

Morningstar High Growth (90) Managed Account Portfolio

Q3 2021

Quarterly Performance Update

All data and information as at Portfolio Date: 30/09/2021

Risk Level: High
Inception: 1 July 2012
Investment Horizon: 9 Years

Management Fee: 0.68%
Indirect Cost Ratio: 0.29%

At a Glance

- 18 months on from the COVID-induced sharemarket lows, we continue to witness an extraordinary recovery. This has flowed through into exceptional portfolio returns, with the portfolio continuing to achieve its objective.
- Global shares continue to be the driving force behind portfolio returns, with strong contributions from investments in financial and energy companies and Japanese shares.
- New opportunities continue to emerge, with recent uncertainty in Chinese shares creating an opportunity for us to invest in quality Chinese businesses, at a discounted price.

What's the purpose of this portfolio?

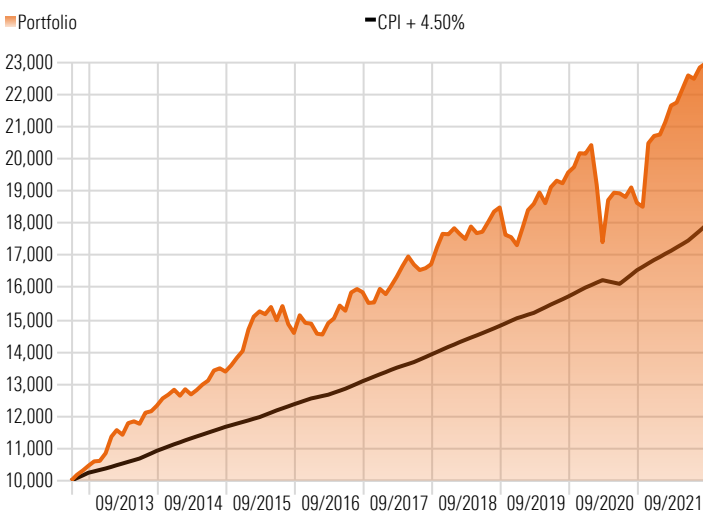
This is a portfolio of investments hand-picked by our team of professional investors. It targets around 90% growth assets like shares and property, and 10% defensive assets such as cash and bonds. We actively buy, hold or sell each investment depending on market conditions, with an aim to optimise your rewards, whilst preserving your savings over the targeted investment horizon.

How the investment portfolio has performed

	9yr (% p.a)	7yr (% p.a)	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	1mth (%)	Incp (% p.a)
Portfolio*	9.13	8.01	7.69	7.49	23.23	1.64	0.54	9.40
CPI + 4.50%^	6.41	6.31	6.48	6.56	8.35	2.63	0.87	6.51

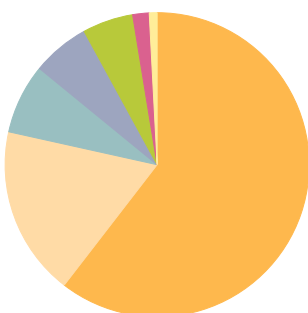
Past performance is not a reliable indicator of future performance.

Returns over 12 months are annualised.



The portfolio aims to earn a rate of return that exceeds inflation by at least 4.5% per annum over rolling 9 year periods.

Quarter-end Asset Allocation



	%
International Shares	60.5
Australian Shares	18.0
Alternatives	7.4
Australian Bonds	6.1
Cash	5.4
Property & Infrastructure	1.7
International Bonds	0.8
Total	100.0

As the September quarter draws to a close, we mark 18-months since global sharemarkets typically saw their lows, following a short but very significant selloff (as COVID-19 was declared a global pandemic). Since that time, we have witnessed a remarkable economic and sharemarket recovery, on the back of enormous stimulus from governments and central banks, with investors further buoyed by the extraordinary levels of vaccination (underpinning hopes around the re-opening of global economies). This has boded positively for the portfolio's return.

