



Finding Value in a Low Return World

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Portfolio Manager

24th October 2017

Morningstar Investment Management Europe

For Professional clients only

Finding Value in a Low Return World

Agenda

- ▶ **Investment Philosophy**
- ▶ Uncovering value in Equities
- ▶ Uncovering value in Fixed Income
- ▶ Currency matters
- ▶ Global Allocation Funds – current positioning and performance

Challenge for Multi-asset investors

The Current Opportunity Set in a Nutshell

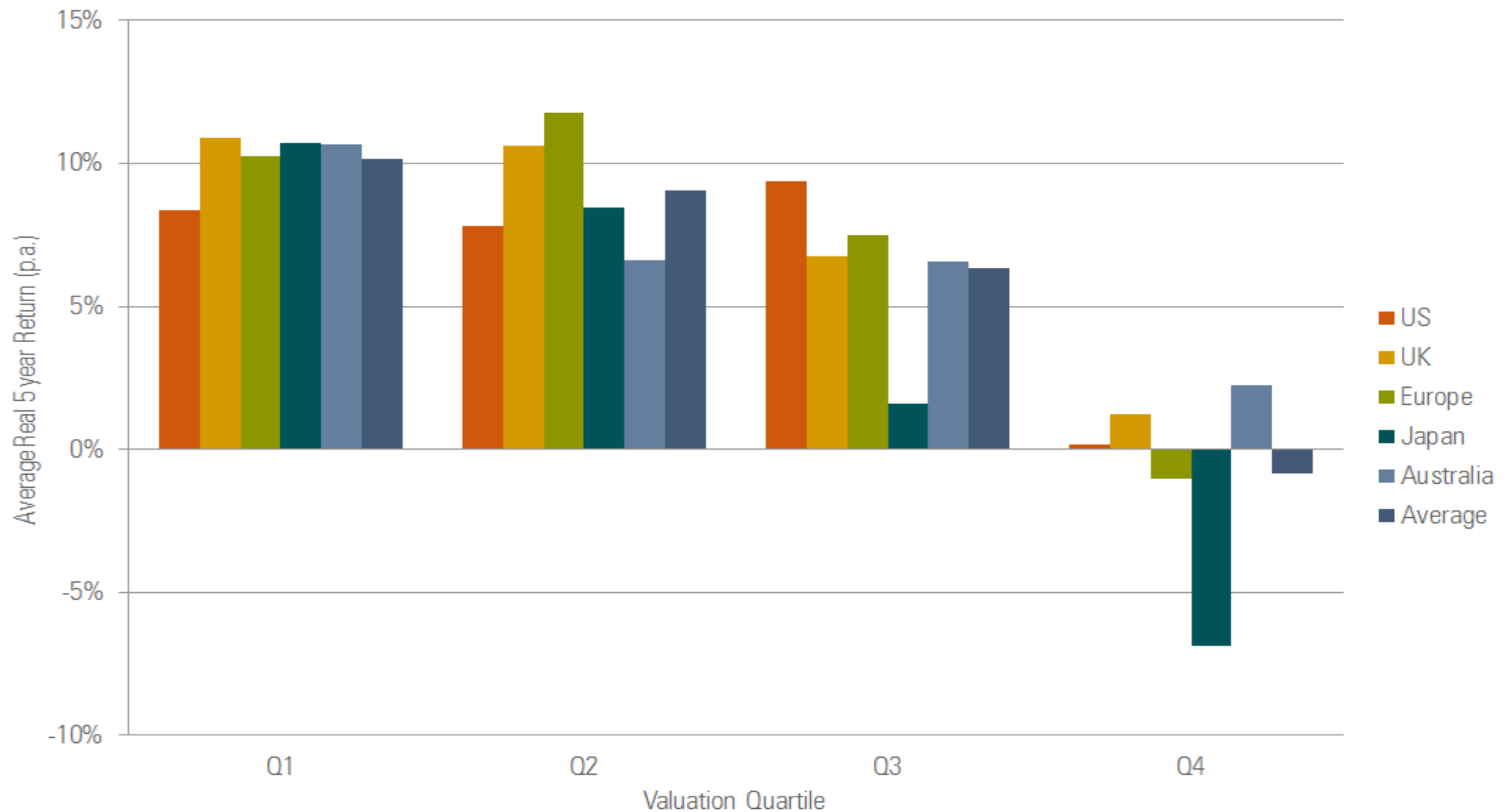
Lower expected returns going forward across asset classes



Source: Morningstar Investment Management Estimates August 2017. For illustrative purposes only. Forecasts are not a reliable indicator of future performance.

The Impact of Valuation

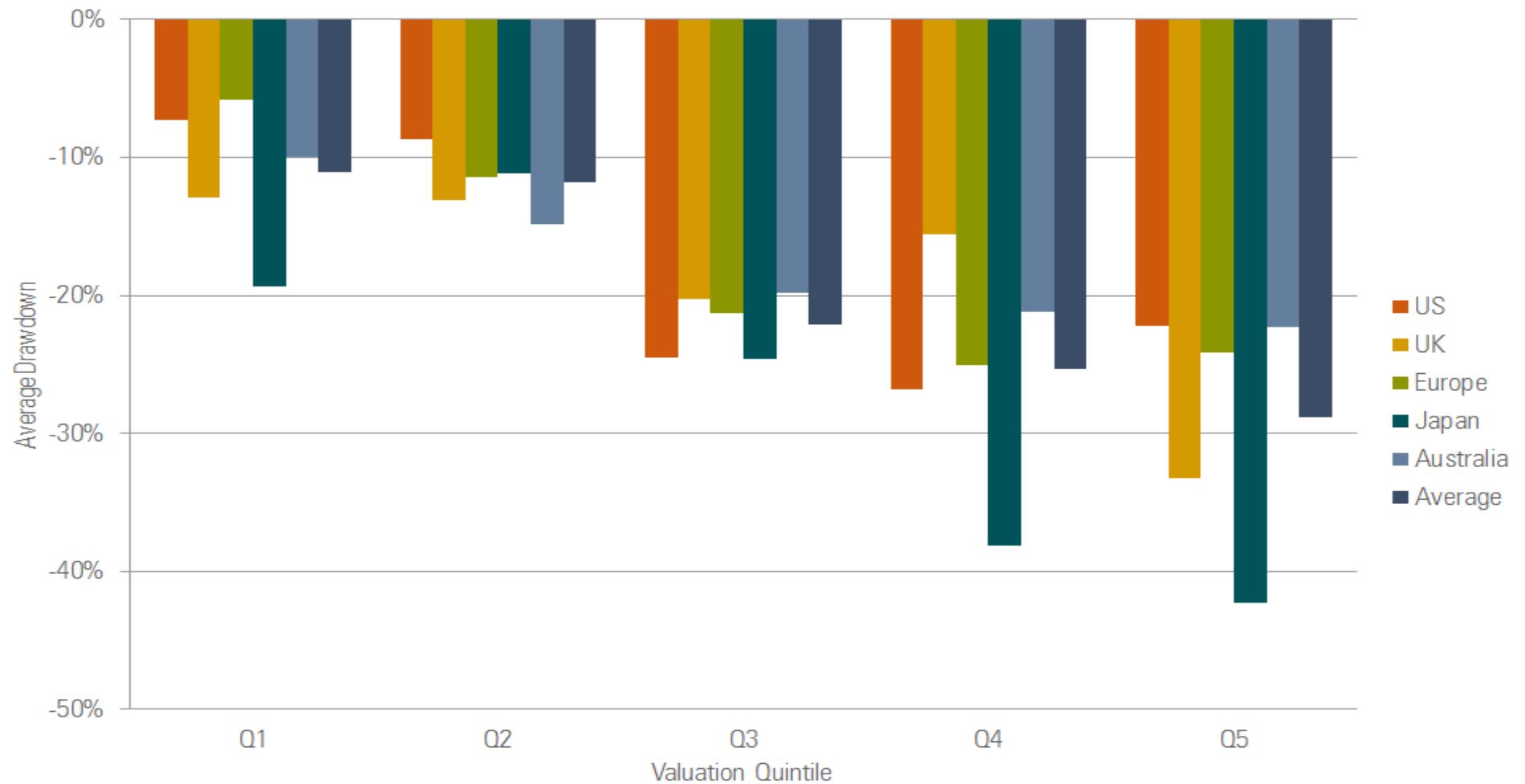
Valuation Has Driven Returns Around the World



Source: DataStream, Bloomberg, Morningstar. For illustrative purposes only. There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes.

