



Morningstar **Diversified Alternatives Fund**

Additional Information Document

1 July 2016

The issuer and Responsible Entity is:
Morningstar Investment Management Australia Limited
Level 36, Australia Square
264 George Street
Sydney NSW 2000
Tel: +61 2 9276 4550
Fax: +61 2 9276 4560
Web: www.morningstarinvestments.com.au
Email: AUDistribution@morningstar.com

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Important Notes

This document has been issued by Morningstar Investment Management Australia Limited (ABN 54 071 808 501; AFSL 228986) ('Morningstar').

Information in this Additional Information Document forms part of the 'Product Disclosure Statement' ('PDS') for the Morningstar Diversified Alternatives Fund ('Fund'). The PDS has been drafted in accordance with the ASIC Regulatory Guide 240 Hedge Funds: Improving Disclosure to Assist Investors in Understanding the Fund and in making an informed investment decision.

You should read this Additional Information Document together with the PDS before making a decision to invest in the Fund.

This Additional Information Document and the PDS are available on our website www.morningstarinvestments.com.au or you can request a free copy by calling Morningstar on +61 2 9276 4550.

This Additional Information Document contains general information only and does not take into account your personal investment objectives, financial situation or particular needs. It is recommended that you seek professional advice tailored to your personal circumstances before making a decision. Neither Morningstar nor any other related body corporate guarantees the performance of the Fund or the return of capital or income. Your investment in the Fund is subject to investment risk, which may result in delays in repayment and loss of income or loss of capital invested.

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ASIC Benchmarks for Hedge Funds

1. Valuation and Custody of Assets

The Fund has met ASIC Benchmark 1.

Morningstar's policy requires valuations of the investments held and the Fund as a whole to be provided by an independent third party service provider. The custody and administration functions of the Fund have been outsourced to JPMorgan Chase Bank (Sydney Branch), N.A ('JPMorgan'). Valuations are calculated and provided independently by JPMorgan. Morningstar monitors and conducts independent verification of valuations on a daily basis. Please refer to Disclosure Principle 4 - Valuation and Custody of Assets on page 4 for more information.

All underlying investments have independent fund administrators. Any directly held investments are valued on the basis of their respective transaction prices on stock exchanges or third party independently sourced prices.

2. Periodic Reporting

The Fund has met ASIC Benchmark 2.

Morningstar provides regular reporting and information to investors.

Monthly Reporting

A Fund Profile is available monthly on the Morningstar website www.morningstarinvestments.com.au or upon request from Morningstar. The Fund Profile provides details of the investments held by the Fund, the Fund's size (or Net Asset Value), quarter end unit prices, portfolio asset allocation, investment returns, commentary and any material changes (including changes to risks, investment strategy or key services providers).

Reports are sent to investors monthly and quarterly. The reports detail Fund performance against performance benchmarks, commentary and attribution analysis. Morningstar also provides additional reporting as agreed with individual investors.

Annual Reporting

On an annual basis, Morningstar provides information to all investors on the liquidity, leverage and the maturity profile of liabilities and assets within the Fund and key service providers including derivative counterparties. This information is available on the Morningstar website www.morningstarinvestments.com.au or upon request from Morningstar.

As well as providing regular written communication, Morningstar's Adviser Distribution Team can be contacted from 9:00am to 5:00pm Monday to Friday AEST to assist you with any questions or queries.

Reporting by Underlying Investments

Morningstar receives Fund performance information for all underlying investments on a monthly or more frequent basis. More detailed information is received on an annual basis.

Summary of Disclosure Principles for Hedged Fund

1. Investment Strategy

The Fund meets ASIC Disclosure Principle 1.

Morningstar aims to deliver consistent investment returns by applying a disciplined investment process built around in-depth investment research, a focus on asset allocation and innovative portfolio construction. This involves developing an investment strategy, including an appropriate asset allocation and a combination of high quality investments and underlying managers to achieve the investment objectives.

1.1 Details of Fund's Investment Strategy

The Fund is invested in alternative assets and strategies regarded by Morningstar as diversifying investments for investors that already own shares and government bonds. The size of allocations to each investment is based on the expected extent of these diversification benefits, the risks of each investment, liquidity and the expected reward net of fees for these risks. The Fund is constructed and managed to meet the specified risk/return investment objectives.

The Fund gains this exposure by investing in a variety of investment structures, primarily managed investment schemes including Morningstar Funds, listed investment companies and exchange traded products. Derivatives may be used to gain or hedge market exposures.

Location and Currency Denomination of Assets

The Fund is invested globally, with the majority of its exposure in developed markets. The underlying investment structure may be domiciled in Australia, UK, USA, Guernsey or other countries. Although the currency exposure of assets is global, the majority of this currency exposure is hedged back to Australian dollars.

Role of Leverage, Derivatives and Short Selling

The Fund is permitted to borrow under its Constitution, although there is no current intention to utilise borrowings to amplify exposures. The Fund is exposed to strategies that may use leverage to amplify investment exposures and/or manage risks.

The Fund is permitted to use derivatives. Derivatives that may be used directly by Morningstar are set out under Section 7 on page 6. The use of derivatives in the Fund is governed by Morningstar's Derivative Risk Statement which may be obtained free of charge by contacting Morningstar. Currently derivatives are only used in the Fund for foreign currency hedging.

Morningstar believes that by using derivatives, the Fund's investment strategy can be implemented more efficiently and cost effectively. Morningstar also believes that effective use of derivatives can enhance the Fund's performance without inherently increasing

risk and/or protect the Fund against extreme market movements.

The Fund does not intend to use short selling as a direct investment strategy. However, the Fund may be exposed to underlying managers which use short selling strategies to generate returns.

1.2 How the Strategy Will Produce Returns

Morningstar biases the Fund to investments it believes are priced to generate attractive risk-adjusted returns and which offer diversification benefits. Gains are expected to come from strategies that exploit attractive opportunities and face limited competition as well as asset classes that are attractively valued relative to their risks. Morningstar's expectation is that the majority of the returns for the Fund will come from capital return rather than income.

1.3 Diversification Guidelines or Limits

The Fund may hold a broad range of investments and asset classes, including:

- ▶ unlisted unit trusts;
- ▶ unlisted investments;
- ▶ shares listed on recognised stock exchanges;
- ▶ real estate investment trusts listed on recognised stock exchanges;
- ▶ exchange traded funds;
- ▶ listed investment companies;
- ▶ hedge funds;
- ▶ foreign currencies;
- ▶ fixed income;
- ▶ cash and cash equivalents;
- ▶ global infrastructure;
- ▶ derivatives (including futures); and
- ▶ alternative assets and strategies

The Fund is diversified across a range of investments with larger allocations to investments with moderate risk and greater potential for diversification. Investments which are regarded as potentially high risk or which may have less attractive diversification qualities will generally have smaller allocations. Ranges are reviewed and may change over time as new investment opportunities are identified or when there are changes in the fundamental drivers of risk and return for the underlying investments. The Fund maintains exposure to at least 3 different types of investments at all times, with no single type of investment representing more than 50% of the Fund.

The Fund is expected to be invested within the ranges stated below:

Sector	Range %
Long/Short Strategies	0 – 50
Macro Strategies	0 – 50
Insurance Linked Securities	0 – 50
Global Listed Infrastructure	0 – 50
Systematic and Factor Based Strategies	0 – 25
Alternative Debt	0 – 25
Commodities	0 – 15
Equity Volatility	0 – 15
Listed Private Equity	0 – 15
Other	0 – 15
Cash	0 – 20

Notes

1. The alternatives investment universe is dynamic. The inclusion of 'Other' facilitates the identification of emerging strategies that we/the investment manager consider desirable for the Fund to invest in. Where we invest in such assets we will provide further details in the Fund Profile published on a monthly basis.

