Building Portfolios Holistically requires a Customised Approach to Each Asset Class

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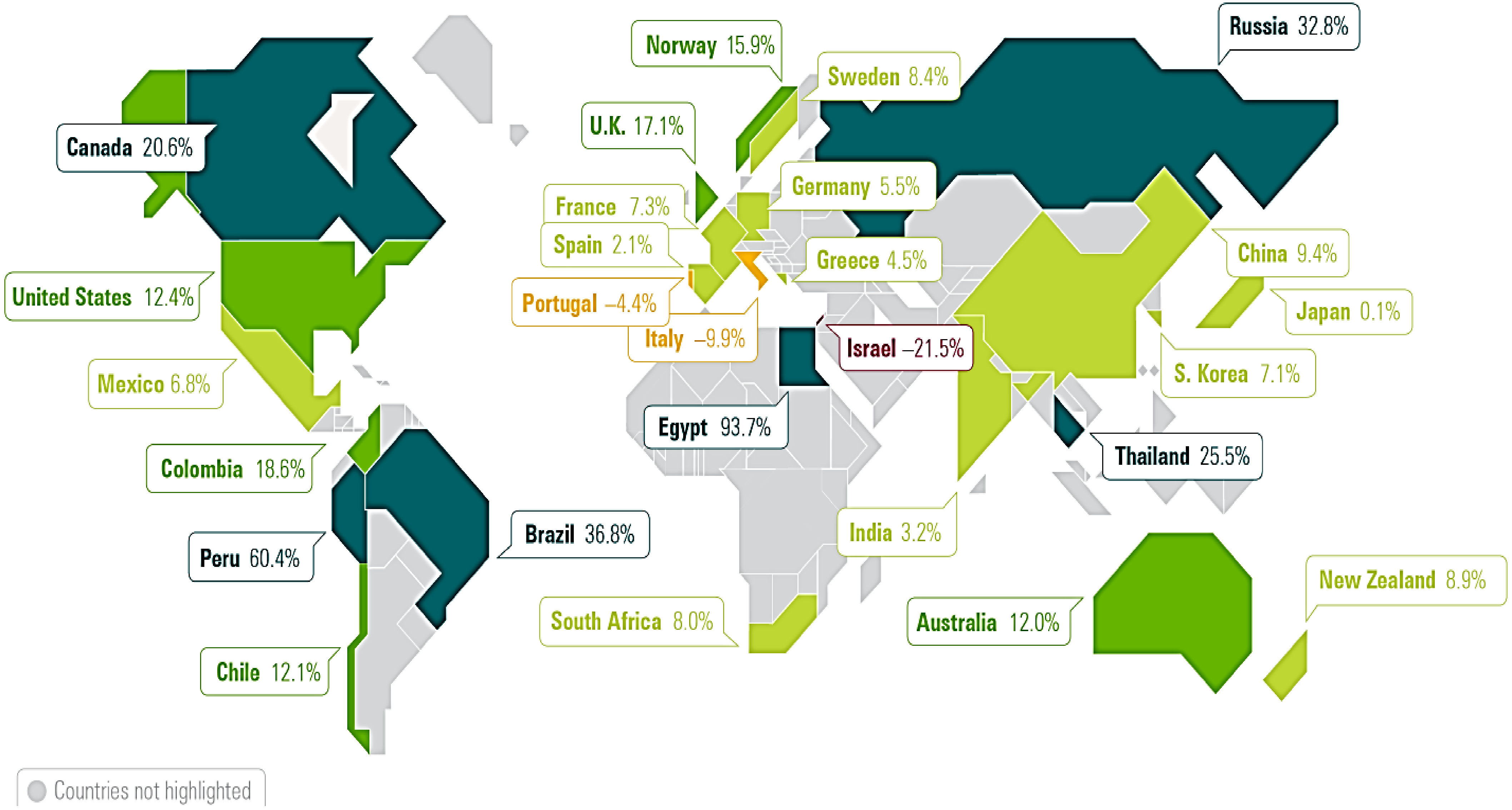
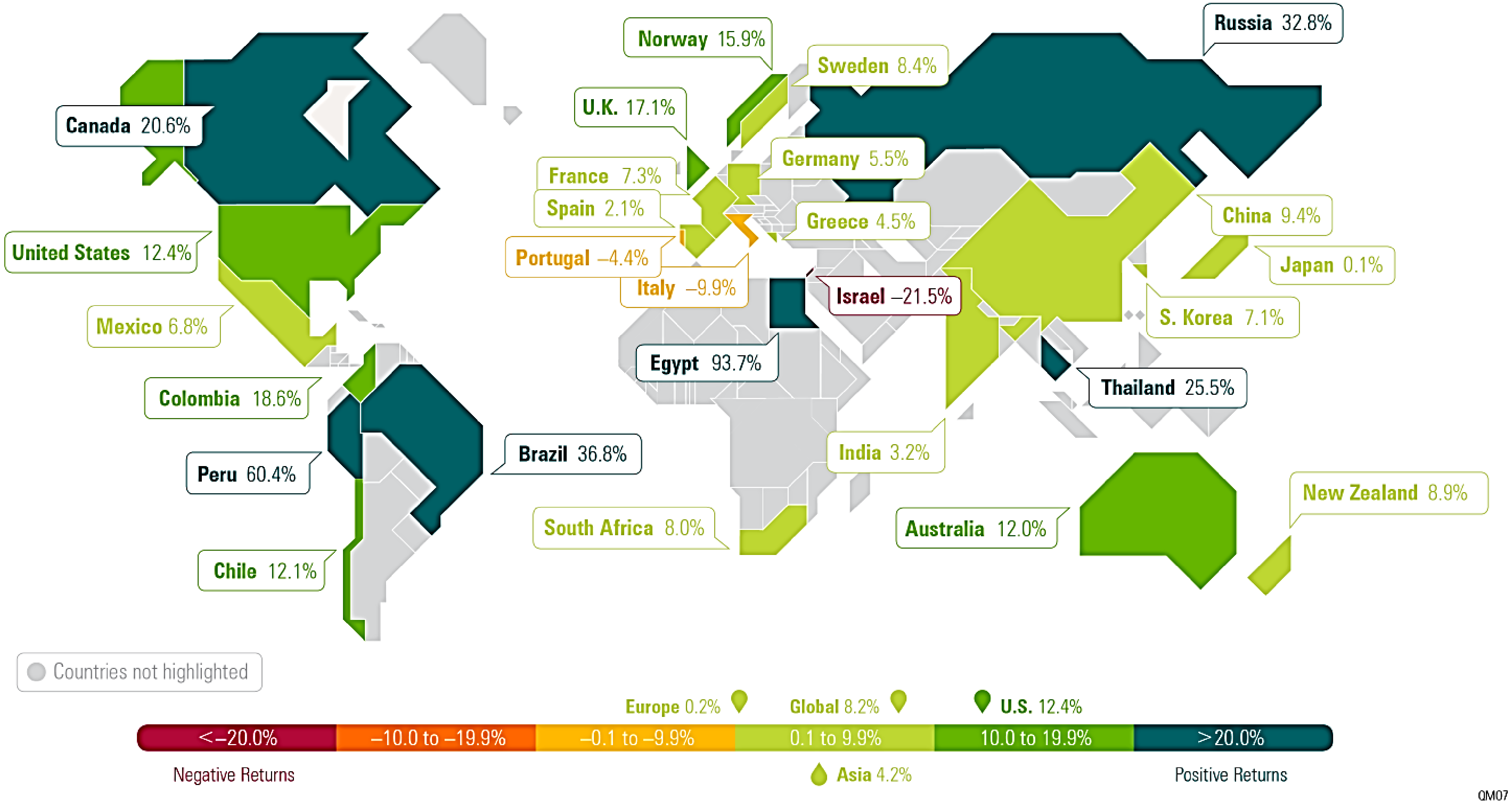