The Impact of Valuation

Valuation Has Driven Returns Around the World... and Prospective Losses

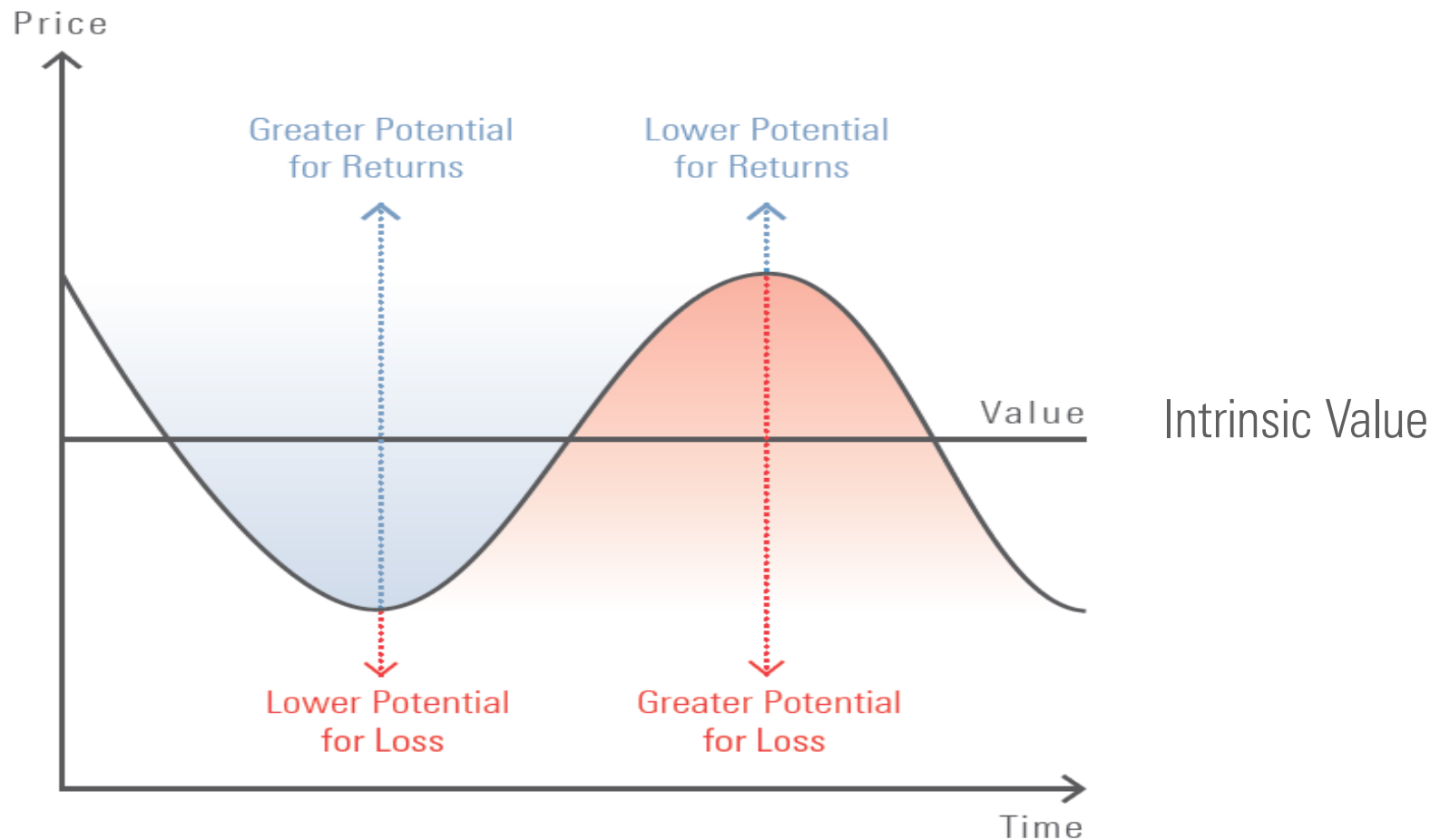


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Valuation-Driven Asset Allocation

So Why Doesn't Everyone Do It?

Valuation driven investing requires a long-term investment horizon as well as discipline



Source: Morningstar Investment Management .

Our Philosophy

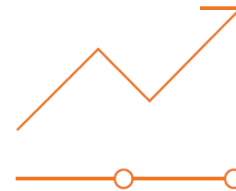
Investing with discipline – 7 Investment Principles



We put
investors first.



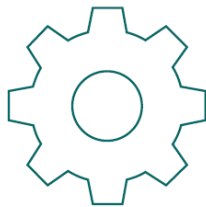
We're
independent-minded.



We invest for the
long term.



We're valuation-
driven investors.



We take a
fundamental approach.



We strive to
minimize costs.



We build portfolios
holistically.

Morningstar Inc.

Access to Unparalleled Depth and Quality of Resources

Our investment expertise is supported by an expansive, in-house network of global data and investment analysis that spans asset classes and regions to help drive timely new ideas.

Morningstar, Inc. Data and Research



2000 / 197
Stocks and Bond / Analysts



4400 / 130
Funds / Analysts

★ Gold ★ Silver ★ Bronze

300+

Indexes

\$ € ¥ \$ € ¥ \$ €

Investment Management group



Data as of March 31, 2016. Source: Morningstar Latest Company Stats, June 2017.

Investment Management Team

Global Asset Class Teams

Chief Investment Officers (CIOs)

Daniel Needham
US and Global CIO

Dan Kemp
EMEA CIO

Andrew Lill
Asia Pacific CIO

Capital Markets & Asset Allocation Regional Leads

Philip Straehl
Head of Capital Markets & Asset Allocation, Americas

Tanguy de Lauzon
Head of Capital Markets & Asset Allocation, EMEA

James Foot
Head of Capital Markets & Asset Allocation, Asia-Pac

Global Asset Class Teams

Equity

Equity, Americas Marta Norton	Equity, EMEA Clemence Dachicourt	Equity, Asia-Pacific Bryce Anderson	Global Sectors Philip Straehl	Emerging Markets Nimalan Govender	REITS/Infrastructure Bianca Rose
Paul Arnold Carrie Scherkenbach Michael Juettner Mike Stout Nabil Salem Rob Miehm	Richard Whitehall Daniel Vaughan Gavin Corr Leslie Alba Jorge Marques	Vesna Peroska Joel Grosvenor Andrew Jayne	Dan McNeela Jared Watts Rob Caldwell Steve Tagarov	Cyrique Bourbon Kyle Cox Gareth Lyons Michael Juettner	Brian Huckstep Bryan Platz

Fixed Income

Fixed Income, Americas Dario Castagna	Fixed Income, EMEA Mark Preskett	Fixed Income, Asia-Pac Brad Bugg	GS/Global Credit Tanguy de Lauzon	Emerging Market Debt Ricky Williamson	Currency James Foot
Hong Chen John McLaughlin Josh Charney Michelle Ward Mike Keaveney Shekryar Khan Hui Min Chang	Emma Morgan Enrico Bolzoni	Ameya Hattangadi James Nairn	Olufemi Mada Marina Jelesova Danielle Rusznyak	John Shelbourne Michael Kruger Matthias Palowski	Lucian Marinescu Tim Zhang

Building a Robust Asset Allocation From the Bottom Up

Agenda

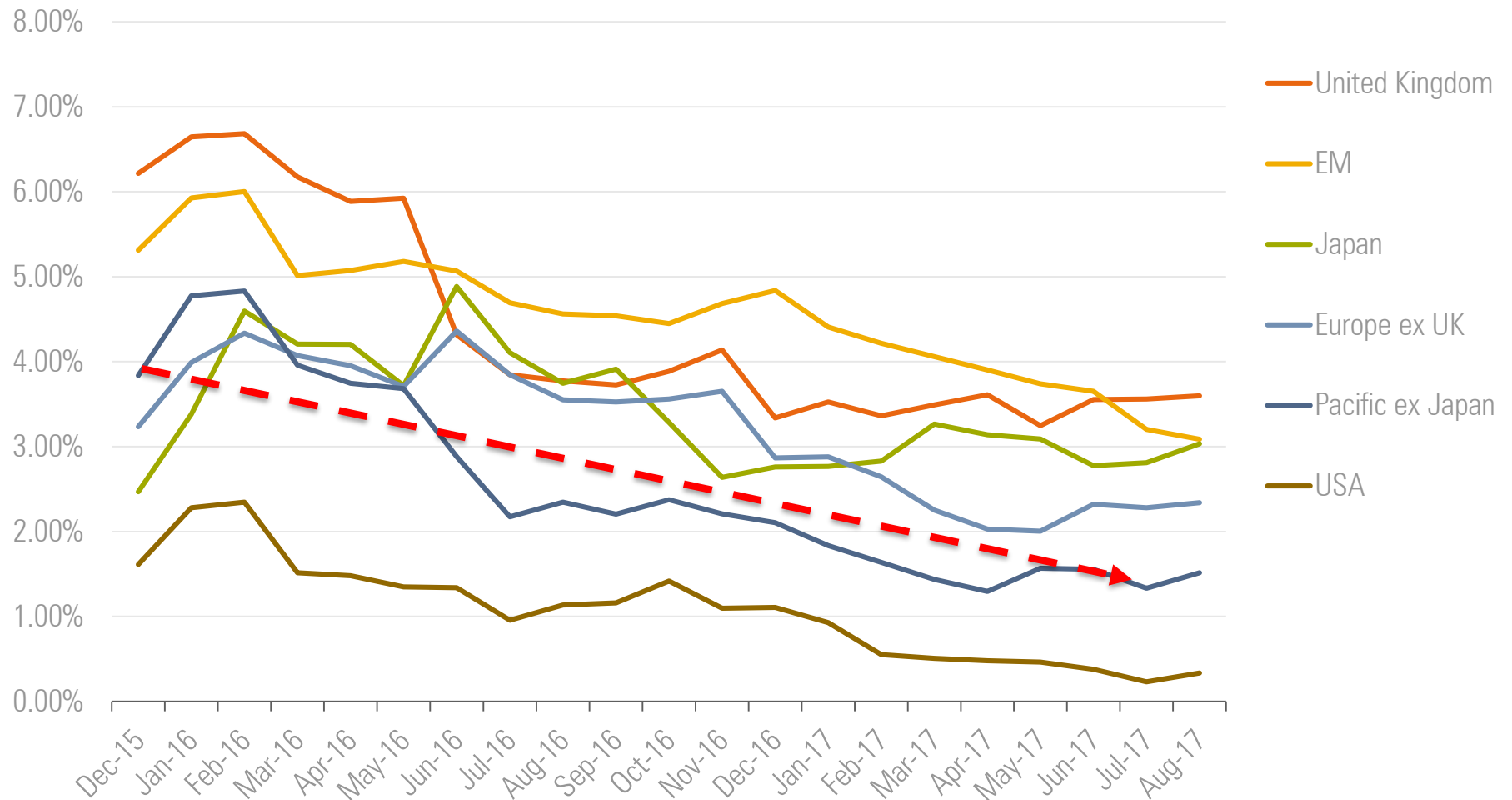
- ▶ Investment Philosophy
- ▶ **Uncovering value in Equities**
- ▶ Uncovering value in Fixed Income
- ▶ Currency matters
- ▶ Global Allocation Funds – current positioning and performance