However, we must apply a note of caution when looking at this impressive headline performance. As is typical in an economic recovery, investors tend to bid up share prices in anticipation of an uplift in future earnings. This situation has been no different, but the magnitude of this effect has been astonishing, accounting for much of the gains that we have seen in key sharemarkets to date. This is important because, should these lofty earnings expectations fail to be delivered as actual earnings (thereby justifying the prices currently being paid), then there is the very real risk of loss. Further, this strong period in sharemarkets has been delivered with relatively little volatility amid buoyant investor confidence, but this positive sentiment appears to have more recently softened. The continued proliferation of cases of infection associated with the COVID-19 Delta variant has led some to question the sustainability and strength of the economic recovery. Inflation fears, having been subdued over the middle part of the year, have also re-emerged, driving an increase in longer term interest rates (and resulting in muted returns among popular bond markets). Elsewhere, the potential for an energy crunch, as the supply of natural gas, in particular, fails to keep pace with expected demand, has seen the oil price soar (to a 3-year high in excess of \$80/barrel), while fears over the future of debt-riddled Chinese property developer, Evergrande, and uncertainty from the negotiations to increase the U.S. debt ceiling have all given investors cause for concern.

This poses an interesting juxtaposition – on one hand, sharemarkets appear increasingly fully-priced; on the other, a perception of greater risk highlights that this is anything but a perfect world. In truth, risks are always present in financial markets, although, granted, they can appear more prominent at certain times compared to others. With this in mind, we constantly seek to proactively manage and mitigate these risks by forming an assessment of what is being priced into share and bond markets, and to position the portfolio accordingly. In this regard, energy shares, which have been a bright spot in recent portfolio performance, still appeal. Financial companies, such as banks, also appear reasonably priced, on our analysis, especially should the economic recovery continue. At a country level, U.K. shares stand out, while we maintain our positive view of Japanese shares, even in view of their recent strength (following political leadership change in that country). But new opportunities have emerged too. Uncertainty relating to Chinese regulatory change, with Chinese "big tech" companies (such as Alibaba and Tencent) caught firmly in the crosshairs, has created an attractive opportunity to invest in these quality businesses.

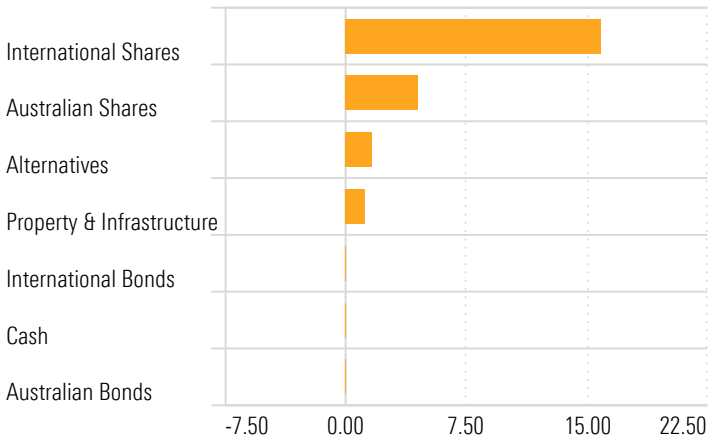
*Investment performance is before tax and the post-fee return is after the standard management fee of 0.68% and indirect cost ratio (both are inclusive of GST).

Investment performance is shown from 01/07/2012 and represents modelled performance only and assumes income received is reinvested. An individual investor's performance will differ from the modelled performance depending on factors such as transaction timing, actual management fees, whether income is paid and any divergence from model portfolio weightings. The portfolio may include exchange traded funds which charge management fees and these are an additional cost (captured within the indirect cost ratio above) to individual investors and impact their return.

^The CPI was not available for the current quarter at the time of creation of this report. CPI for the same quarter of previous year has been used as a proxy for the current quarter. Please note the actual CPI for the current quarter may differ to the proxy used.

Information about the portfolio's performance

What drove portfolio performance over the past year?