Source: Morningstar Markets Observer Q1 2017

1-Year Trailing Returns of Morningstar Country Indices in Base Currency



QM07

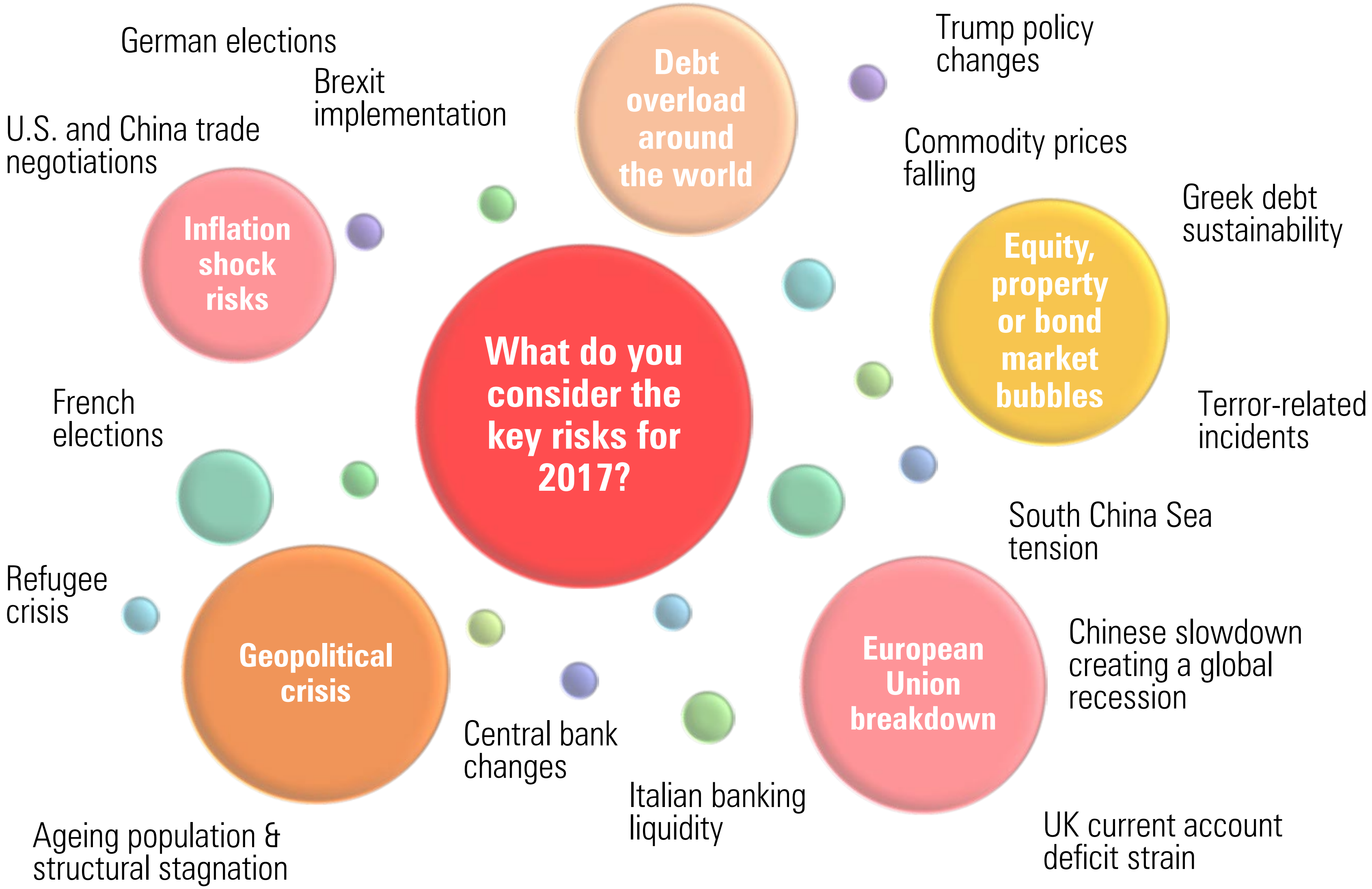
Source: Morningstar Markets Observer Q1 2017