Uncovering Value In Equities

Historical Evolution of Prospective Returns

Prospective returns for equity markets continue to diminish

10-Year Valuation-Implied Return Evolution (Real, Local): Equity Regions



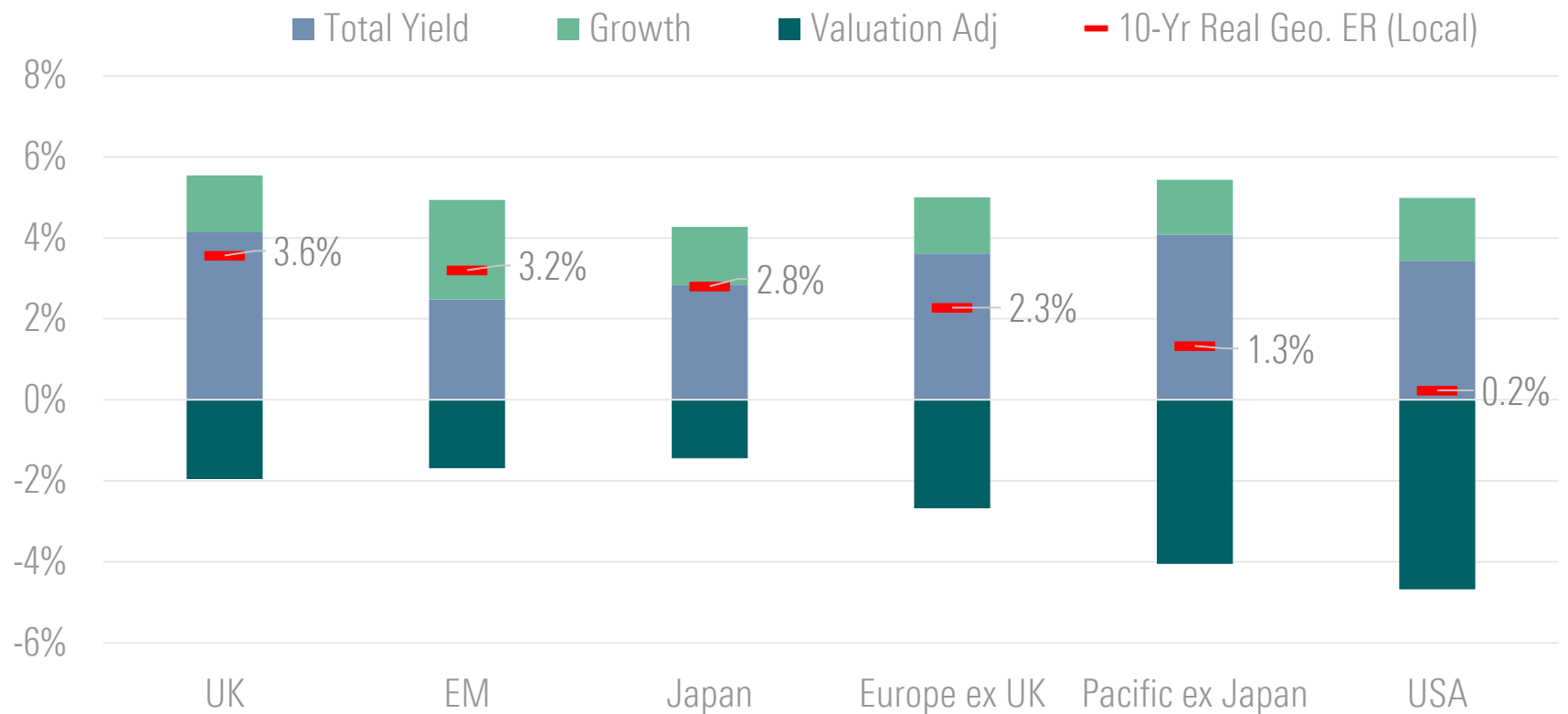
Source: Morningstar Investment Management Estimates July 2017. For illustrative purposes only.

Uncovering Value In Equities

The Current Opportunity Set: Equity Regions

UK and EM rank best, with US ranking very poorly

10-Year Valuation-Implied Real Return Decomposition (Local): Equity Regions



Source: Morningstar Investment Management Estimates August 2017. For illustrative purposes only.

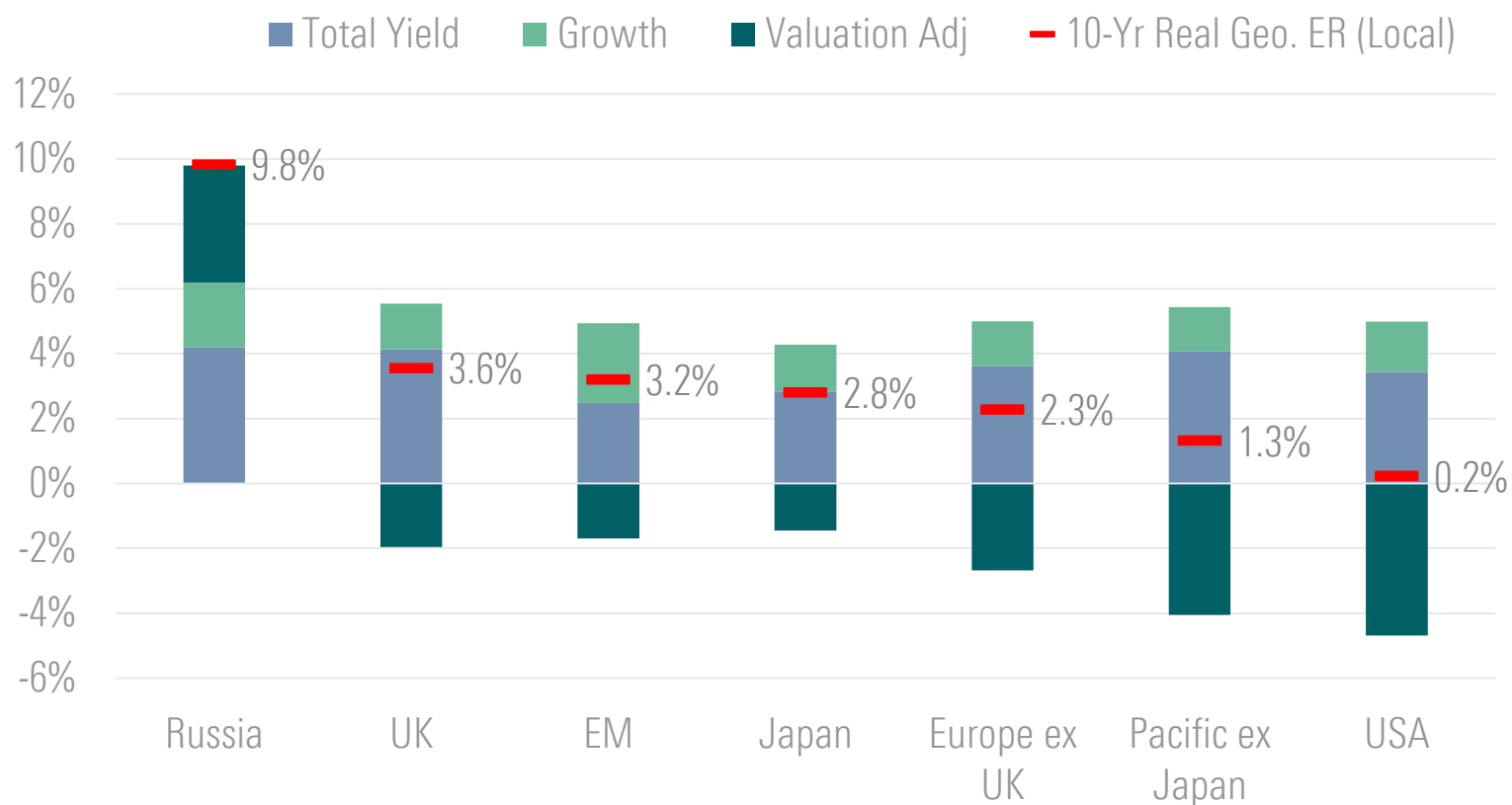
Process in action

Asset Allocation - Russian Equities

July 2017	Russian Equities Conviction Level
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Overall Conviction	Medium to High
Absolute Valuation	Medium to High
Relative Valuation	High
Contrarian Indicators	Medium
Risk	Low (<i>means high risk opportunity</i>)