The Fund's assets may temporarily be invested outside of these ranges in times of market volatility.

While these ranges are not mandatory, monitoring and compliance are subject to the same process that applies to all Morningstar Funds. Exceptions are monitored, and an action plan is implemented to bring exposures back within these ranges.

Morningstar may make changes without prior notice in some cases. Investors will be informed of any material change to the Fund as required by law.

1.4 Specific Risks Associated with the Investment Strategy

Please refer to Section 3.7 for risks associated with investing in the Fund.

1.5 Key Aspects of the Fund's Risk Management Strategy and How Risks are Managed

Morningstar recognises risk is multifaceted and subjective in nature. The monitoring of risk is not designed to be precise or reliant on one particular metric. Morningstar also recognises that precision and the heavy reliance on one risk measure can lead to potentially poor risk management. The appropriate monitoring of risk requires experience, judgment and a number of qualitative and quantitative measures. Morningstar recognises these characteristics of risk and therefore applies a sceptical, conservative and practical approach to risk management utilising a wide array of measures, with the goal of minimising the permanent impairment of investor capital.

The following measures form part of Morningstar's overall risk management strategy:

Quantitative:

- ▶ Drawdown (that is the peak-to-trough decline expressed as a percentage of the previous peak) targeted to be 5% to 10% most of the time and a maximum of 20%.
- ▶ Beta range can be from 0.0 to 0.4 and from 0.2 to 0.3 most of the time.
- ▶ Beta is a measure of the sensitivity of Fund returns to changes in the price of shares, as measured by a share market index. A positive beta indicates that the Fund's returns are likely to rise when there is a rise in share prices. A negative beta indicates that the Fund's returns are likely to be negative when there is a rise in share prices. A beta of close to zero indicates a very weak relationship with share price changes. A beta close to 1.0 indicates a similar sensitivity to share price changes as a fund invested 100% in shares.
- ▶ The Fund does not target volatility but it is expected that over a full investment cycle, volatility will average 4% p.a. with an expected range of 1% to 7% p.a.;
- ▶ Concentration: No single investment to be more than 50% of the Fund by capital or total Fund maximum drawdown based on the larger of historic data or forecasts, expect single investments to comprise no more than 30% of the total Fund risk most of the time.
- ▶ Diversification: Minimum 3 different types of investments.

Qualitative:

- ▶ Core holdings need to be of moderate risk, with low to moderate sensitivity to equity returns.
- ▶ Morningstar monitors relationships between each of the Fund's core holdings in terms of specific scenarios under which correlations will be very high.

1.6 Changing the Investment Strategy

The continual review of underlying managers and alternative investment opportunities is fundamental to Morningstar's investment process. Morningstar identifies investments that may meet the Fund's objectives by evaluating the drivers of underlying cash flows, price behaviour, liquidity, and costs including fees and expenses. The Fund is tilted to those investments Morningstar believes meet the Fund's return objective, offer attractive reward for risk, have acceptable risk of loss, are not highly-correlated with other investments held in the Fund, and are managed by experienced and well-resourced specialists.

Investors will be advised of material changes to the Fund, including changes to investment strategy as soon as practicable and as the law requires. Investors will generally be notified via email.

1.7 Underlying Investments

Morningstar uses its capital markets research process to select investment strategies or asset classes it believes will provide diversification and appropriate reward net of fees for risk and meet the liquidity requirements of the Fund. Morningstar uses its manager research process to identify managers that are well placed to provide exposure to these strategies, asset classes and investment structures. For more details of the current portfolio, please refer to the latest Fund Profile on the Morningstar website

www.morningstarinvestments.com.au

The Fund has exposure to a range of investments:

- ▶ **Long/Short Strategies:** Event-driven and hedged equity funds that identify opportunities based on the analysis of individual companies.
- ▶ **Macro Strategies:** Investment in the Morningstar Global Trading Strategies Fund. The portfolio includes macro hedge funds that identify opportunities based on the analysis of economic variables.
- ▶ **Insurance-Linked Securities:** Diversified exposure to lower-risk insurance-linked securities related to natural extreme events.
- ▶ **Global Listed Infrastructure:** A defensive portfolio of global listed utility and infrastructure companies.
- ▶ **Cash:** Australian short-term cash deposits and cash equivalent securities.
- ▶ **Listed Private Equity:** A diversified global portfolio of listed private equity funds and managers.
- ▶ **Alternative Debt:** Exposure to a portfolio of US dollar and local currency debt instruments issued by sovereign, quasi-sovereign and corporate issuers.
- ▶ **Equity Volatility:** Exposure to expected share market volatility as a hedge.
- ▶ **Systematic and Factor Based Strategies:** Strategies that are based on the fundamental drivers of asset prices, but which are implemented in a systematic manner.

Morningstar may make changes without prior notice in some cases. Investors will be informed of any material change to the Fund as required by law.

Please refer to Section 3.4 for information on due diligence performed on underlying investments.

2. Investment Manager

The Fund meets ASIC Disclosure Principle 2.

2.1 Management Team

Morningstar's Australian based Alternative Investments Team is responsible for advising local clients, managing alternative investment funds and conducting the relevant capital markets and manager research. This local team utilises a global group of alternative investments specialists for idea generation, cross-checks, joint manager and capital markets research. It also utilises the other Australian based teams (fixed income, equities and property, strategy, operations) for joint capital markets and manager research (for example, Australian equity long short, Australian direct property, Australian direct debt).

Portfolio Manager, Craig Stanford

- ▶ Role: Head of Alternative Investments
- ▶ Industry experience: 20 years

Craig joined Morningstar in 2009 and is responsible for overseeing the group's alternative investments. This includes investment research and selection, as well as portfolio construction and portfolio management for the Morningstar Alpha Strategies, Global Trading Strategies and Diversified Alternatives Funds. Craig is also responsible for research projects into opportunistic investments, and is a member of Morningstar's Asset Allocation, Manager & Security Selection and Portfolio Construction Investment Committees.

Prior to joining Morningstar, Craig worked in the external hedge fund allocation team at Ellerston Capital in Sydney and before that he was the Portfolio Manager and Head of Asian Hedge Fund Research at ABN Amro in London. Before joining ABN Amro, Craig worked for London & Capital as well as Notz, Stucki & Cie in Senior Analyst roles. He started his career in investment management in South Africa in 1996.

He has a Bachelor of Commerce (Honours) and is a CFA Charterholder.

3. Fund Structure

The Fund meets ASIC Disclosure Principle 3.

3.1 Investment Structure

Morningstar is the responsible entity and investment manager of the Fund and is responsible for all aspects of the management, operation, investment and promotion of the Fund.

3.2 Key Service Providers and Monitoring

Please see the table on page 5 for further information on Morningstar's key service providers.

3.3 Related Party Relationships

The Fund may be invested in other Morningstar Funds, including but not limited to the following:

- ▶ Morningstar Global Trading Strategies Fund – to gain exposure to macro and managed futures hedge funds; and
- ▶ Morningstar Cash Fund – to gain exposure to cash.

Morningstar's management fees for any of these Funds have been waived to avoid any double charging.

Morningstar, or any one of its related body corporates, may invest in the Fund in its capacity as the Responsible Entity or trustee of other managed investment schemes and/or superannuation funds. Any investment would be at commercial fee rates which may represent lower fees than those currently specified for the Fund.

3.4 Due Diligence Process Performed on Underlying Funds

Quantitative and qualitative analysis are used to assess underlying funds including considerations of the investment organisation, investment strategy,

investment process, people and performance. The qualitative process includes site visits, face-to-face meetings with key investment and management personnel as well as cross-checks from third party service providers and industry sources.

There is a rigorously structured peer review of due diligence by Morningstar.

