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# Morningstar Diversified Managed Accounts

**Morningstar Investment Management**

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Morningstar's Diversified Managed Accounts are your gateway to our asset allocation, portfolio construction and research expertise. Our disciplined investment process combined with expert implementation ensures your clients are investing in today's best investment opportunities. These investment solutions have been designed to align with the goals of your clients; increasing wealth, while preserving capital over the market cycle.

**MORNINGSTAR®**

## Snapshot of Investor Benefits

- ▶ A comprehensive range to suit the financial goals and risk profile of your clients
- ▶ A focus on delivering more consistent returns by actively managing risk
- ▶ Access to the best global investment opportunities at any given time, without the need to 'time the market'
- ▶ A cost effective solution

# How Do We Construct the Diversified Managed Accounts?

## 1

### We Start With Your Clients' Financial Goals

Our goal is to help your clients achieve their financial goals by producing more consistent returns with less risk. We don't get hung up about keeping pace with an index or benchmark such as the S&P/ASX200. We are long-term investors, focussing on what matters to your clients - preserving wealth and growing their savings above the rate of inflation.

#### Capital Preservation

We think about risk differently to other managers who use terms such as 'tracking error' or 'standard deviation'. We use a simpler and more practical definition. We define risk as losing money that can't be made back. Based on this definition of risk, we've designed an investment approach aligned to the needs of investors – preserving their savings, growing their wealth, and not investing in assets if the reward isn't worth the risk.

#### Introducing the CPI+ Objective

To determine our investment objective, we start with the rate of inflation and add to that an additional amount that can be matched with the risk profile and financial goals of your clients. This gives us a CPI+ objective, so your clients' objectives and ours are the same, namely growing savings above inflation and increasing purchasing power. Please refer to the 'Morningstar Suite of Diversified Managed Accounts' for more information about the CPI+ objectives of the portfolios.

## Why Is It Important to Beat Inflation?

#### Introducing the CPI+ objective

Inflation is the increase in the average level of prices, or in other words, the cost of living. It's measured and tracked using the Consumer Price Index, or CPI. It stands to reason that as prices increase, your savings need to increase so that you maintain your buying power and standard of living.

That's why it makes sense to define an investment objective that starts with keeping up with inflation, then adding an additional amount agreed between you and your adviser = a CPI+ objective. This additional amount takes in to account your investment goals and risk tolerance.



# 2

## Morningstar Valuation Driven Asset Allocation

### Determining Asset Classes with the Highest Potential Reward for Risk

#### Asset Allocation Expertise

Based on our CPI+ objective and desire to preserve capital over the market cycle, we've designed an investment approach that gives us the flexibility to invest in asset classes only if it makes sense to do so. If the reward isn't worth the risk, we're able to avoid the asset class completely. This approach is known as 'Valuation Driven Asset Allocation'. Many other investment managers use a 'Strategic Asset Allocation' approach; the differences are explained below.

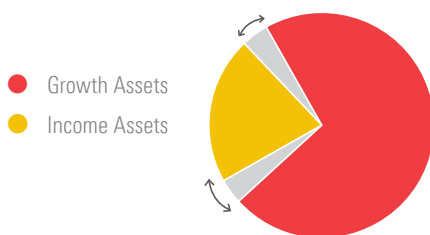
A Strategic Asset Allocation or 'set and forget' approach provides little flexibility to move away from high risk asset classes and towards those presenting good value, due to constraints of benchmark weightings. This results in an investment that performs very similarly to an index, and even if the investment were to outperform the index, you may still see negative returns or returns below inflation.

We know that markets change. Our active, Valuation Driven Asset Allocation approach means that we are able to take advantage of opportunities as they arise, rather than at a once a year (or longer) rebalance, as is typically the case with a 'Strategic Asset Allocation' approach.

**By removing these constraints, we're able to invest only if the reward is worth the risk.**

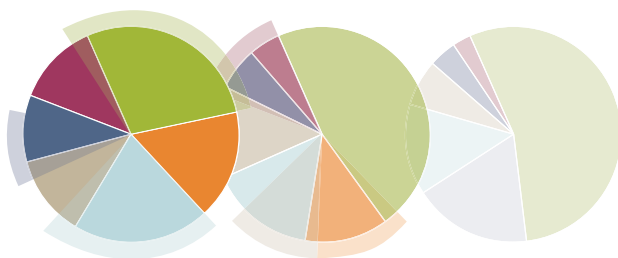
#### Strategic Asset Allocation

Little flexibility to move when market conditions change.



#### Valuation Driven Asset Allocation

Total flexibility to move when market conditions change.