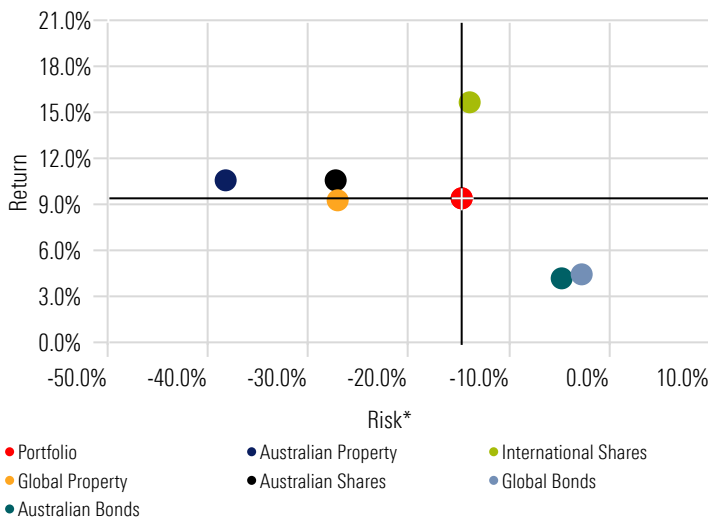


Actual outcomes may differ, as the chart has been prepared assuming a 'buy and hold' approach. Contribution to return from ETFs has been calculated using NAV returns.

This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

While it is important to understand how each asset class has contributed to overall performance, one year is a very short time in financial markets. Returns over such a short period are often heavily influenced by investor sentiment and are not necessarily indicative of longer-term outcomes. Morningstar encourages investors to consider this information in the context of achieving their longer-term goals.

Risk versus reward since inception[^]



*Risk is measured as the maximum loss from a peak to a trough for that investment during the period.

This chart shows how a number of investments have performed on average since 1 July 2012.

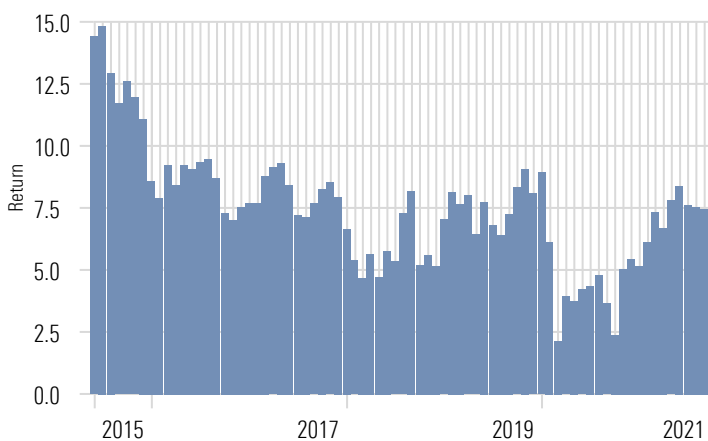
Returns alone are not the full picture. You cannot generate returns without taking on a level of risk. The chart shows the 'riskiness' of each investment relative to its average return.

You want to be as close to the top right corner of the chart as possible, as this indicates high returns achieved with less risk. You would expect cash to be towards the bottom right of the chart, with little to no risk and consequently, low returns.

It's important to note that past performance is not a reliable indicator of future performance and **riskiness of investments may far exceed what has occurred in the past.**

[^]Asset classes are represented by the following Morningstar Indices:
 Morningstar Australia NR AUD (Australian Shares)
 Morningstar AU Core BD GR Hdg AUD (Australian Bonds)
 Morningstar Gbl Mkts NR AUD (International Shares)
 Morningstar DM REIT NR Hdg AUD (Global Property)
 Morningstar Australia REIT NR AUD (Australian Property)
 Morningstar Gbl Core Bd GR Hdg AUD (Global Bonds)

How stable have returns been? (Rolling 3 year returns)



Past performance is not a reliable indicator of future performance.