For an underlying manager to be assigned a 'buy' rating, the portfolio manager must make a recommendation including the rationale for the recommendation. This is subject to approval in accordance with Morningstar's investment governance process. If the recommendation is approved, the process of implementation can commence. The process is designed to ensure the portfolio manager has accountability for decisions, as well as Morningstar having a strong peer review process, being the committee structure consisting of the most experienced investment professionals in the business.

3.5 Fees and Costs of Underlying Funds

The Fund is invested into the Morningstar Global Trading Strategies Fund. Morningstar's management fees for this Fund have been waived to avoid double charging. The Morningstar Global Trading Strategies Fund gains exposure to the economic returns of a basket of hedge funds. The fees charged by these underlying hedge funds are reflected in the net return received by investors.

Morningstar anticipates that the ongoing fees of the underlying hedge fund exposure via Morningstar Global Trading Strategies Fund will average approximately 0.40% p.a. as a percentage of the Fund's total assets with performance related fees averaging approximately 0.3% p.a. if underlying investments in Morningstar Global Trading Strategies Fund meet Morningstar's expectations of returns and exposure is maintained at its current level.

3.6 Jurisdictions Involved

The majority of the Fund's assets are expected to be located in developed market jurisdictions (UK, Australia, USA, Guernsey and Ireland).

3.7 Risks of the Structure

These risks should be read together with the Risks set out in Section 4 of the PDS.

In the Fund's Investment Profile shown in its PDS, it has a 'Medium' or 'Medium to High' risk profile which means it may experience periods of negative (and/or volatile) returns but not as frequently as funds with a 'High' risk profile. This Fund may also offer greater potential for capital growth than funds with a 'Low' risk profile.

Before investing, it is important that you understand the risks involved in the investment you are considering, your tolerance to that risk and your investment time horizon.

3.8 Other Risks

In addition to the more significant risks described in the PDS, the following risks may impact your investment and affect managed investment schemes in general:

Country Risk

There is a risk that a country where assets are located in which the Fund invests could become politically or economically unstable, which may prevent assets (such as shares) being sold or the proceeds being repatriated to Australia. This risk is generally higher in countries classified as emerging markets.

Leverage Risk

Morningstar does not use leverage to amplify exposures of the Fund. However, the underlying investments of the Fund may be leveraged.

Leverage amplifies both gains and losses. Investors in the Fund do not have a contingent liability and will not be required to contribute additional funds in the event that the underlying leveraged investments generate a loss.

Pricing Risk

Less liquid investments may be priced infrequently and, in order to ensure timely unit pricing, their valuations may be based on estimates.

Underlying Manager Risk

As well as monitoring the risks of the Fund, Morningstar also ensures that the risks of investing in underlying managers overseas are also monitored on a regular basis. The due diligence process includes an assessment of potential risks and issues related to the domicile of the underlying manager and the investment vehicle including local regulation, enforceability of contracts and currency convertibility.

Please refer to Section 1.5 on how these risks in the Fund are monitored.

Stock Lending Risk

Performance returns can be enhanced by participation in a stock lending program. Risks associated with stock lending include the loss of collateral value in the event of borrower default (similar to Counterparty or Default risk described in the PDS), loss of voting rights and operational risks.

Short Selling Risk

Short selling refers to the process of selling stocks that you do not own (stocks are borrowed first before short selling) and then buying them back at a future date, with an expectation that the price of those stocks will fall. The Fund may be exposed to short selling where the market permits this trading strategy. Establishing a short position involves a higher level of risk than investing in a stock. When a Fund invests in a stock, the maximum loss is generally limited to the amount invested. With short positions, there is theoretically no limit to the loss that may be incurred because the loss will continue to increase as the price of the stock increases.

Stock Specific Risk

Stock specific risk is the uncertainty of the return of a stock, arising from factors that are specific to the organisation that issues those stocks. It is generally not related to events that affect other comparable organisations or the market as a whole.

4. Valuation and Custody of Assets

The Fund meets ASIC Disclosure Principle 4.

4.1 Morningstar's Valuation Policy

Unit pricing, valuation and allocation of trades for the Fund have been outsourced to the custodian and administrator, JPMorgan. Morningstar monitors the custodian and administrator on an ongoing basis. For example, Morningstar performs daily quality control and reasonability checks and tests on unit prices calculated by the custodian and administrator.

Although the functional elements of the unit pricing process are carried out by JPMorgan, Morningstar is responsible for the accuracy of unit prices.

A formal Service Level Agreement (SLA) is in place which includes the delivery of services relating to the unit pricing functions. Morningstar monitors the performance of the unit pricing functions carried out by JPMorgan on a daily basis as well as analysing, reviewing and approving the unit prices prior to release.

Morningstar has a Pricing Policy which sets out the manner in which Morningstar will ensure accurate and timely unit prices are produced, how the exercise of unit pricing discretions may be undertaken (as permitted under the Fund's Constitution) and how Morningstar deals with any unit pricing errors.

4.2 Assets and Allocation Ranges

Please refer to Section 1.7 for the types of assets the Fund holds.

Asset allocation for this Fund is defined by a combination of asset allocation ranges and target allocations.

Asset allocation ranges refer to the mix of investments consistent with the long-term objectives of the Fund. The target is dynamically set within the range by Morningstar, with the objective of enabling the Fund to respond to changing market conditions.

Please refer to Section 1.3 for further information on underlying investment ranges.

4.3 Geographic Location of the Assets

The Fund is invested globally with the majority of its exposure in developed markets. There are no internal guidelines relating to geographic location. It is expected that the Fund's underlying assets will be globally diversified with the US, Europe, Japan and Australia constituting the majority of the portfolio assets by location.

4.4 Alternative Investments

Morningstar defines alternative investments as either assets or strategies with returns that are expected to behave differently to those of equity and government

bond markets over the medium to long term. In making this assessment, Morningstar considers the underlying drivers of cash flows for asset classes and net market exposures for strategies.

Please refer to Section 1.6 for further information on the Fund's investment strategy and Section 1.7 for information on the underlying investments.

4.5 Custodial Arrangements

The custody and administration functions of the Fund have been outsourced to JPMorgan. Refer to Section 3.2 for further explanation of the contractual arrangements and monitoring. Morningstar does not have a policy regarding the custodial arrangements of the underlying funds. (See Section 3.4: Due Diligence Process Performed on Underlying Funds.)

Service Provider	Role	Description	Monitoring of Service Levels
JPMorgan Chase Bank (Sydney Branch), N.A (JPMorgan)	Custodian and Administrator	JPMorgan is the custodian and administrator of the Fund. Services provided by JPMorgan are explained in the PDS. A Custody and Administration Agreement as well as a Service Level Agreement governs the provision of services.	Morningstar monitors the quality of custody and administration services provided by JPMorgan on an ongoing basis, based on the Service Level Agreement in place. Monitoring is conducted formally on an annual basis with an annual questionnaire response received from JPMorgan. Morningstar also relies on independent audit opinion on the internal systems and controls operating in JPMorgan. The custodian and administrator are required at all times to maintain net tangible assets of at least \$10 million. Monitoring is conducted informally on a quarterly and fortnightly basis with regular meetings held.
Various	Underlying managers	Morningstar may appoint underlying managers to manage certain assets of the Fund. Morningstar has entered into Investment Management Agreements with these underlying managers which deal with the investment management responsibilities for the underlying management.	Morningstar monitors underlying managers on an ongoing basis with performance analysis conducted daily, monthly and quarterly. In addition, all underlying managers are subject to ongoing due diligence and site visits by Morningstar's portfolio managers. Quarterly reviews involve reviewing manager's return, risks, portfolio exposures, trades and the key elements of Morningstar's manager research process. Monitoring is conducted formally on an annual basis with an annual questionnaire response received from underlying managers.

5. Liquidity

The Fund meets ASIC Disclosure Principle 5.