10-Year Valuation-Implied Real Return Decomposition (Local): Equity Regions



Source: Morningstar Investment Management. For illustrative purposes only.

Building a Robust Asset Allocation From the Bottom Up

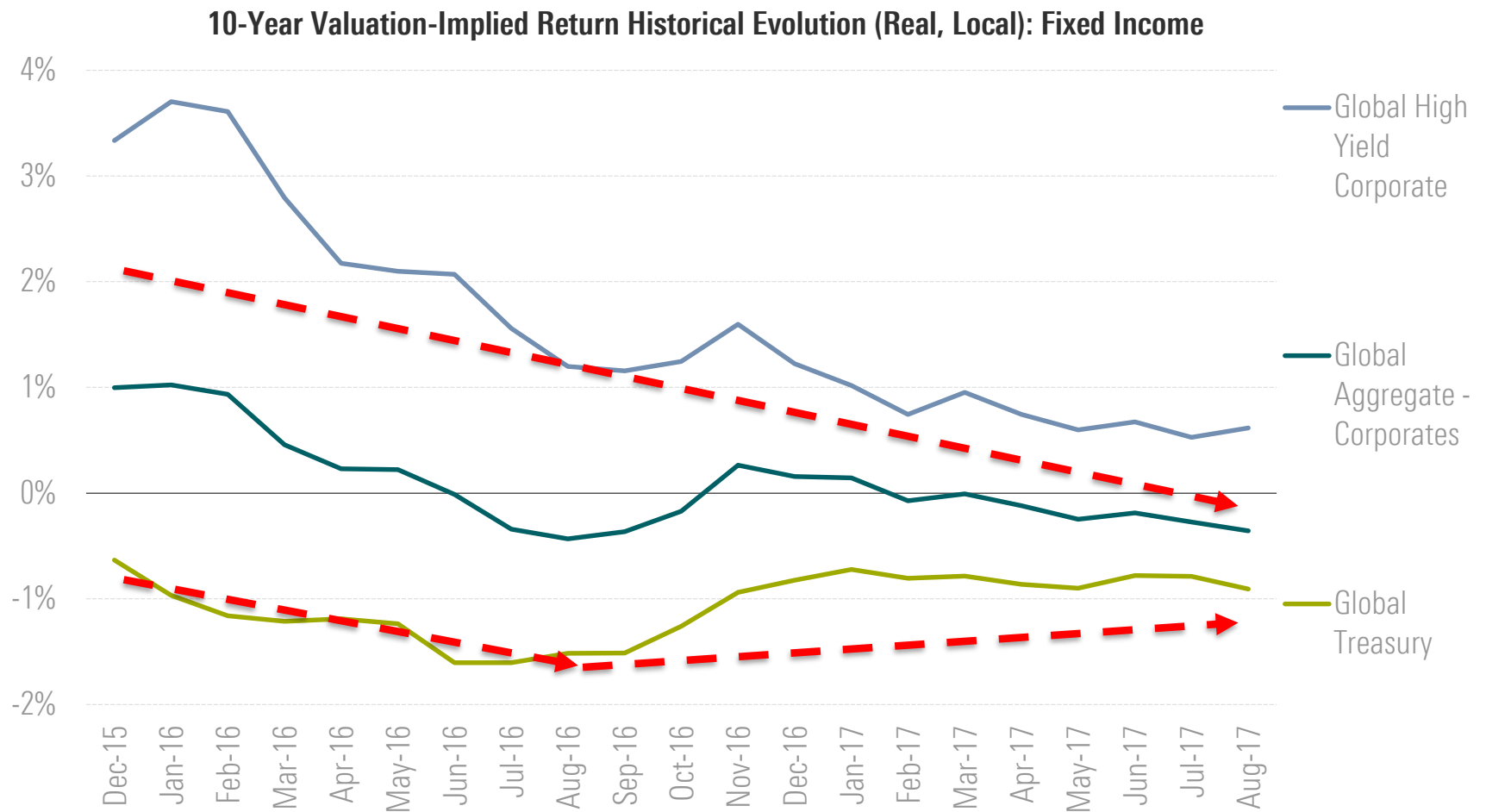
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Uncovering Value In Fixed Income

Historical Evolution of Prospective Returns

Prospective returns for government bonds have stabilised vs further deterioration for credit



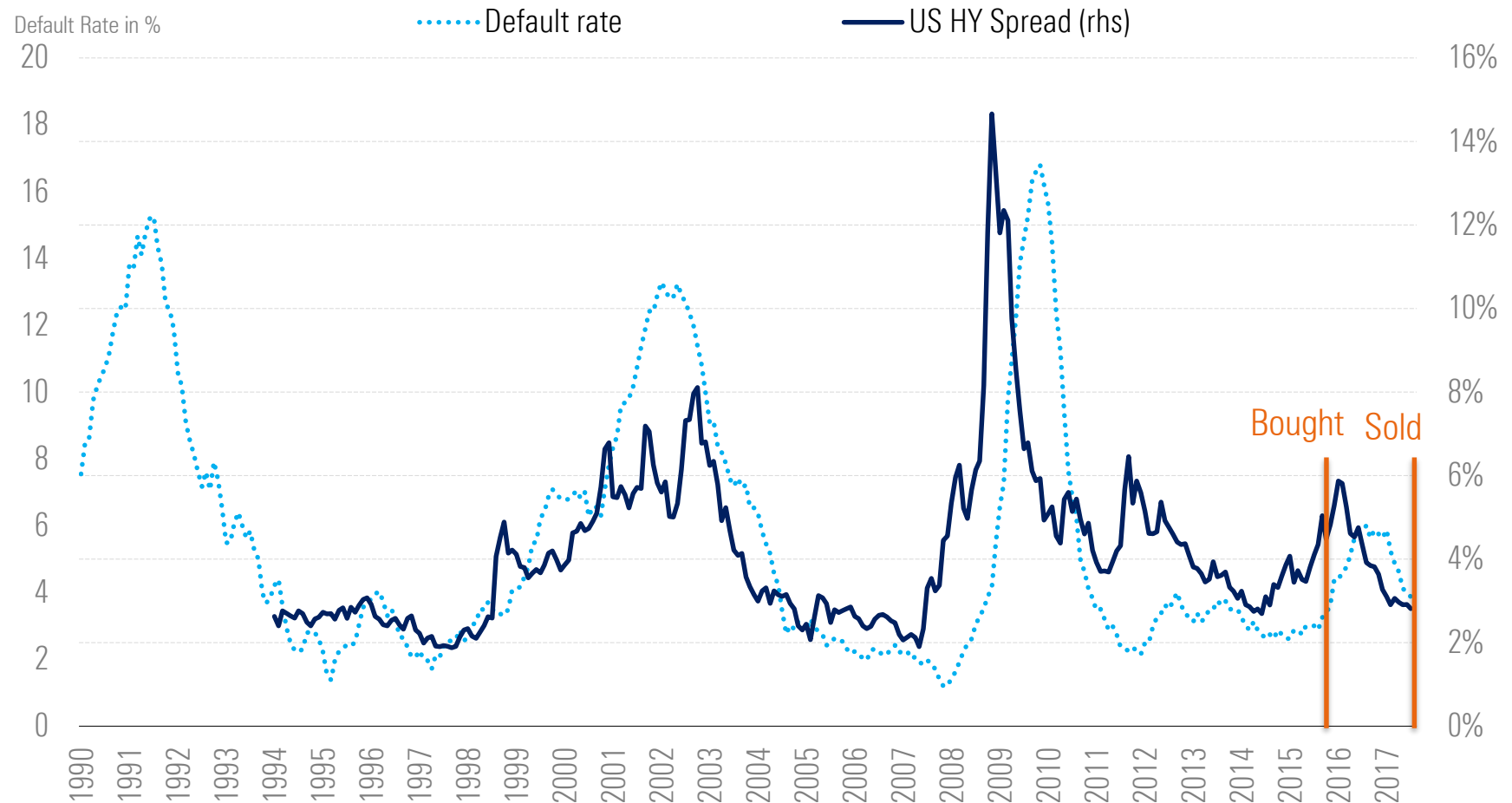
Source: Morningstar Investment Management Estimates. August 2017. For illustrative purposes only.