Uncertainty everywhere but amongst the consensus of industry analysts

- The reality of a Trump presidency is upon us
- US debt ceiling negotiations in March 2017
- French presidential elections in May 2017
- German elections likely for August/September 2017
- The rise of populism.
- Asia-pacific geo-political tensions
- Australian residential housing construction peaking
- End of the debt supercycle
- US inflation rising
- US Federal Reserve Board constitution

Source: Bridgewater Associates 2016

What should we be focused on as long-term valuation driven investors?



What is the right way to invest portfolios to control for investor outcomes including fees.

Passive? ETFs? Active multi-manager? Active single manager? Strategic beta?

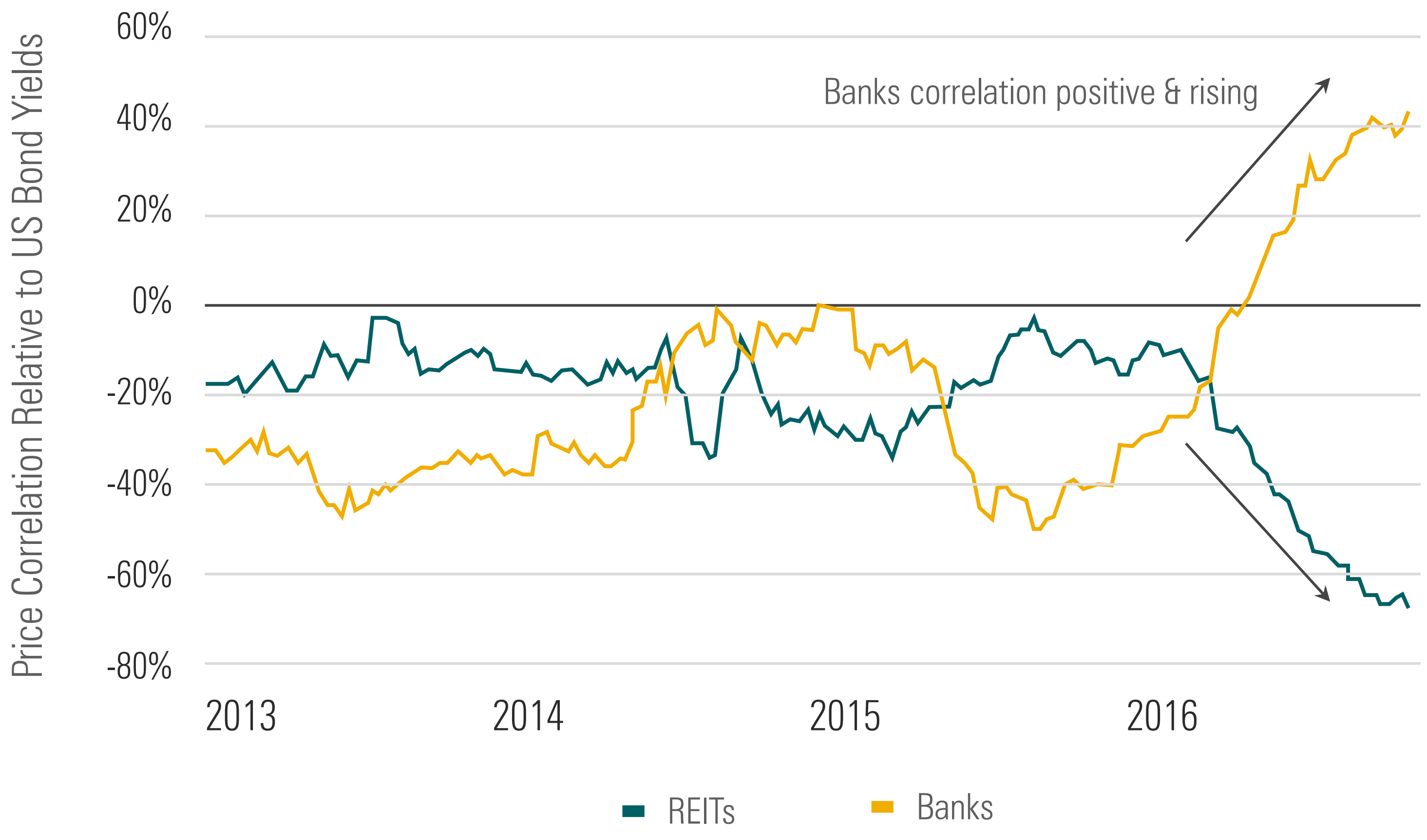
To seek direction and learning, assess the past for similar confluence of events.