5.1 Description of any Illiquid Assets that Constitute More Than 10% of the Fund's Net Asset Value

The Fund is able to invest in assets with less than daily liquidity. These assets will generally have monthly liquidity however may be less liquid. At the moment, the Fund is limited to holding no more than 50% of the Fund's Net Asset Value in illiquid assets.

5.2 Morningstar's Liquidity Management Policy

The Fund is managed to provide daily liquidity to investors. Key aspects of Morningstar's liquidity management policy are:

- ▶ At least 50% of the Fund's assets will have daily liquidity and 100% of the Fund's assets will have less than quarterly liquidity; and
- ▶ Morningstar performs liquidity risk analysis and also considers the impact of possible adverse scenarios when underlying assets may be less liquid than usual. This analysis is factored into the investment sizing decisions in the Fund's portfolio.

A similar policy applies to the Morningstar Global Trading Strategies Fund to ensure its assets are sufficiently liquid to provide monthly liquidity to its investors. Adverse scenarios that are considered include extreme market losses, reduction in market liquidity, currency fluctuations and investor redemptions.

Morningstar utilises a proprietary liquidity analysis model as part of its liquidity management policy.

6. Leverage

The Fund meets ASIC Disclosure Principle 6.

Leverage is the use of financial products (such as derivatives) or borrowings (such as a margin facility) to amplify the exposure of capital to an investment. The Fund is permitted to borrow under its Constitution, although there is no current intention to utilise borrowings to amplify investment exposure. The Fund has no borrowing facility in place.

6.1 Sources of Leverage

The Fund:

- ▶ **does not** have access to leverage in the form of loans or investment by margin for securities traded on exchanges; and
- ▶ uses currency forwards to hedge currency exposure back to Australian dollars and these could result in a form of leverage in the event that losses on the Fund's investments and currency forwards exceed the gains from converting the value of foreign currency investments back to Australian dollars.

The Fund's underlying managers may use leverage in their investment strategies to amplify investment exposures and/or manage risks. The due diligence process includes an assessment of the suitability and risks of leverage used by the underlying managers and we monitor this to ensure it is appropriate and within the allowable risk guidelines for the Fund. It is anticipated that the use of leverage by underlying managers will produce better risk-adjusted outcomes for investors.

6.2 Assets Used as Collateral

No assets are used as collateral.

6.3 Maximum Anticipated or Allowed Level of Leverage

Leverage potentially arising from losses on currency forward contracts is expected to be no larger than 5% of the Fund's assets based on expected levels of foreign currency hedging and historic behaviour of the Australian dollar.

We do not set a limit on leverage use by the underlying managers. **The leverage used by underlying managers is non-recourse meaning the Fund cannot lose more than its initial investment in the relevant underlying fund.**

If all underlying managers applied their maximum anticipated leverage, then averaged across all underlying managers and calculated as gross exposure, leverage would be 320%. If the Fund had \$100,000 invested with the underlying managers when leverage across all underlying managers was at its maximum anticipated leverage of 320%, the Fund could acquire investment exposure with a value of \$320,000 and (ignoring the effect of fees, including any performance fees) a one per cent decrease in value in a month would mean a loss of \$3,200 or 3.2% for the Fund, and a one per cent increase in value in a month would mean a gain of \$3,200 (or 3.2%) for the Fund. **In practice we manage the Fund's investment exposures to ensure that (in aggregate) they are less volatile than the market.** Refer to Section 1.5 for more information on beta ranges.

7. Derivatives

The Fund meets ASIC Disclosure Principle 7.

7.1 The Purpose and Rationale for the Use of Derivatives Including How They Form Part of the Strategy

Derivatives may be used for a variety of reasons in the Fund which can include:

- ▶ adjusting Fund holdings, which might include sector or country weights, the duration of a bond portfolio and/or the currency exposure of a portfolio to manage and reduce risks to the Fund;
- ▶ replicating Fund strategies; and
- ▶ lowering costs with better trade execution.

The use of derivatives in the Fund is governed by Morningstar's Derivative Risk Statement which may be obtained free of charge by contacting Morningstar. Currently derivatives are only used in the Fund for foreign currency hedging.

7.1 Types of Derivatives

Derivatives used directly by Morningstar may include:

- ▶ Currency swaps
- ▶ Currency forwards
- ▶ Currency futures
- ▶ Currency options
- ▶ Interest rate swaps
- ▶ Interest rate forwards
- ▶ Interest rate futures
- ▶ Interest rate options
- ▶ Equity swaps
- ▶ Equity index futures
- ▶ Equity index futures options
- ▶ Equity options
- ▶ Equity index options

The list of derivative instruments is continuously reviewed. New instruments may be included if approved by the Morningstar Investment Policy Committee.

7.3 Criteria for Engaging Derivative Counterparties

Currently derivatives are only used in the Fund for foreign currency hedging. If a derivative counterparty is appointed, the following will apply:

- ▶ only entering into derivative contracts with counterparties which have a long-term credit rating of 'A' (or the equivalent) or better, as rated by an approved ratings agency, or be guaranteed by an 'A' rated entity, at the time agreements are executed; and
- ▶ ensuring, with the assistance of a legal counsel, that legal documentation governing derivative contracts is appropriate and enforceable.
- ▶ If after the agreements are executed, the counterparty's long-term credit rating is:
 - ▶ downgraded to 'A-' (or an equivalent rating), the counterparty will be reviewed on an ongoing basis to ensure its continued suitability, or
 - ▶ downgraded to below 'A-' (or an equivalent rating), the counterparty will be terminated and replaced with a

suitable counterparty within a reasonable time, subject to a maximum of 180 days from the date of the downgrade.

7.4 Key Risks with Collateral Requirements of the Derivative Product Counterparties

Two types of liquidity risk are inherent to derivatives use:

- ▶ Type 1: The risk that Morningstar may not be able to, or cannot easily, unwind the instrument, or renew it with the same counterparty or enter into equivalent arrangements with another counterparty on terms currently applicable because of inadequate market depth or because of disruptions in the market place (a form of market risk).
- ▶ Type 2: The risk that Morningstar will not be able to meet its future financial obligations resulting from its derivative activities, such as meeting a liability payment due on termination of a derivative contract (referred to as settlement risk).

Techniques used to assess, monitor and control the Type 1 liquidity risk identified above include:

- ▶ Due consideration of the liquidity of the underlying asset class;
- ▶ Due consideration, when selecting a counterparty, of the likelihood of being able to renew the instrument on equivalent terms;
- ▶ Ensuring Morningstar has an early termination right in the derivative contract;
- ▶ Establishing relationships with alternative counterparties; and
- ▶ Ensuring equity index futures are listed and traded at high volumes.

Techniques used to assess, monitor and control the Type 2 liquidity risk identified above include:

- ▶ Borrowing to fund short-term liquidity needs; this could include notional leverage available within a derivative contract or ensuring there is available credit outside the derivative contract; and
- ▶ Regular monitoring of the Fund's liquidity to ensure there is sufficient capacity to meet future obligations including those resulting from derivative positions as and when they fall due.

7.5 Whether They are OTC or Exchange Traded

The Fund holds forward foreign exchange contracts that are OTC derivatives.

7.6 The Investment Policy in relation to Approved Types of Derivatives Use and Limits on Exposure

The use of derivatives in the Fund is governed by Morningstar's Derivative Risk Statement, which may be obtained free of charge by contacting Morningstar.

The list of derivative instruments is continuously

reviewed. New instruments may be included at any time.

The due diligence process includes consideration of the suitability and risks of derivatives used by the underlying managers.

8. Short Selling

The Fund meets ASIC Disclosure Principle 8.

It is not envisaged that the Fund will engage in short selling.