Process in action

High Yield bonds purchased in October 2015 by the team and exiting now

Spread tightening in 2016 has continued into 2017, resulting in limited value going forward

Global High Yield | Default rate and Spreads

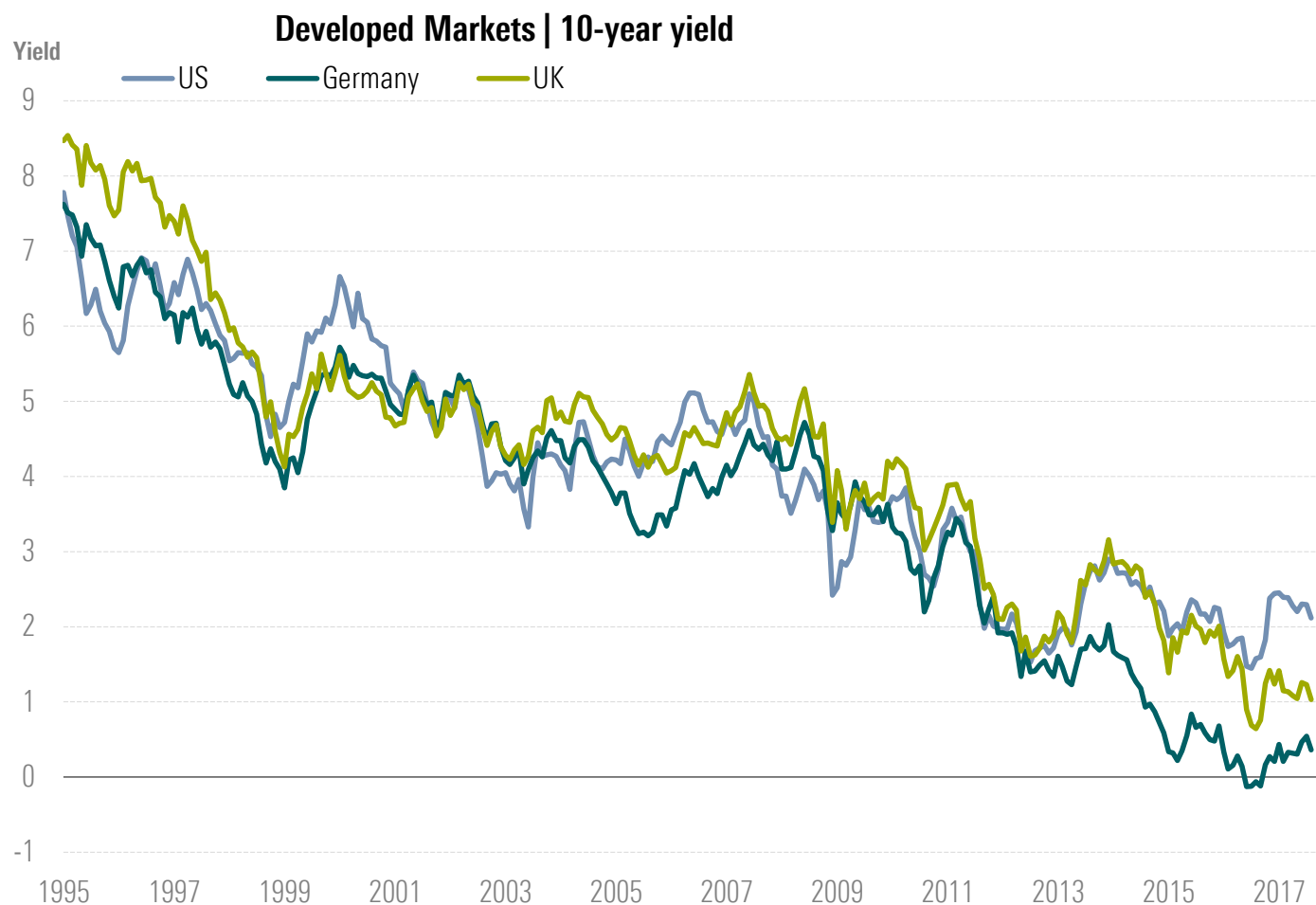


Source: Morningstar, Moody's, Barclays. For illustrative purposes only

Process in action

Fixed Income- US Treasuries

January 2017	US Treasuries Conviction Level
Overall Conviction	Low to Medium
Absolute Valuation	Low to Medium
Relative Valuation	Medium
Contrarian Indicators	Low to Medium
Risk	Low to Medium



Source: Morningstar, Bloomberg, Central Banks as at end August 2017. For illustrative purposes only'

Note: Past performance is not a guide to future returns.

Building a Robust Asset Allocation From the Bottom Up

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- ▶ Investment Philosophy
- ▶ Uncovering value in Fixed Income
- ▶ Uncovering value in Equities
- ▶ **Currency matters**
- ▶ Global Allocation Funds – current positioning and performance

Process in action

Asset Allocation – GBP vs USD

July 2017	GBP/USD Conviction Level
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**Overall
Conviction**