1979-82 Reagan, Thatcher and Kohl led a marked change in socialist to capitalist regimes in US, UK and Germany

Holistic portfolio construction

- First level- thinking?
  - Best company
  - Best product
- Second –level thinking?
  - Impacts if the time horizon is different to expected
  - Consider different insights or model and as a consequence react differently
  - What is already priced into investment markets

Assess probabilities and uncertainties of asset links – consider the unexpected.
Warning: Do not depend on recent history or consensus thinking.



FIRST LEVEL THINKING

"US Fed has stopped QE. Yields are going up! Get out of Global bonds." The Taper tantrum.

- Defensive yield equities will surely lose out as yields rise
- Sell Emerging market equities immediately before higher US Dollar causes problems.

SECOND LEVEL THINKING

Yields take longer than expected to rise as global growth is slow.

- Maintain short duration bonds and cash
- Hold positions in REITs, Infrastructure until 2016
- Increase Emerging market debt and equities
- Await adding banks to portfolios until valuations more attractive post Brexit

Peter Lynch: Know what's in your portfolio and know why it's there.
Largest positions stocks in portfolio: Dexus, National Grid (UK), Samsung AND Low US bond duration, then BUY UK banks.

Building portfolios holistically: Case study 2 ("Seek different insights and react differently")

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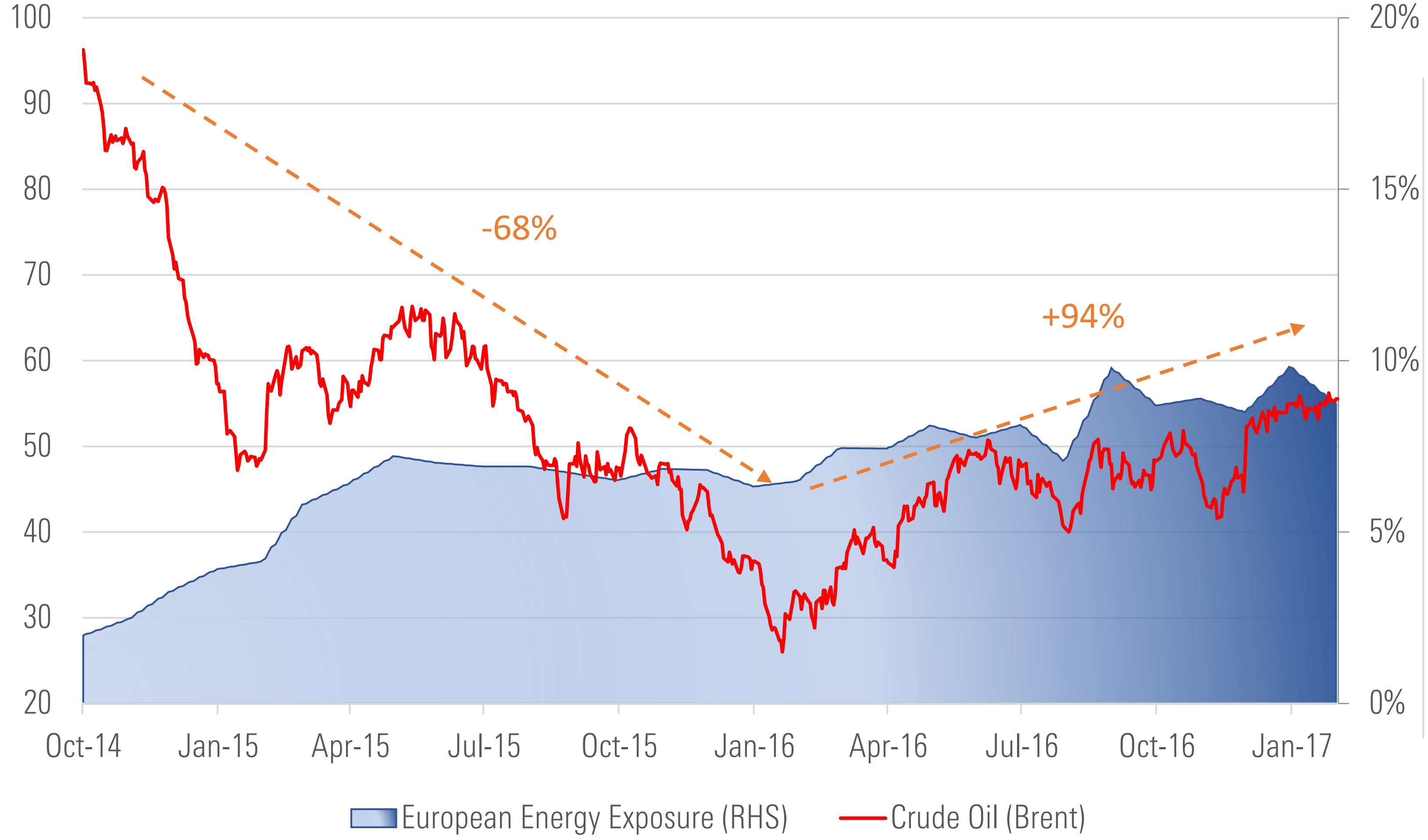

FIRST LEVEL THINKING

"Due to slowing demand, the World has too much Oil and is moving on!"

- Avoid all energy equity companies, High yield debt and currencies of oil exporters.

SECOND LEVEL THINKING

The normal operation of the capital cycle will constrain supply, leading to increased prices

- Large European integrated energy companies best placed to withstand lower oil prices and still pay dividend.
- Japan as a net importer will benefit, so Yen will strengthen in the meantime.

Sir John Templeton: "It is impossible to produce superior performance unless you do something different from the majority"
Largest company positions in the portfolios: BP, Royal Dutch Shell, Woodside Petroleum, Japanese Yen.