The due diligence process includes consideration of the suitability and risks of short selling by potential underlying managers. We do not set a limit on short selling by the underlying managers.

9. Redemptions

The Fund meets ASIC Disclosure Principle 9.

9.1 How to Submit your Request

To redeem, you must complete a redemption form and fax it to the contact details as set out in the redemption form (please use the contact details shown on the last page of the PDS for a copy of a redemption form, if required).

9.2 Making a Redemption

For redemption requests received prior to the cut-off time on a Business Day, you will generally receive the exit price calculated as at the close of business that day. For redemption requests received after the cut-off time, you will generally receive the exit price calculated as at the close of business on the next Business Day. Refer to the application form (available on the Morningstar website) or redemption form for details on cut-off times. Use the contact details shown on the last page of the PDS for a copy of the redemption form, if required.

On request, Morningstar may agree special cut-off times (later than those specified in the application and redemption forms) for investors who are 'wholesale clients' (as defined in the Corporations Act).

9.3 Risk Factors or Limitations that May Affect the Ability of Investors to Withdraw

Under the Fund's Constitution, if the Fund is liquid, redemptions are to be paid within 180 days from receipt of a redemption request. However, Morningstar will endeavour to pay redemption requests as soon as possible. Normally redemption proceeds will be paid within 6 Business Days following receipt of your written request.

If the Fund is not liquid (as defined in the Corporations Act), you may only redeem from the Fund in accordance with the terms of a redemption offer made by Morningstar. Under the Corporations Act, a fund is illiquid if it has less than 80% liquid assets (generally cash and marketable securities).

In exceptional circumstances, redemptions may take longer than the periods described above. This may

occur where it is impractical to calculate the unit prices, where other investors may be disadvantaged by a redemption, where a delay is in the best interests of all investors or as otherwise permitted by the Constitution and the law.

Where underlying Fund assets can only be realised after a substantial notice period, this could also lead to a longer redemption period. If the liquidity of the underlying Fund assets prohibits payment of part or all of your redemption proceeds in cash, then you may be required to receive part or all of your redemption proceeds in specie, meaning you may need to retain units in an illiquid fund until such time the underlying assets can be realised.

9.4 How Investors can Exercise their Withdrawal Rights

You may apply to redeem any or all of your units on any Business Day. The minimum amount that may be redeemed from the Fund is \$20,000 or the balance of your investment in the Fund. If the redemption request results in a balance of less than \$20,000, Morningstar has discretion to waive or vary the minimum redemption amount prior to redemption.

Under the Fund's Constitution, if the Fund is liquid, redemptions are to be paid within 180 days from receipt of a redemption request. However, Morningstar will endeavour to pay redemption requests as soon as possible. Normally redemption proceeds will be paid within 6 Business Days following receipt of your request.

If the Fund is not liquid (as defined in the Corporations Act), you may only redeem from the Fund in accordance with the terms of a redemption offer made by Morningstar. Where underlying assets can only be realised after a substantial notice period, this could also lead to a longer redemption period. If the liquidity of an underlying asset prohibits payment of part or all of your redemption proceeds in cash, then you may be required to receive part or all of your redemption proceeds in specie, meaning you may need to retain units in an illiquid fund until such time the underlying assets can be realised. Under the Corporations Act, a fund is illiquid if it has less than 80% liquid assets (generally cash and marketable securities).

9.5 Withdrawal Funding from an External Liquidity Facility

Withdrawals are funded by the sale of investments held by the Fund.

9.6 If Withdrawal Rights Change

Should withdrawal rights be suspended or change for any reason, investors will be notified as soon as practicable and as required by law. Notification will generally be provided by e-mail.

Additional Information

1. Investment in the Fund

The following information forms part of Section 2 of the PDS.

How to Submit your Request

All requests to invest or switch must be sent by fax to the contact details as set out in the application form. Application forms are available on the Morningstar website or use the contact details shown on the last page of the PDS for a copy of the application form, if required).

All requests to invest must be made using the relevant application form applicable to you which accompanies the PDS and which is available from the Morningstar website. Please contact Morningstar on the contact details shown on the last page for a copy of the forms required when making an application, redemption or a switch.

Transferring Units

You may transfer units to another person at any time providing appropriate consent has been obtained. However, you may be required to complete appropriate anti-money laundering forms. Please contact Morningstar on the contact details shown on the last page for further information.

Unit Prices

The unit price is calculated by dividing the Net Asset Value ('NAV') of the Fund by the number of units on issue in the Fund at the relevant time plus an allowance for transaction costs (including the buy/sell spread). Please refer to page 6 of the PDS for more information on buy/sell spreads.

Where the Fund has more than one class of unit, the unit price of each class of unit is calculated by dividing the NAV of that class of unit by the number of units on issue in that class at the relevant time plus an allowance for transaction costs. The NAV of a class is calculated as if there was a separate Fund corresponding to the class of unit.

Units are priced on a 'forward' or 'next price' basis. Under this method, unit prices are struck using values available at the next valuation cut-off time after the processing time.

Under the Constitution, discretion may be exercised which can impact unit prices. The manner in which these discretions are exercised are outlined in Morningstar's Unit Pricing Policy. Investors may obtain a copy of Morningstar's Unit Pricing Policy (and any records as per ASIC's requirements) from Morningstar free of charge upon request.

Indirect Investors

This section only applies to investors who are investing in the Fund through an Investor Directed Portfolio Service (IDPS), i.e. as an Indirect Investor in the Fund. If you are investing through an IDPS, your application should be made using the forms provided by your IDPS operator only. Do not use the forms provided by Morningstar. Please consult your financial adviser or IDPS operator if you are

uncertain if this applies to you.

If you are investing through an IDPS, you are directing your IDPS operator to arrange for your monies to be invested in the Fund on your behalf. Accordingly, you:

- ▶ are not a direct investor in the Fund;
- ▶ are not registered as an investor in the Fund;
- ▶ do not receive distributions of income, tax statements or reports directly from Morningstar (as these will be made to your IDPS operator or its custodian); and
- ▶ are not entitled to receive notice of, attend or vote at investor meetings or participate directly in the winding up or termination of the Fund.

Your IDPS operator acquires these rights and can exercise or decline to exercise them, on your behalf. References in the PDS to 'you' or 'your' should be read as references to your IDPS operator, as the context indicates.

Your IDPS operator will be responsible for confirming transactions, providing reports and responding to your enquiries. You should refer to your IDPS operator as the first point of contact regarding any enquiries about your investment (and for any issues that remain unresolved, contact the complaints scheme of which they are a member). You will also need to notify your IDPS operator of any changes in your details.

Please refer to your IDPS operator for information on:

- ▶ how to invest or make addition investments or switch between the Fund and another fund (as you do not complete the application form or any other forms available from Morningstar);
 - ▶ the minimum initial investment, additional investment or switching amounts;
 - ▶ how to redeem investments and the minimum redemption amounts;
 - ▶ details of cooling-off rights (if any) that may apply to your investment in the IDPS; and
 - ▶ any additional fees charged by your IDPS operator that may apply.
- ▶ Indirect Investors should read the guide provided by their IDPS operator and should also seek appropriate professional taxation and investment advice.

Morningstar is not responsible for the operation of any IDPS.

2. Fees and Other Costs

The following information forms part of Section 6 of the PDS.

Did You Know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your Fund balance, rather than 1%, could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower administration fees where applicable. Ask Morningstar or your financial adviser.

To Find Out More

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities & Investments Commission (ASIC)** website (www.moneysmart.gov.au) has a managed investment fee calculator to help you check out different fee options.

Commission

No commissions are paid to third parties, such as licensed financial advisors, IDPS operators or other licensees. Morningstar may pay 'shelf space' fees for a Fund to be listed on an IDPS investment menu where it is permitted to do so.