**Medium to
High**

**Absolute
Valuation**

Medium to
High

**Relative
Valuation**

High

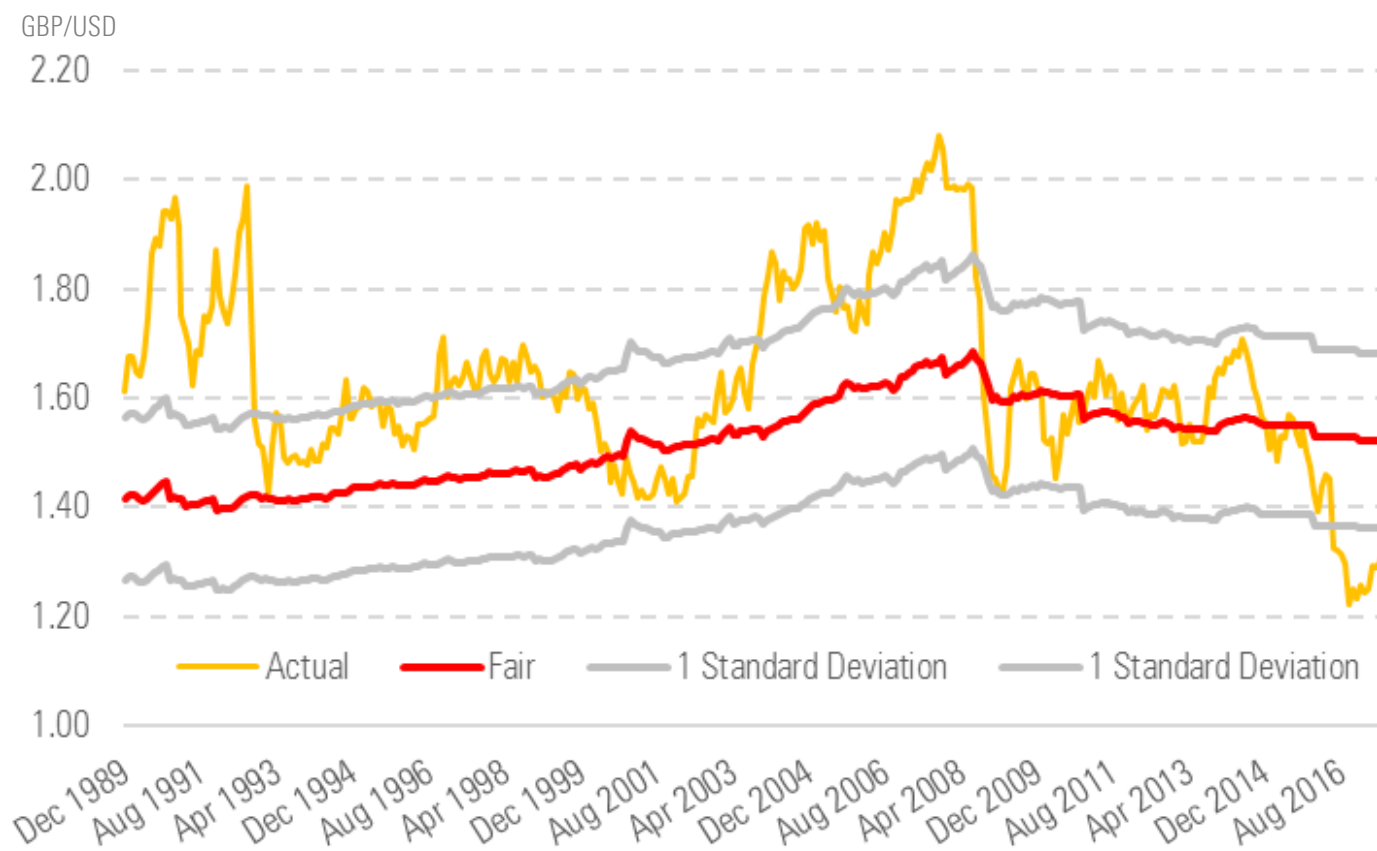
**Contrarian
Indicators**

Medium to
High

Risk

Medium to
Low

Currencies: GBP/USD Actual vs Fair Value

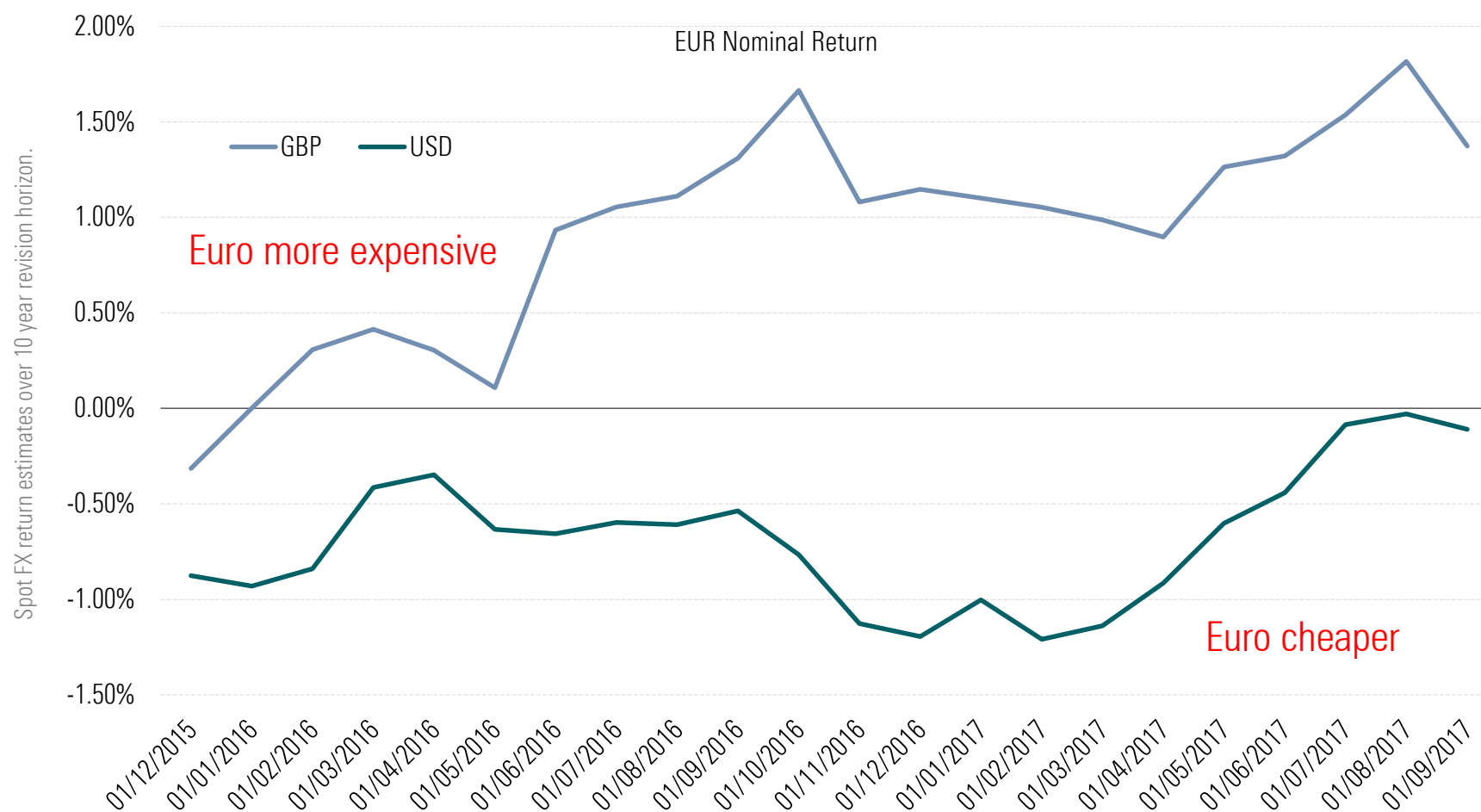


Sources: Morningstar Investment Management Data as at end August 2017. For illustrative purposes only.

Uncovering Value In Currencies

Historical Evolution of Prospective Returns

Euro more expensive than GBP and in line with USD



Source: Morningstar Investment Management. Data as of August 2017. For illustrative purposes only. Forecasts are not a reliable indicator of future performance.

Building a Robust Asset Allocation From the Bottom Up

Agenda

- ▶ Investment Philosophy
- ▶ Uncovering value in Fixed Income
- ▶ Uncovering value in Equities
- ▶ Currency matters
- ▶ **Global Allocation Funds – current positioning and performance**

Global Allocation Morningstar funds

Introduction

- Two multi-asset portfolios, blended to create 5 model portfolios
- Launched May 31st 2016
- Globally diversified portfolios of assets, with a euro base currency
- Low cost funds, predominantly invested in index funds
- The portfolios invest in equities, fixed income, cash and alternatives.

	Min / Max Equity Weight	Max Drawdown Budget	Time Horizon
Global Allocation MS Defensive	0-20	15	>3Y
Global Allocation MS Growth	60-100	50	>7Y

Positioning

Asset Allocation Views

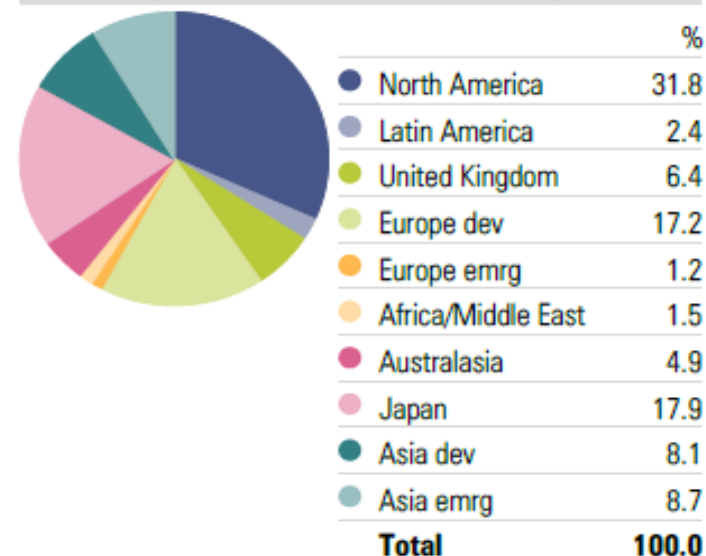
Asset Class Preferences	Lower conviction	Medium conviction	Higher conviction
Asset Allocation	▸ Fixed Income	▸ Equities	▸ Cash
Within Fixed Income	▸ Government Bonds ▸ Corporate Bond	▸ US Treasuries ▸ Inflation-Linked	▸ Emerging Market Debt (Local Ccy)
Within Equities	▸ US ▸ Pacific ex Japan ▸ Europe ex UK	▸ UK ▸ Japan	▸ EM

Note: References to specific asset classes should not be viewed as a recommendation to buy or sell. Allocation is subject to change at any time without notice.

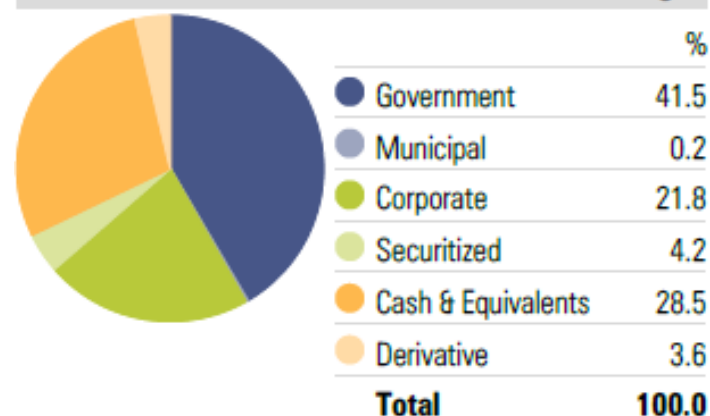
Current Positioning Morningstar Global Allocation Growth Fund

Asset	Fund Name	Weight
Equity		85%
US Large Cap Equity		
	Amundi IS S&P 500	12%
	Vanguard US 500 Stock Index	14%
Europe Large Cap Equity		
	iShares Europe Equity Index Fund	17%
	Amundi IS MSCI Europe	3%
Japan Equity		
	Amundi IS MSCI Japan	15%
Asia Pac ex Japan Equity		
	iShares Pacific ex Japan Eq Idx Fd	8%
Emerging Markets Equity		
	Vanguard Em Mkts Stk Indx	17%
Fixed Income		11%
Global Government Bond		
	Vanguard Global Bond Index Fund	6%
Global High Yield Bond		
	Robeco High Yield Bonds	2%
EMD Hard Currency		
	BNPP E JPM EMBI Global Dvrs Composite	3%
Cash		4%
	SSgA EUR Liquidity Fund	4%