Building portfolios holistically Case study 3: (What has the market already priced in?)

Assess probabilities and uncertainties of asset links – consider the unexpected.
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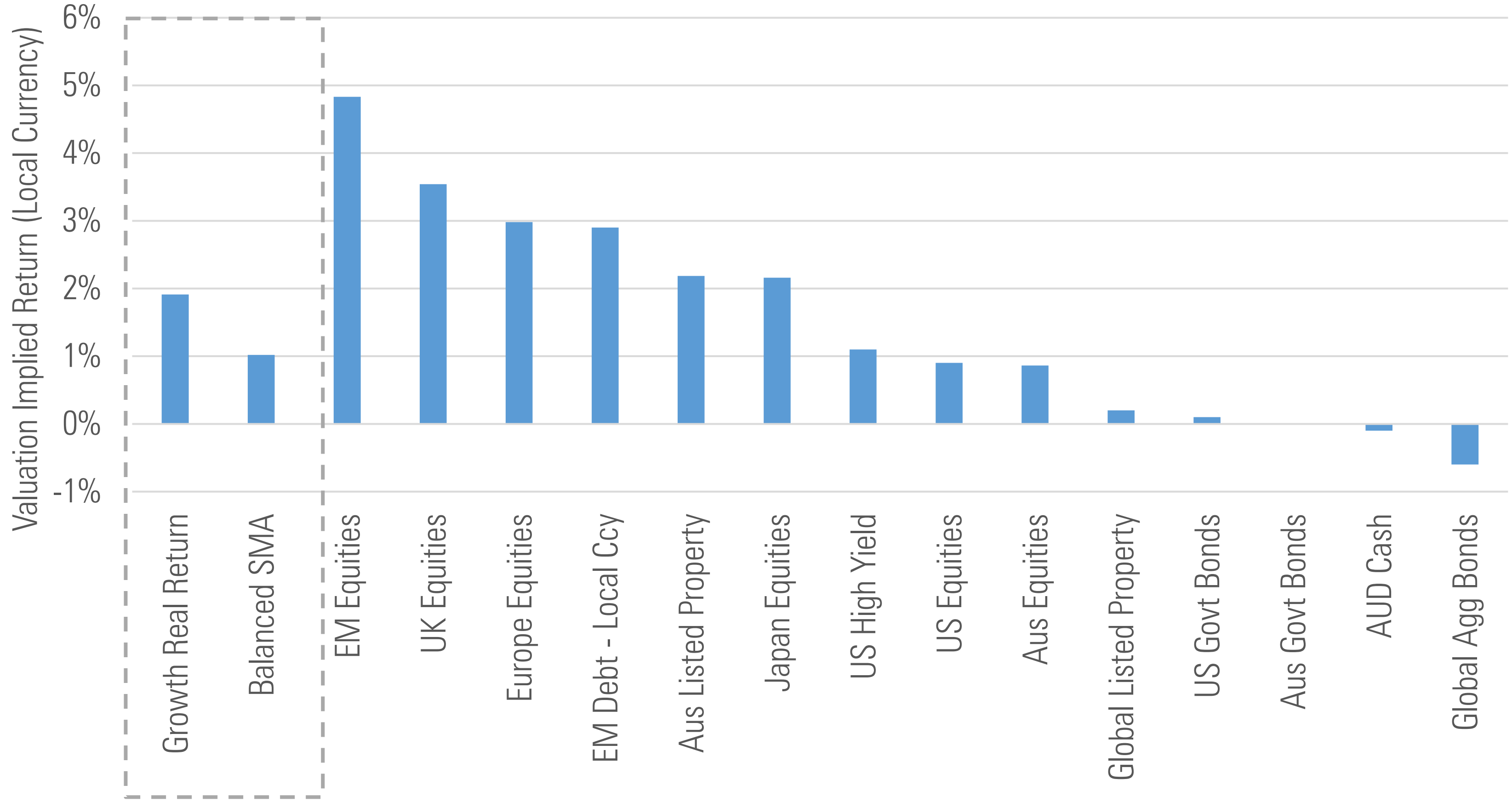


FIRST LEVEL THINKING

"Trump expansionary policy will mean increased US earnings, higher inflation and a higher US Dollar".

- Buy US equities,
- Sell nominal bonds, and
- Run quickly from Emerging market currencies.