Payments

You may agree with your financial adviser to pay advice fees for financial planning services provided to you. These advice fees are additional to the fees shown in the fee table on page 5 of the PDS, and are paid to your financial adviser, not to Morningstar as the Responsible Entity.

Advice fees may be in the form of:

- ▶ an Investment Advice Fee, and/or
- ▶ an Ongoing Fee.

You and your financial adviser determine the amount of any advice fees and how they will be charged.

Change in Fees and Costs

The Fund's fees and costs may change within limits allowed by its Constitution and investors will be notified in writing by Morningstar of any increases in the fees and costs at least 30 days before implementation. If the Fund ever sought to charge fees above the maximums permitted in its Constitution, investor consent would be sought.

GST

Fees and costs charged to the Fund attract 10% GST, which is charged to and borne by the Fund. All fees and costs disclosed in the PDS are inclusive of GST, to the extent applicable, after taking into account any

expected RITCs. The Fund will claim RITCs where possible under the GST regulations. These credits will reduce the overall cost of GST to the Fund and will be reflected in the unit price. The net GST is the net cost after taking into account GST and RITCs.

Switching Fee

A switch between Funds is treated as redemption from one Fund and an application into another Fund. The Funds do not charge a switching fee (or an entry or exit fee on the amount of the switch) but the buy/sell spreads for both Funds will apply to the switches.

3. Additional Information on Tax

The following information forms part of Section 7 of the PDS.

The following is a brief outline of the Australian taxation consequences of investing in the Fund.

Investors are strongly advised to seek professional taxation advice. Please be aware that not all the following statements will apply to all investors.

This information is intended as a general guide only and is based on Australian taxation laws that are current as at the date of this Additional Information Document. These laws, and the interpretation and administration of them, may alter over time.

The Fund is established as a separate unit trust. The effect of tax on the Fund, and hence your investment in the Fund can vary depending on factors such as the type of investment, the timing of investment transactions and entry and exit of other investors in the Fund.

Distributions

The Fund is a resident of Australia for tax purposes. It is intended that investors will be presently entitled to all of the net income (including net taxable capital gains) of the Fund for each income year.

If all income is distributed to investors in relation to the year it is earned, the Fund will not pay Australian income tax on its net income under current tax law. The Fund cannot distribute any tax losses to investors but, if it meets certain conditions, it may be able to take the losses into account in subsequent years.

An Australian investor's share of the net income of the Fund for a year of income, including amounts received in a subsequent year or which are reinvested, forms part of the investor's assessable income of that year.

The distributions you receive may include different types of income, which reflect the income derived by the Fund for example:

- ▶ capital gains;
- ▶ foreign income and foreign income tax offsets;
- ▶ franked dividends/franking credits; and
- ▶ tax deferred distributions.

You will be provided with a statement for tax purposes after 30 June each year, to assist you (and your financial adviser) in determining your tax position. This tax statement will advise you of the distribution amounts and components (if any) to include in your tax return for example assessable income, capital gains, any

franked dividends/franking credits and any foreign income/foreign income tax offsets.

In addition, the statement will advise you of the tax-deferred portion (if any) of the distribution; that is, those amounts that have been distributed to you but are not included in taxable income. Generally, such amounts will reduce your cost base in the units in the Fund. Should your cost base be reduced to below zero after one or more cumulative tax-deferred distributions, the amounts in excess of your cost base should be a capital gain that is to be included in your taxable income. You may be entitled to the CGT discount in respect of this gain (of 50% for trusts and individuals or 33.33% for superannuation funds) on any net capital gain, if you have held your units in the Fund for at least 12 months from the date of acquisition. Companies are not entitled to CGT discounts on their capital gains, including discount capital gains distributed by a Fund.

If you redeem units, you will also need to include any capital gains or losses you have made in the calculation of your net capital gain or loss for the income year assuming you hold the units in the Fund on capital account (unless you are a non-resident investor that may not be liable for Australian CGT – see 'Tax on Capital Gains' on page 9). Depending on the type of entity you are, you may be entitled to a CGT discount.

On redemption of units, you may receive both capital proceeds and an income component representing your share of the undistributed income for the year up to the redemption date. In addition, Morningstar may choose to allocate any gains arising from the realisation to you. Any such income distributions should be included in your assessable income in the year you are presently entitled to that distribution.

If a performance fee is payable by you, Morningstar will redeem the number of units on your behalf to pay the performance fee. The redemption will constitute a disposal of those units for tax purposes. Investors should consult their taxation advisers regarding the deductibility of the performance fee to them in light of their own particular circumstances.

Franked Distributions/Franking Credits

Distributions from the Fund may include franked distributions. Subject to satisfying certain criteria, such franked distributions generally entitle Australian resident investors to obtain a tax offset (the franking credit) that is available to offset against their income tax liability. Franked distributions and franking credits are included in a person's assessable income. If the franking credits exceed the tax payable on your taxable income, the excess credits may be refundable to you if you are a resident individual or complying superannuation fund. Excess franking credits may generate tax losses if you are a corporate entity.

Non-Resident Investors

The Fund's net income, that has an Australian source to which a foreign investor is presently entitled, will

have tax withheld before a distribution is made to a non-resident investor.

The rate of withholding tax will depend on the type of income and the country of tax residence of the investor, whether the Fund continues to qualify as a Managed Investment Trust (MIT) (as defined in Australian tax laws) and any Exchange of Information Agreement or Double Tax Treaty.

In most cases, these withholding taxes are each a final tax. As a result, the non-resident investor should not be entitled to a credit in Australia for any withholding tax paid or be liable to further tax on income from which withholding tax has been withheld.

Foreign sourced income to which a non-resident is presently entitled should not be subject to tax in Australia.

Foreign Income and Foreign Income Tax Offsets

Where foreign tax has been paid by the Fund in respect of foreign investment of Fund's assets, the Fund will generally pass on any available corresponding foreign income tax offsets to resident investors, so that investors can offset these income tax offsets against the Australian tax payable on their assessable foreign income. Morningstar will advise such investors of their share of foreign income tax offsets.

Tax Deferral Provisions

The Funds may directly or indirectly hold interests in Controlled Foreign Companies (CFC) at the end of a financial year. Under the CFC regime, resident investors may be assessed on their portion of the CFC's attributable income for the financial year, even though the income is not distributed. Investors should seek their own advice regarding the application of these rules to their investment.

The taxation of foreign investment is generally under review. Investors should monitor the developments in this area and discuss them with their own professional tax adviser.

Tax on Capital Gains

Any capital gains distributed by the Fund will be taxable to non-resident investors only to the extent that the capital gain was in respect of taxable Australian property (that is, typically Australian real property or shares or units in an entity whose majority of the underlying value is derived from taxable Australian property based on the current market values of the entity's assets). The statement provided to investors after 30 June each year will disclose the extent to which a distributed capital gain is in respect of taxable Australian property.

The Fund meets the definition of 'MIT' and has made an irrevocable election to apply a deemed capital account treatment for gains and losses on disposal of certain investments (including shares and units in other funds, but excluding derivatives and foreign

exchange contracts).

Under the CGT provisions of the Australian income tax legislation, the disposal of units, either by redeeming, switching or transferring units, may lead to a CGT liability. Generally, investors who are non-residents of Australia for income tax purposes (and do not have an Australian permanent establishment) will only be subject to the Australian CGT provisions on the disposal of their units if their units are taxable Australian property. A non-resident investor's units are generally taxable Australian property if:

- ▶ they and their associates hold 10% or more of the units in the Fund at either the time they dispose of their units or throughout a 12-month period that began no later than 24 months before that disposal time; and
- ▶ more than 50% (by market value) of the Fund's assets comprised (directly or indirectly) of interests in taxable Australian real property (that is, typically Australian real property including leasehold interests and mining, quarrying or prospecting rights).

