of Donald Trump. While a negative return is not ideal, the fund outperformed its benchmark (the Barclays Global Aggregate A$ Hedged Index) by 1.0%, which fell 2.2%. The year ended with one-year performance slightly better than the index at 5.6% (vs 5.2%).

At the manager level, T. Rowe Price was the stand out performer of the quarter, particularly in absolute performance terms. It delivered positive absolute returns of +1.0% and dodged most of the capital losses from the rising yields given its low sensitivity to interest rates. This was offset by negative absolute returns of 1.6% and 1.9% for Standish and Colchester, respectively, both of whom carry much longer dated bonds and hence were more sensitive to interest rates. They did however beat their respective benchmarks over the quarter.

In terms of portfolio positioning, the weightings to the managers were little changed over the quarter (Colchester: 43%, Standish: 36%, T. Rowe: 21%). On a look-through basis, the portfolio maintains a lower sensitivity to interest rate moves as bond yields remain very low compared to history despite its recent rise. Emerging markets government bond exposure, especially local currency, is higher in the portfolio mainly through Colchester's holdings in Mexican, Brazilian and Malaysian debt. The portfolio is also overweight inflation linked bonds, but is underweight lower yielding developed market government bonds.

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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.

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.

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