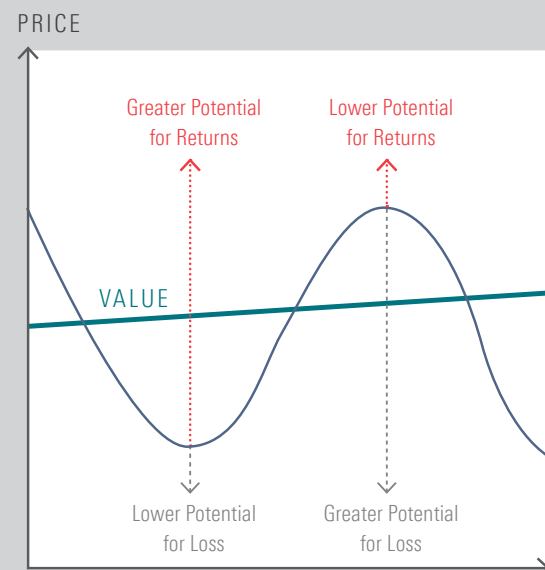
This foundation of our investment process involves the continuous analysis of asset class valuations using our Valuation Driven Asset Allocation framework. This way, we establish which asset classes are undervalued and overvalued, relative to their 'fair value', also known as 'intrinsic value'. In practical terms, we're seeking to invest in assets that are cheap or undervalued and to avoid the expensive or overvalued ones. But it's not just about value. We want to be sure that the assets we hold are of good quality. We do this by undertaking comprehensive research to understand the fundamental drivers behind each investment.

Then we look at investor sentiment. If everyone is buying into an asset class, it's likely that it's a very crowded position. This opens you up to the risks associated with a change in investor behaviour. If sentiment towards the asset class changes, there's a risk of significant capital loss when investors sell out, particularly where valuations are not underpinned by fundamentals. Generally the best time to invest is when sentiment is negative. In other words, we're independently minded, often investing 'against the crowd'.

The output of this process determines the weight of an asset class in each of our diversified solutions.

### Value = Greater Potential For Returns

The potential for return is greater and potential for loss is lower if an asset is cheap, or currently undervalued by the market. If you buy an asset that's expensive or overvalued, we see that as high risk, as you can see on the right hand side of this chart (above the VALUE line).



# 3

## Playing to Our Strengths – Specialised and Cost Effective Implementation

Morningstar is a leading authority on asset allocation and a global leader in investment research and portfolio construction. The Morningstar Diversified Solutions bring together our core capabilities including asset allocation and capital markets research, multi-asset portfolio construction, and security selection and manager research - drawing on the resources of Morningstar globally.

We build portfolios holistically. Morningstar's investment approach and expertise provides flexibility to choose the most suitable investments that work together in achieving a common investment objective. In this way, we're able to use direct investments, ETFs, our in-house strategies, as well as employing leading specialist fund managers from around the world.

What this means for your clients is a cost effective, multi-asset solution that is professionally managed by Morningstar and advised by you - giving them comfort that their money is in good hands.

### Leveraging the Strength of Morningstar® Research

Morningstar has over 170 equity and credit analysts globally, covering approximately 1,600 stocks and 700 debt issuers, as well as 100 manager research analysts covering approximately 4,380 funds, making it one of the largest independent research teams in the world.

Morningstar analysts apply a consistent, rigorous, and proven global methodology which focuses on long-term fundamental valuation, competitive advantages, risk, financial health, and stewardship.

## Combining Our Core Capabilities and Expertise – Morningstar Multi Asset Solutions



### Asset Allocation Expertise

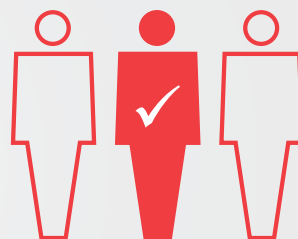
Strong team able to:

- execute opportunities the day they're identified
- use the most optimal investment vehicle



### Access to Direct Investment Strategies

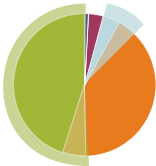
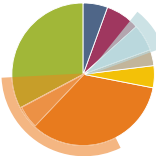




- Utilising Morningstar's global equity research capability



### Access to Morningstar's Investment Strategies and the World's Leading Fund Managers

# Morningstar Suite of Diversified Managed Accounts

Morningstar's diversified managed accounts have been designed to meet the needs of all investors, across all risk profiles and life stages. The table below shows our suite of diversified managed accounts, as well as asset allocation examples.

Diversified Managed Accounts	Asset Allocation	Objective <sup>4</sup>	Time Horizon	Investment Fee <sup>5</sup>
Conservative		To exceed CPI+ 0.75% over the time horizon.	2 years	0.55%
Moderate		To exceed CPI+ 1.0% over the time horizon.	3 years	0.55%
Diversified Income		To exceed CPI+ 2.0% over the time horizon.	4 years	0.61%
Balanced		To exceed CPI+ 2.5% over the time horizon.	5 years	0.61%
Growth		To exceed CPI+ 3.5% over the time horizon.	7 years	0.66%
High Growth		To exceed CPI+ 4.5% over the time horizon.	9 years	0.72%

Australian Shares

International Shares

Australian Property

International Property

Global Infrastructure

Alternatives

Australian Bonds

International Bonds

Cash

The information displayed is for illustrative purposes only. It should not be used to assess the exact risk/return relationship between portfolios.

Morningstar is a leading provider of asset allocation, portfolio construction and investment research services with over 35 years' experience in the United States, Australia and other international markets. Morningstar advises and manages funds for superannuation funds, institutions, platform distributors, financial advisers and individuals.

Morningstar's disciplined investment approach delivers independent, cost effective and holistic solutions for investors – helping them reach their financial goals. This long-term, valuation driven approach is underpinned by an emphasis on preserving capital and undertaking comprehensive fundamental analysis of global asset classes and securities.



Level 3, International Tower 1  
100 Barangaroo Avenue  
Barangaroo NSW 2000  
[www.morningstarinvestments.com.au](http://www.morningstarinvestments.com.au)

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