However, based on the current investments and investment approach of the Fund as at the date of issue of this Additional Information Document, it is not expected that the second condition would be satisfied.

Non-resident investors who use their units in carrying on a business through an Australian permanent establishment will be subject to Australian CGT on the disposal of their units in the same way as residents. This is so whether or not such non-resident investors hold more or less than 10% of the units in the Fund.

It is strongly recommended that non-resident investors obtain their own tax advice when disposing of units in the Fund. It should also be noted that you may be subject to the tax laws in your country and should consult a taxation adviser before investing.

Tax File Numbers (TFN) and Australian Business Numbers (ABN)

It is not compulsory for you to quote your TFN or ABN. If you are making this investment in the course of a business or enterprise that you carry on, you may quote an ABN instead of a TFN. Failure by you to quote an ABN or TFN, or claim an exemption, may cause the Fund to withhold tax at the top marginal rate plus the Medicare Levy plus the temporary budget repair levy, on gross payments including distributions of income to you. By quoting your TFN or ABN, it will be applied to all your investments with the Fund. If you do not want to quote your TFN or ABN for some investments, please notify Morningstar.

Taxation of Financial Arrangements

The Fund has opted into the taxation of financial arrangements (TOFA) regime under Division 230 of the Income Tax Assessment Act 1997 to adopt the default methods. Morningstar will continue to monitor whether the Fund should elect any of the alternative methods. The impact of the TOFA regime is not expected to materially change the taxation consequences of income flowing from the Fund.

Changes in the Tax Law

The expected tax implications of investing in the Fund described in this tax disclosure may change as a result of changes in the taxation laws and interpretation of them by the Courts and/or the Australian Tax Office. For example, the new Attribution Managed Investment Trust tax regime has been introduced, which applies from 1 July 2016 (with individual managed investment trusts having the choice to apply the rules from 1 July 2015). Under this new legislation, certain managed investment trusts may elect into the new attribution regime for the taxation of managed investment trusts which is intended to reduce complexity, increase certainty and minimise compliance costs.

It is recommended that investors obtain independent taxation advice that takes into account your specific circumstances regarding investing in the Fund and the potential application of any changes in the tax law.

GST

The issue, redemption or transfer of units in the Fund will not attract GST under current GST law. Investors should seek independent advice in relation to the GST consequences of their investment.

4. How to Apply

The following information forms part of Section 8 of the PDS.

Once your application has been processed, a confirmation of your investment showing the amount invested, or which you have agreed to invest, the number of units issued, the entry price and the date the units were issued, will be sent to you usually within 5 Business Days from the date of receipt of the application. If you do not receive a confirmation, use the relevant contact details provided on the last page to confirm receipt of your application.

No interest is received on application monies, including monies for additional investments, and no interest will be paid to you if for any reason (such as failure to provide all identification documentation required under Australian anti-money laundering and counter-terrorism requirements) your application will not be processed.

You may make additional investments in the Fund by completing the additional application section of the application form which can be found on the Morningstar website www.morningstarinvestments.com.au and paying the application monies.

On request, Morningstar may agree special cut-off times (later than those specified in the application form) for investors who are 'wholesale clients' (as defined in the Corporations Act).

If you provide a correctly completed application request, including anti-money laundering information and cleared funds prior to the cut-off time on a Business Day, you will generally pay the entry price calculated as at the close of business on that Business Day. For correctly completed application requests and cleared funds received after the cut-off time, you will generally pay the entry price calculated as at the close of business on the next Business Day. Refer to the application form for details on cut-off times.

On request, Morningstar may agree special cut-off times (later than those specified in the application form) for investors who are 'wholesale clients' (as defined in the Corporations Act).

You become an investor in the Fund as at the date of issue of your new units, whether or not the number or value of units can be calculated at that date. Please refer to the details on buy/sell spreads on page 6 of the PDS, unit prices on page 7 and switching fee on page 8 of this Additional Information Document for more information.

5. Other Additional Information

The following information forms part of Section 9 of the PDS.

Information on Request from Morningstar

You may contact Morningstar between 9:00 am and 5:00 pm (Sydney time) on any Business Day to assist with any questions you might have, or further information you may require, in relation to your investment in the Fund.

Morningstar's contact details are shown on the last page of the PDS as well as this Additional Information Document. If you are an Indirect Investor, the following information does not apply.

Changing Your Details

You must notify us of any change to your details, including contact details, distribution instructions, bank account details or account operating instructions.

To advise Morningstar of changes, please complete the relevant sections of the application form available on the Morningstar website and fax it in accordance with the instructions contained in the application form. A confirmation of these changes will be sent to you.

Confirmation of Transactions and Reporting

You will be provided with a confirmation of your transaction once it is processed, usually within 5 Business Days after you have supplied all relevant information required. This may be when you make your initial investment, additional investment, redemption, switch or transfer. A quarterly statement detailing your transactions over the previous quarter, including any distribution, will be sent to you. At the end of each financial year, you will be sent a statement for tax purposes. If at any other time you would like a transaction statement of your investment, unit price information or the financial statements for the Fund, please contact Morningstar on the contact details shown on the last page.

Privacy Statement

By applying to invest in the Fund, through the use of the application form, you consent and agree to information about you being obtained and used by Morningstar and other parties as explained in this Privacy Statement. This Privacy Statement applies to individuals who invest directly in the Fund. The type of information held includes your name, address and other information that you provide when opening your account, as well as records of your account transactions and the value of your unit holding.

Your information may be used to:

- ▶ provide the products and services you request;
- ▶ efficiently manage and administer all

- ▶ investments and services provided; and
- ▶ ensures that internal business operations run smoothly, which may include fulfilling all legal requirements and conducting confidential systems maintenance and testing.

Your personal information may be provided confidentially to external service providers, including the custodian, auditors, taxation advisers, legal advisers and information technology consultants.

We may disclose your personal information to Morningstar's related companies, but only so those related companies can assist us with functions relating to managing your account.

Morningstar's related companies include our parent company Morningstar, Inc., in the United States and related companies worldwide. These related companies are located in Belgium, Brazil, Canada, Chile, China, Denmark, Finland, France, Germany, Hong Kong, India, Italy, Japan, South Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand and the United Kingdom.

We may also use your personal information to provide you with information about other products and services that we or our related companies offer from time to time (direct marketing).

If you do not wish information to be sent to you about other products managed by Morningstar or our related companies, please note this in the relevant box provided on your application form or contact Morningstar on the contact details shown on the last page of this Additional Information Document.

Additionally, your personal information will be disclosed if required by law to do so (including under legislation in relation to anti-money laundering and counter-terrorism).

For information as to how you can access, correct and update your personal information and how Morningstar manages privacy related complaints, please refer to Morningstar's Privacy Policy. A copy of Morningstar's Privacy Policy is available on our website. Alternatively you can contact our Privacy Officer to request a free copy.

Privacy Officer Contact Details

Privacy Officer
Morningstar Investment Management Australia Limited
Level 36, Australia Square
264 George Street
Sydney NSW 2000
Tel: +61 2 9276 4532
Fax: +61 2 9276 4545
Email: auprivacy@morningstar.com

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ('FATCA') is a US law enacted to combat non-compliance by U.S. taxpayers using foreign accounts. FATCA requires foreign financial institutions ('FFIs') to report to the US tax authority, or the relevant local tax authorities for jurisdictions covered by an appropriate Intergovernmental Agreement ('IGA') with the US, information about financial accounts held by U.S.

taxpayers, foreign entities in which US taxpayers hold a substantial ownership interest and payments to Non-participating Financial Institutions. The Treasurer announced on the 28 April 2014 that Australia has signed an IGA with the US.