SECOND LEVEL THINKING

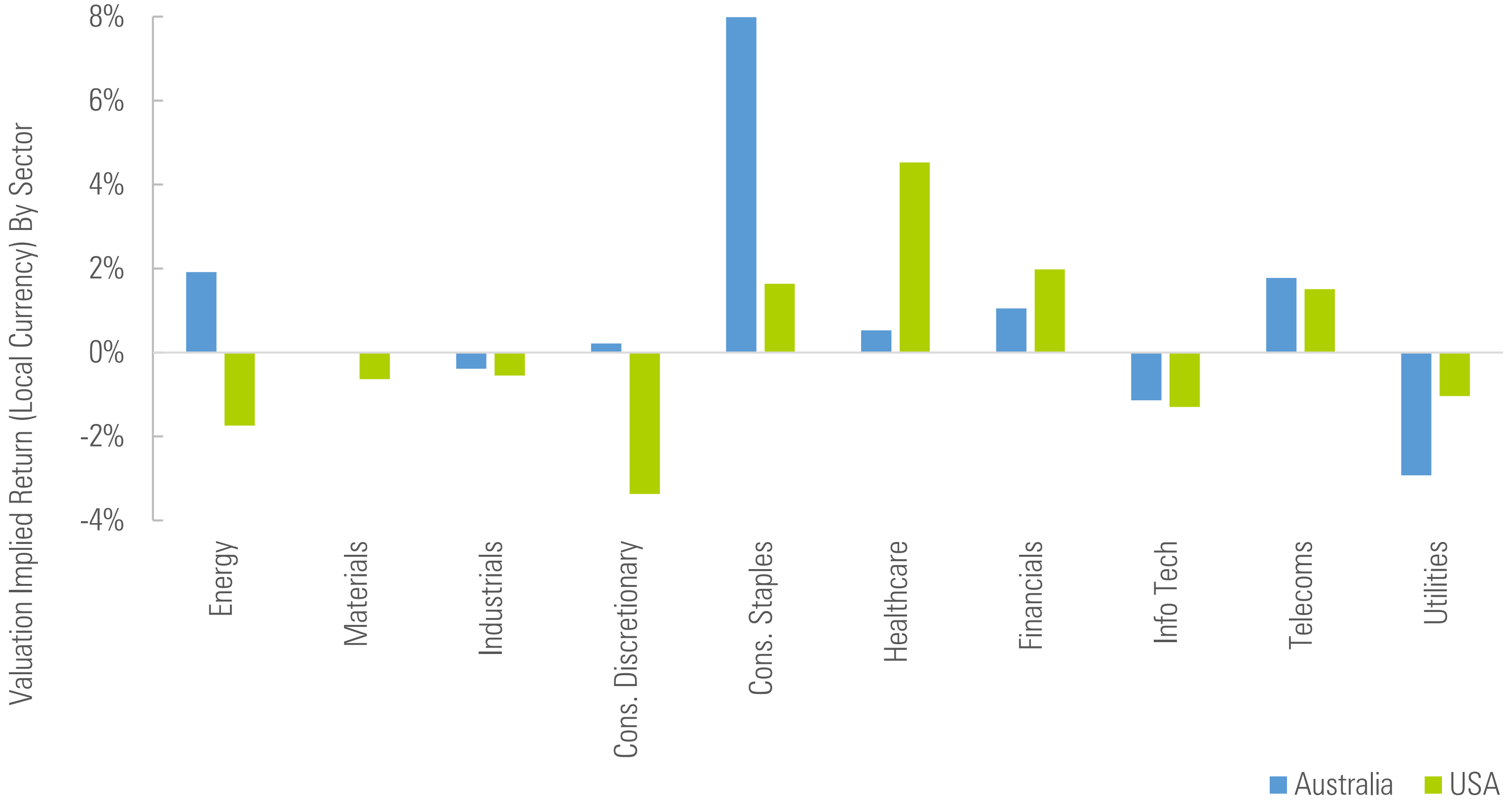
Post Trump election rally, market pricing suggests 16% pa higher corporate earnings growth, and 0.75% pa higher inflation

- US equities unattractive on long-term valuation;
- EM equities are relatively cheap.
- The delicate balance between US dollar, bond yields and equity prices will cause market volatility.

Warren Buffett: It's only when the tide goes out that you find out who's swimming naked.
Largest company positions in the portfolios: Taiwan and Korean Equities, Japanese domestic stocks, Royal Dutch Shell.

United States of America

Equity market is above long-term fair value; US equity market has risen by 7% since November election.
Largest companies by market capitalisation in the US are the least attractive on a long-term valuation basis



Trump stock market rally from expectations of

- Stronger cyclical growth
- Corporate benefits (lower tax and regulation)
- Steeper yield curve positive for bank lending
- Rising commodity prices

- CAPE analysis market fair value is 40% below existing market level
- Profit margin analysis suggests Technology sector operates with historically high profit margins

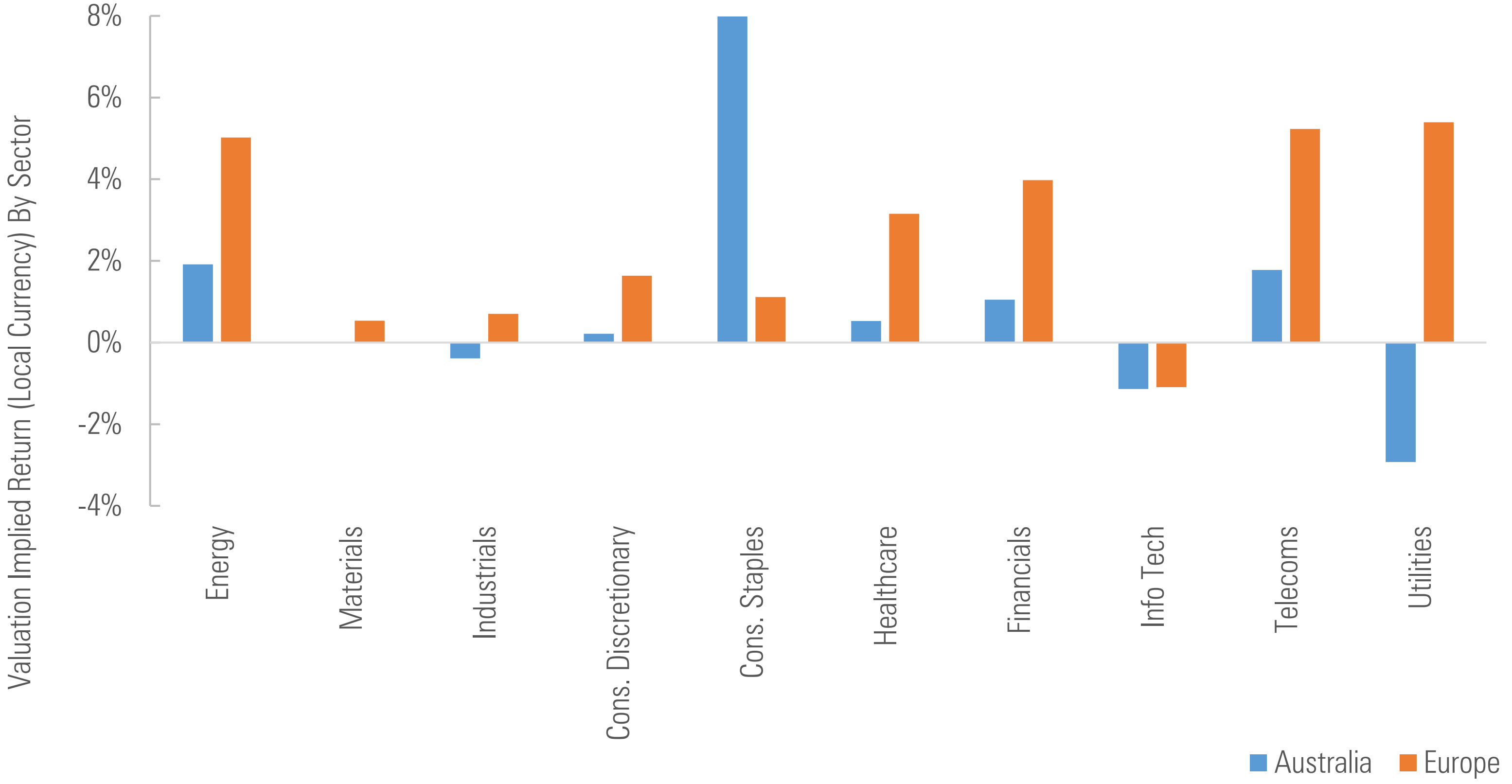
US Healthcare and Financials sectors - use ETFs.