This chart shows the annual performance of the portfolio over rolling 3 year periods – e.g. your average annual return for each of the three years for any given month. In other words, this chart shows that the portfolio has delivered consistent positive returns over longer-term periods.

Long-term investing helps you ride out the market's ups and downs. It also lets you take advantage of opportunities that arise due to other investors making short-term, emotion-led investment decisions (e.g. irrationally selling investments at the first sign of fear and uncertainty).

Information about what the portfolio is invested in

How asset allocation is positioned vs the allowable ranges

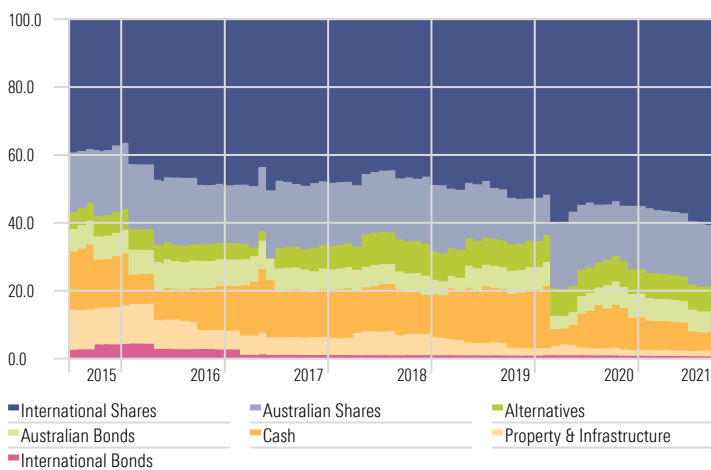


◆ Quarter-end asset allocation

The above chart shows the current breakdown of how the portfolio is invested.

A key difference in Morningstar's approach is that we use wide asset class ranges when constructing the portfolio. This means that we have the flexibility to invest in an asset class (e.g. shares, bonds and property) only if it makes sense to do so. If the reward isn't worth the risk, we can avoid the asset class and hold higher levels of cash, in wait for better opportunities to arise.

How we navigated investment markets over time

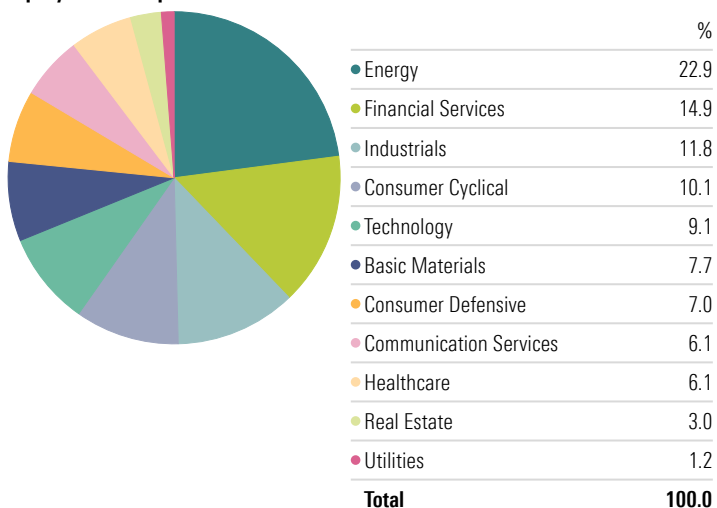


This chart shows how the portfolio positioning has changed over time in accordance with our valuation-driven asset allocation process.