Equity Regional Exposure - Look Through



Fixed Income Sector Breakdown - Look Through

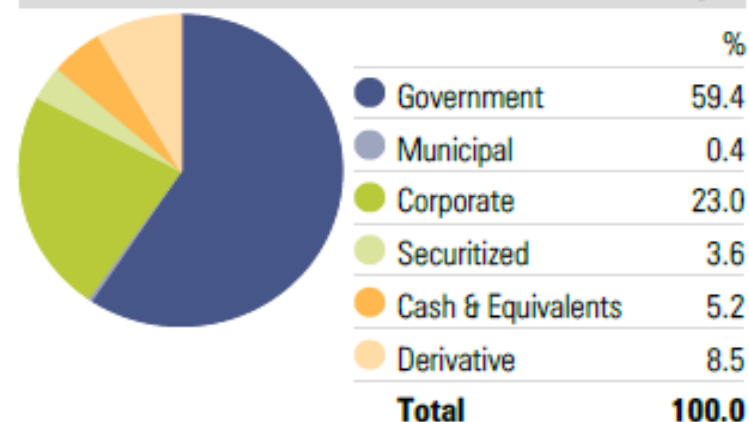


As at 30.09.17 Source : Morningstar

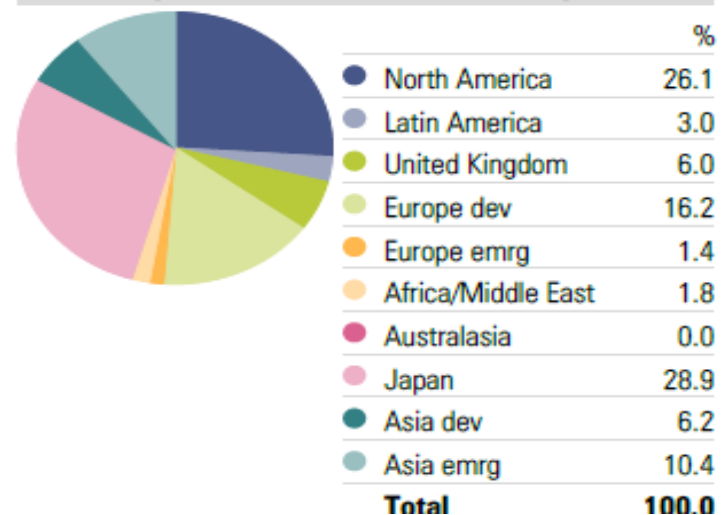
Current Positioning Morningstar Global Allocation Defensive Fund

Asset	Fund Name	Weight
Equity		15%
US Large Cap Equity		
	Amundi IS S&P 500	4%
Europe Large Cap Equity		
	iShares Europe Equity Index Fund (LU)	4%
Japan Equity		
	Amundi IS MSCI Japan	4%
Emerging Markets Equity		
	Vanguard Em Mkts Stk Indx	4%
Fixed		66%
Global Government Bond		
	iShares Global Government Bd Idx Fd (LU)	5%
	Vanguard Global Bond Index Fund	18%
Global Aggregate Bonds (Short Term)		
	Vanguard Gb ShTerm Bd Idx	10%
Global Corporate Bond		
	iShares Euro Credit Bond Index Fund (IE)	6%
	Vanguard US Investment Gr Crdt Idx Fund	6%
Global High Yield Bond		
	Robeco High Yield Bonds	2%
Global Inflation Linked Bond		
	Vanguard Euro Infl-Lkd Bd Ind	13%
EMD Local Currency		
	Investec GSF Emerg Mkts Lcl Ccy Dbt Fd	3%
EMD Hard Currency		
	BNPP E JPM EMBI Global Dvrs Composite	3%
Cash		19%
	SSgA EUR Liquidity Fund	19%

Fixed Income Sector Breakdown - Look Through



Equity Regional Exposure - Look Through



As at 30.09.17. Source Morningstar

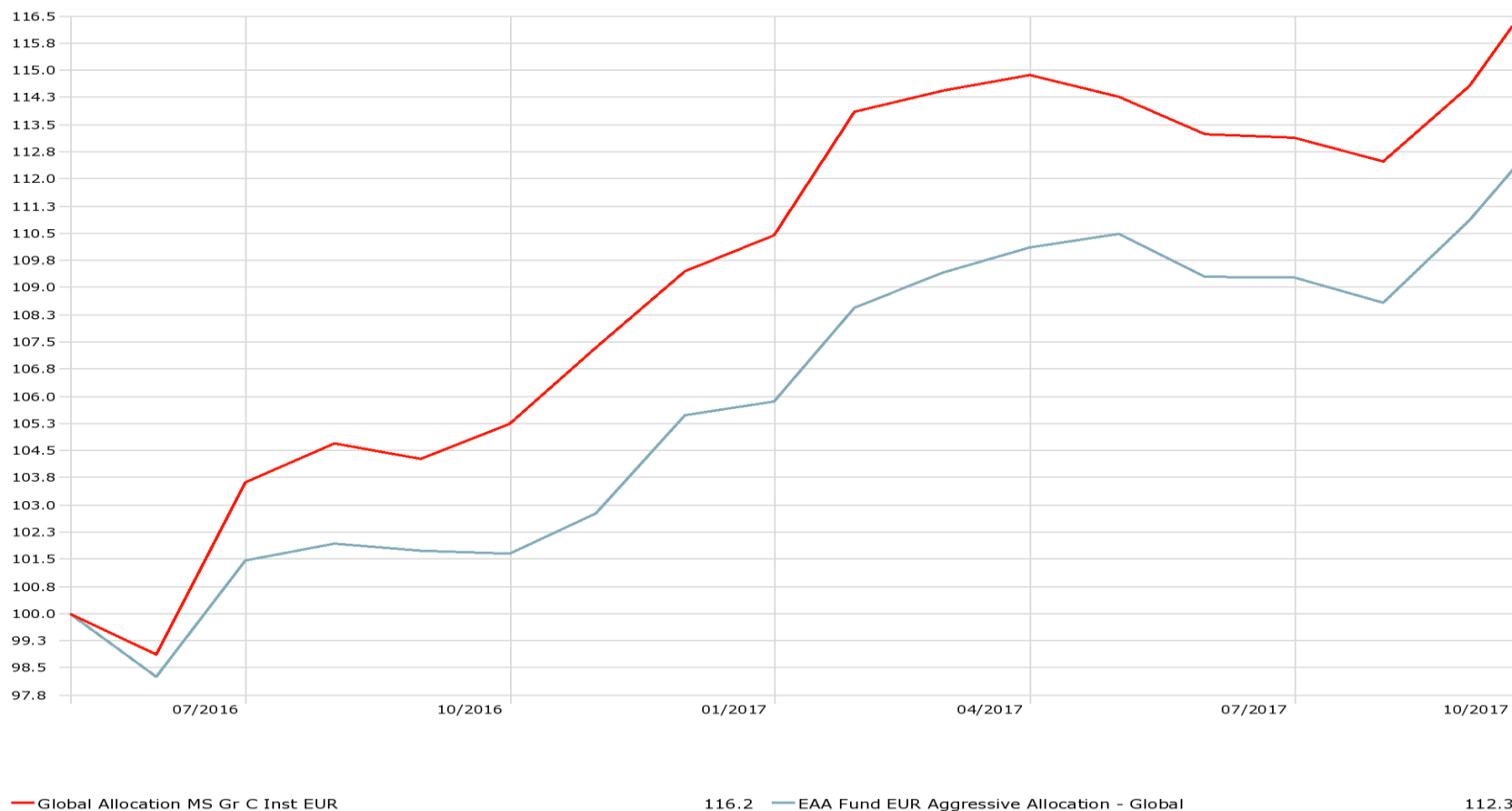
Performance Figures

Global Allocation Morningstar Growth Fund– Returns to 16/10/2017

Competitive absolute and relative returns since launch, returning 16.2%

Investment Growth

Time Period: 01/06/2016 to 16/10/2017



Source: Morningstar Direct

Source: Morningstar Direct. All returns in EUR based on the C share class. Performance is shown net of fees. Past performance is not a guide to future performance. The value of the investment and the income deriving from it can go down as well as up and can't be guaranteed.