US high yield debt - active manager.

Expect currency volatility so 50% hedge USD/AUD

Europe (including the UK and Eastern Europe)

European equity market is dominated by Energy and Pharma sectors with global earning streams and Financials with local influences. The future depends on banking sector state support and Big Oil maintaining capex and cost reductions. Emerging Europe is attractive!



Post Brexit the hardest hit sector was European (UK) financials and housebuilders but now recovering.

- Populism has bigger potential impact for Europe
- Germany growth is key watch point
- European corporates can cut costs and benefit from US growth.

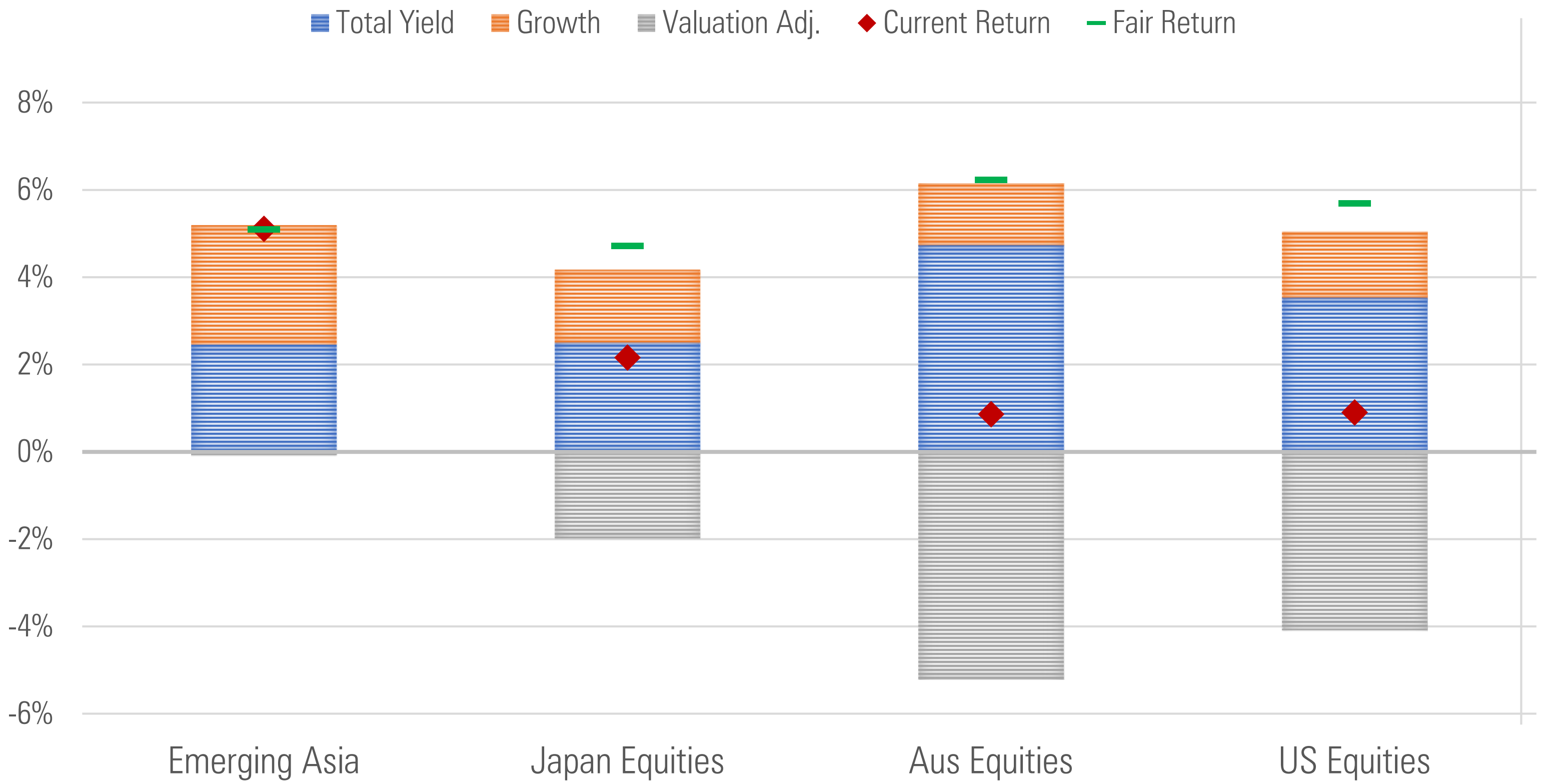
Utilities, Energy and Telcos sectors - use ETFs or direct equities.