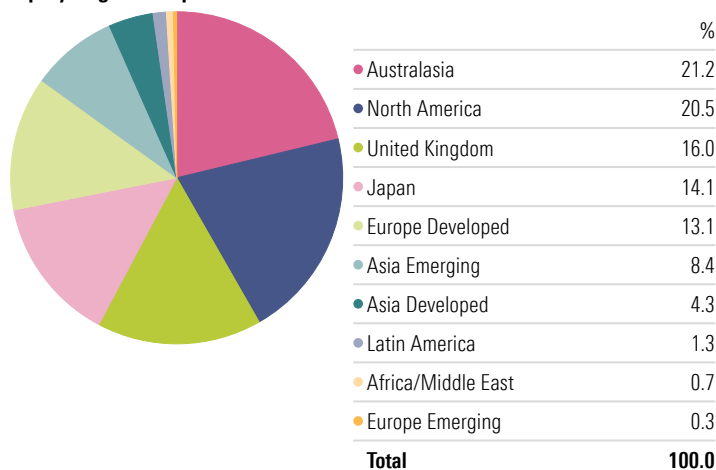
The portfolio has the flexibility to move towards opportunities that offer the best reward for risk (and away from those that we deem to be less attractive).

As you can see, Morningstar's valuation driven approach has seen the portfolio positioning change over time, as we take advantage of prevailing investment opportunities to position the portfolio for longer term returns.

Equity Sector Exposure - Portfolio



Equity Regional Exposure - Portfolio



What you're invested in

Holding	Code	Asset Class	Morningstar Sector	Portfolio Weighting %
BetaShares Glb Energy Coms ETF	FUEL	International Shares		15.298
BetaShares FTSE 100 ETF	F100	International Shares		8.693
iShares MSCI Japan ETF (AU)	IJP	International Shares		8.379
Mstar Multi Asset Real Return (Zero Fee Class)	11736	Alternatives		7.437
Morningstar Int Shares (\$A Hedged)(Zero Fee Class)	11745	International Shares		6.869
Morningstar International Shrs Actv ETF	MSTR	International Shares		5.192
iShares Europe ETF (AU)	IEU	International Shares		3.941
iShares Core Composite Bond ETF	IAF	Australian Bonds		3.909
Morningstar Int Shares (Zero Fee Class)	11743	International Shares		3.490
Cash Account		Cash		2.783
iShares China Large-Cap ETF (AU)	IZZ	International Shares		2.738
iShares Core Cash ETF	BILL	Cash		2.608
Morningstar Australian Shares (Zero Fee Class)	10605	Australian Shares		2.451
Vanguard FTSE Emerging Markets Shrs ETF	VGE	International Shares		2.424
BetaShares Aus Bank Sr Fltng Rt Bd ETF	QPON	Australian Bonds		2.208
Westpac Banking Corp	WBC	Australian Shares	Financial Services	2.034
Brambles Ltd	BXB	Australian Shares	Industrials	1.922
Medibank Private Ltd	MPL	Australian Shares	Financial Services	1.541
Vanguard FTSE Europe Shares ETF	VEQ	International Shares		1.301
iShares MSCI South Korea ETF (AU)	IKO	International Shares		1.247
Newcrest Mining Ltd	NCM	Australian Shares	Basic Materials	1.213
Woodside Petroleum Ltd	WPL	Australian Shares	Energy	1.082
Insurance Australia Group Ltd	IAG	Australian Shares	Financial Services	1.067
Oil Search Ltd	OSH	Australian Shares	Energy	1.061
Commonwealth Bank of Australia	CBA	Australian Shares	Financial Services	1.048
iShares MSCI Emerging Markets ETF (AU)	IEM	International Shares		0.892
GPT Group	GPT	Property & Infrastructure	Real Estate	0.883
Scentre Group	SCG	Property & Infrastructure	Real Estate	0.866
Iluka Resources Ltd	ILU	Australian Shares	Basic Materials	0.831
Morningstar International Bonds (Zero Fee Class)	17381	International Bonds		0.830
Carsales.com Ltd	CAR	Australian Shares	Communication Services	0.815
Amcor PLC	AMC	Australian Shares	Consumer Cyclical	0.791
The a2 Milk Co Ltd	A2M	Australian Shares	Consumer Defensive	0.661
Appen Ltd	APX	Australian Shares	Technology	0.556
Link Administration Holdings Ltd	LNK	Australian Shares	Technology	0.511
BHP Billiton Ltd	BHP	Australian Shares	Basic Materials	0.429

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