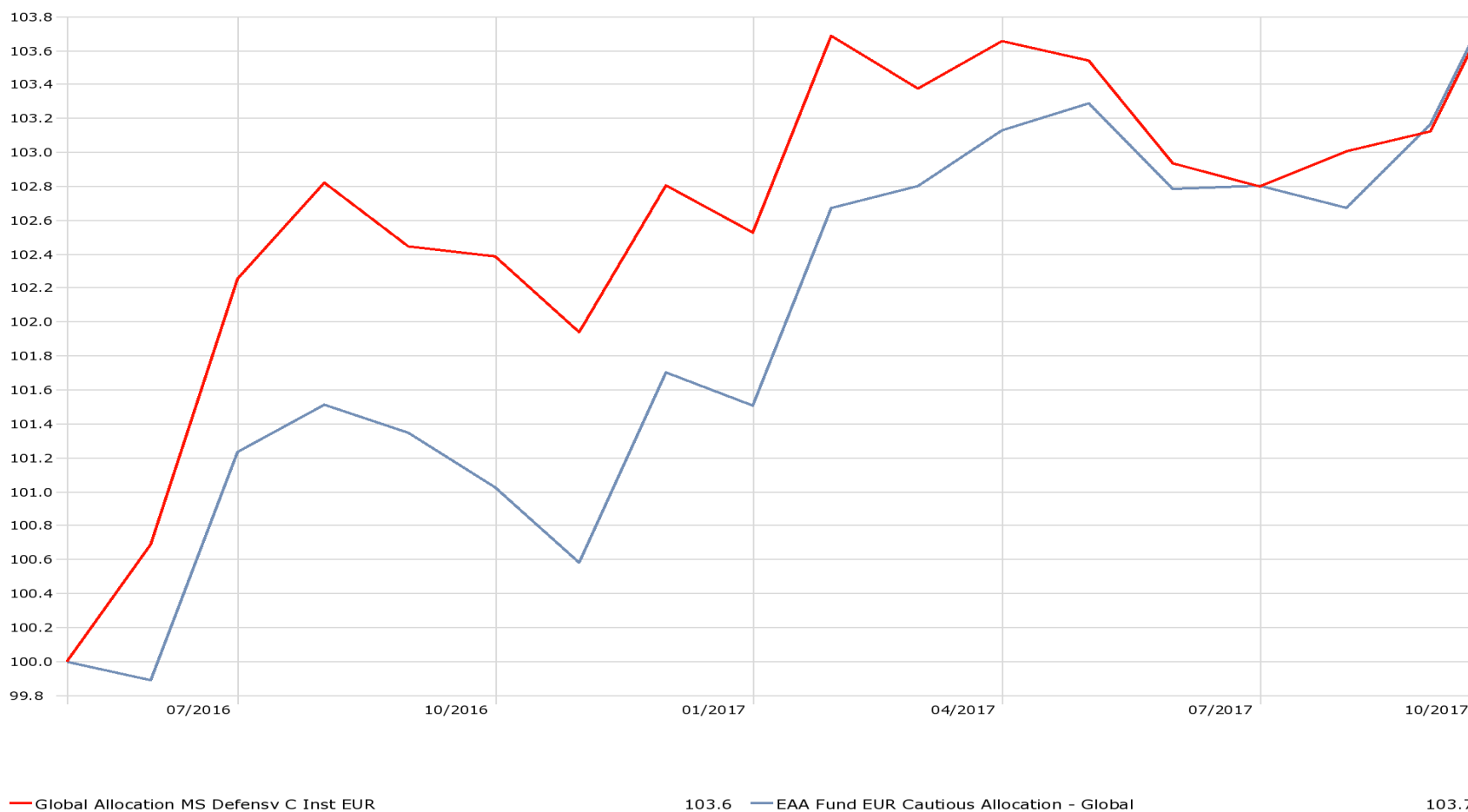
Performance Figures

Global Allocation Morningstar Defensive Fund– Returns to 16/10/2017

Competitive absolute and relative returns since launch, returning 3.6%

Investment Growth

Time Period: 01/06/2016 to 16/10/2017



Source: Morningstar Direct

Source: Morningstar Direct. All returns in EUR based on the C share class. Performance is shown net of fees. Past performance is not a guide to future performance. The value of the investment and the income deriving from it can go down as well as up and can't be guaranteed.

Finding Value in a Low Return World

In Summary

- ▶ Why valuations matter: Valuation is the key driver of risk and return over the long term
- ▶ Ingredients for investment success: A disciplined approach to building multi-asset portfolios, and a willingness to be different, focused on maximising reward for risk
- ▶ Morningstar is an independent company
- ▶ 100-strong global research and investment management capabilities
- ▶ Strong performance since launch

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information.

What's needed is a sound intellectual framework for making decisions, and the ability to keep emotions from corroding that framework."

Warren Buffett

Past performance is not a guide to future performance. The value of investments may go down as well as up and investors may not get back the amount invested

Source: Warren Buffett quote in the preface to The Intelligent Investor by Benjamin Graham.

Appendix

Process in action

Fixed Income- US Treasuries

January 2017	Conviction Level	Comment
Overall Conviction	Low to Medium	<ul style="list-style-type: none"> - U.S. Treasuries bonds offer a moderate reward on absolute basis with the intermediate maturities bonds now expected to generate a small positive real return over the next 10 years. - On a relative basis, the asset class maintains an edge versus other highly-rated sovereign bonds while the contrarian indicators started to turn more positive. - From a risk perspective, when considered in a portfolio context, Treasuries' upside/downside ratio has become more balanced.
Absolute Valuation	Low to Medium	<ul style="list-style-type: none"> - This component has been upgraded to Low-to-Medium from Low to recognize the recent movement in interest rates. - After these movements, the Intermediate-Term Treasury index's 10-year VIR is projecting a positive real return. This movement in rates is also reflected by the distance between the asset class VIR and its Fair Value. For the intermediate-terms bonds this difference is now close to about 2.5% while the gap was 4.2% at the end of July.
Relative Valuation	Medium	<ul style="list-style-type: none"> - Even though the U.S. Treasury index's 10-year real valuation-implied return is 0%, Treasuries still look competitive against most other high-quality sovereign bonds. - An analysis of the different monetary cycles tempers this relative comparison: while most foreign central banks are expected to continue to be supportive of their local bond markets for the foreseeable future, the Federal Reserve has been gradually taking a more hawkish stance as the US economy nears full employment and core inflation approached its target. - However, there is a limit on how much the Federal Reserve's monetary policy can diverge from the other Central Bank's without having a meaningful effect on \$U.S. rates and slowing down the American economy.
Contrarian Indicators	Low to Medium	<ul style="list-style-type: none"> - Contrarian indicators have turned positive for the asset class as it has been experiencing significant outflows. - Expectations and positioning are currently neutral while sentiment has turned positive.
Risk	Low to Medium	<ul style="list-style-type: none"> - Due to their current relative low coupons and the expected normalization of domestic real interest rates, U.S. Treasury bonds still carry a significant amount of price risk. - This negative view is partially mitigated by the role of the asset class in a diversified portfolio where it often acts as volatility dampener. - At current levels, the asset class potential downside in an interest-rate-normalization environment looks more balanced versus its potential upside in flight-to-safety market and therefore we assign the "Low to Medium" rating to this component.

Source: Morningstar. For illustrative purposes only.

Process in action

Asset Allocation - Russian Equities

July 2017	Conviction Level	Comment
Overall Conviction	Medium to High	<ul style="list-style-type: none"> - A 'Medium to High' conviction opportunity in an environment where there are very few assets trading below their fair value. - Not a screaming contrarian buy yet. Russian market falls since the end of 2016 have rendered Russian stocks more attractive. - Wide range of outcomes with persistent risks that could lead investors to demand the current discount Russia trades on.
Absolute Valuation	Medium to High	<ul style="list-style-type: none"> - Russia is attractive on an absolute basis with a 10-year real valuation-implied return of 8.8%, compared to a real fair return of 4.1% per annum. - Russia therefore trades at a notable discount to what we consider to be its fair value. Note Russia's trailing P/E is close to its dividend yield!
Relative Valuation	High	<ul style="list-style-type: none"> - Russia looks very attractive on a relative basis in an environment when most growth assets look expensive. - Expected real return of 8.8% compares favourably with the prospective return of other developed (US (0.5%)) and emerging markets (3.9%).
Contrarian Indicators	Medium	<ul style="list-style-type: none"> - <u>Sentiment</u>: Russia price index 18% off its recent Jan17 peaks and 15% off Mar11 highs. Russia is up 24% from Dec14 lows. - <u>Positioning</u>: The experts on average are overweight Russia and outflows have not been material enough to warrant a higher conviction score yet. - <u>Expectations</u>: Positive contrarian signal from downwards earnings revisions in recent months though.
Risk	Low (<i>means high risk opportunity</i>)	<ul style="list-style-type: none"> - that the main driver for the expected return - p/e reversion – does not materialise with the wide discount remaining persistent. - Wide range of outcomes. Value destruction a permanent risk (state appropriation of assets, state vs oligarchs battles). - Putin remains most likely to remain in power post the 2018 election for another 6 years, so status quo most likely. - Russia typically a higher beta market so likely to lag in the event of a bear market (with local market + currency falling) - Oil prices falling further from here a risk to dividends, yet low cash costs and low capex needs vs row.

Source: Morningstar. For illustrative purposes only.

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