Emerging markets debt is attractive in local currency – active manager

Pound sterling is attractive at A$60c - ETF
Euro remains least preferred currency –Hedge currency.

Asia (including Japan and Australia)

Emerging Asia around long-term fair value; Pacific Trump Trade (Australia) market is dominated by Materials with global earning streams and Financials with increasingly local influences.



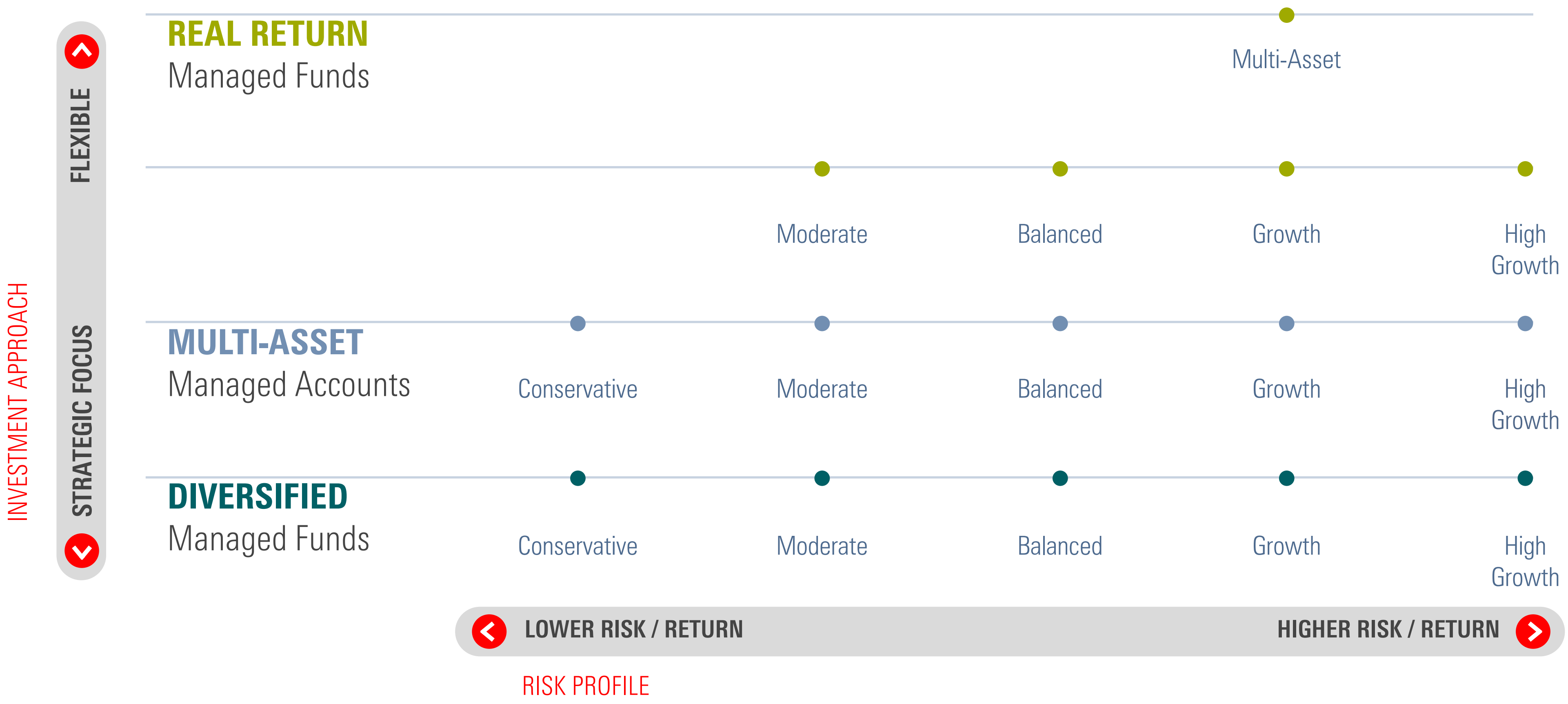
- Asia has advantages of:
  - Strong sustainable growth
  - Less destabilising influence of populism
- Japanese corporate balance sheet is conservative
  - Focus on shareholder value improving
- Australian household debt is the global exception
  - Elevated Australian profit margins and
  - Higher PE multiples, suggest market value is 40% above fair value level.

Japanese domestic companies – Active manager

Australian government debt – strategic beta or ETF

Emerging market currency attractive - ETF.

Morningstar Multi Asset Managed Portfolios



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- Long term high conviction multi-manager portfolios;
- Competitive rules-based "strategic beta" equity models built for multi-asset portfolios;
- Low cost ETFs; futures and currency forwards
- Customised strategies used for portfolio risk management

For illustrative purposes only. Portfolio availability varies by relationship. Not to be used to asses the exact risk/return relationship between portfolios.

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