The Fund is an FFI under FATCA and subject to FATCA rules. Investors are required to provide certain information in order for the Fund to be FATCA compliant. This information can be provided by completing the relevant anti-money laundering and counter-terrorism forms available on the Morningstar website www.morningstarinvestments.com.au.

Commonwealth Anti-Money Laundering and Counter-Terrorism Requirements

Morningstar is required by the Commonwealth Anti-Money Laundering and Counter-Terrorism Financing Act 2006 to obtain additional information from new investors as to their identity, source of funds and similar matters, and to verify that information by sighting appropriate documentation. These requirements may also apply in relation to existing investors.

New investors (and existing investors required to provide additional information) can provide additional information by completing the relevant section of the application form on the Morningstar website. Please go to www.morningstarinvestments.com.au and see 'Application Form' in the 'How to Invest' section. Details about the way in which additional information can be verified are contained within the application form. For example, individuals will be required to produce a current photographic identification document, such as a current passport or driver's licence, or to provide a certified copy of the document, in order to verify their identity details.

Morningstar reserves the right to request information as is necessary to verify the identity of any investor and their personnel (for example, if an investor is a company, the identity of the company directors may need to be verified) and to assess the likelihood of the investor or its personnel being involved in money laundering or terrorism financing. Information that you provide may be disclosed to the Australian Transaction Reports and Analysis Centre under Australian law (or by underlying managers resident in other countries who are subject to similar legislation in their own countries). You may not be informed if such a disclosure is made. Otherwise your information will be confidential.

If you do not provide the required information, your application will not be processed until the information requested has been provided and all anti-money laundering checks have been completed. This may mean that the units may not be issued and redemption payments may not be made within the time periods contemplated in the PDS.

By applying for units through the PDS, you agree that Morningstar may, in its absolute discretion, not issue units to you, refuse the transfer of units you wish to sell or purchase, delay, block or freeze any transactions or cancel or redeem any units which have been issued to you, if such action is considered necessary or desirable in light of its obligations under the Commonwealth Anti-Money Laundering and Counter-Terrorism Financing Act 2006 or any related

legislation. In the above circumstances, Morningstar will not be liable to you for any resulting loss.

Constitution

The Fund is governed by a Constitution, as amended from time to time, and the Constitution may relate to several funds or to an individual fund. Each Constitution sets out Morningstar's obligations as well as the rights of investors. Some key aspects of the Constitutions have been summarised in this Additional Information Document.

Morningstar may alter the Constitution as specified in the Constitution and in accordance with the law. The Corporations Act specifies that the consent of investors (given at a meeting convened and conducted in accordance with the Corporations Act) is required for any alteration unless Morningstar reasonably believes that the alteration will not adversely affect the rights of investors.

You may view a copy of the Constitution at Morningstar's offices on any Business Day or you may obtain a copy free of charge by contacting Morningstar on the contact details shown on the last page.

Compliance Plan

Morningstar has established a compliance plan for the Fund, which sets out the measures to be applied in operating the Fund to ensure compliance with its Constitution and the law. Morningstar is responsible for overseeing the compliance plan.

Classes of Units

Under the Constitution, units may be issued in one or more classes and additional classes of units may be created at any time. All units in a class will have identical interests and rights and will be subject to identical conditions. Where the Fund issues units of different classes, the interests, rights and conditions attached to the class of units may differ in relation to fees.

Rights of Investors

Subject to the Constitution, investors are generally entitled to:

- ▶ receive a share of the Fund's distributable income;
- ▶ redeem units;
- ▶ transfer units;
- ▶ switch between funds;
- ▶ receive confirmation of investment;
- ▶ receive acknowledgement of units held;
- ▶ receive annual audited accounts; and
- ▶ inspect the Fund's Constitution.

If you are an Indirect Investor, you are not an investor in the Fund (your IDPS operator is the investor).

Investor Meetings

Subject to the Constitution, investors are also entitled to requisition, attend and vote at investor meetings for any Fund in which they hold units. An investor is bound by a resolution of investors, whether or not they attend the meeting at which it is passed.

Interest in the Fund

Each unit issued in the Fund entitles the investor to a beneficial interest in the total investments of the Fund, but does not give the investor an interest in any particular part of the Fund.

Investor Liability

While the law in relation to investor liability has not yet been settled, the Constitution limits an investor's liability in a Fund to the amount the investor has invested or agreed to invest.

Termination of a Fund

Morningstar can terminate the Fund, subject to the Corporations Act, at any time. If the Fund is terminated, the Fund's assets must be converted to cash where possible and used to pay or provide for the Fund's liabilities (including those incurred in winding up the Fund and any unpaid fees). In such an event, the realisation of assets may be postponed.

Investors are entitled to a share of the balance of the assets in accordance with the Fund's Constitution. This will be the final distribution of the Fund, which may include both a capital and income component.

Financial Information

The Fund's annual report will be made available to investors each year. You can request a copy of the annual report by contacting Morningstar on the contact details shown on the last page.

Borrowings

Under the Constitution, the Fund is permitted to borrow. Generally, borrowings may be used to facilitate short-term liquidity needs, and the redemption of unit, and to gain exposure to derivatives, including for the purposes of achieving target asset allocation. By virtue of the Fund's exposure to alternative investment strategies, it may also be exposed implicitly to borrowings and other liabilities.

Changes to the Fund

New funds may be added or existing funds closed, or the investment objective and risk profiles may be altered. You will be advised of material changes as soon as practicable and given at least 30 days' notice before any material changes are made to the Fund.

Net Asset Value (NAV)

The latest available NAV has been included in the respective PDS at the time of issue. The latest quarterly NAV is also disclosed in our Quarterly Fund Profiles available on our website

www.morningstarinvestments.com.au/fund-performance as well as via the ASX Market Announcements Platform if the Fund is available via mFund.

Performance Information

Investment performance becomes outdated very quickly. Past performance information has not been included in the PDS.

If you require up-to-date Fund performance information, please contact Morningstar on the contact details provided on the last page. Morningstar will provide the information to you free of charge. In assessing any performance information, you should bear in mind that past performance is not a reliable indicator of future performance.

Related Party Transactions

Morningstar receives a range of services from its related parties. These services are provided in accordance with a shared services agreement.

Staff Investors are allowed to invest in the Fund. Their investment is governed by Morningstar's staff investment policies and procedures.

Conflicts Of Interest

If there is a material conflict between the duties of Morningstar in relation to its obligations to the Fund and its personal interests, Morningstar will disclose particulars of the conflict.

6. Definitions

'**AFS Licence**' or '**AFSL**' means Australian Financial Services Licence.

'**ASIC**' means the Australian Securities and Investments Commission.

'**Business Day**' means any day other than Saturday and Sunday during which banks are open for general banking business in the state of New South Wales.

'**CGT**' means Capital Gains Tax which is the tax you pay on any capital gains.

'**Constitution**' means the Constitution of one or more funds, as amended from time to time, or the Constitutions for all of the funds, as the context indicates.

'**Direct Investor**' is an investor who invests and holds units directly in the Fund, and not through an IDPS.

'**Fund**' means the managed investment scheme to which this document relates.

'**GST**' means Goods and Services Tax as defined in A New Tax System (Goods and Services Tax) Act 1999.

'**IDPS**' means a master trust, wrap account, investor directed portfolio service or similar product. (but does not include the ASX Managed Fund Service).

'**Indirect Investor**' is an investor who gains exposure to the Fund through an IDPS.

'**Morningstar**' means Morningstar Investment Management Australia Limited ABN 54 071 808 501, AFS Licence No. 228986, the Investment Manager of the Fund, the issuer of units in the Fund and the responsible entity of the Fund.

'**Investment Advice Fee**' (if applicable) is a fee agreed between you and your financial adviser that is generally charged when you make an initial or additional investment in the Fund.

'**NAV**' means the Net Asset Value of the Fund and is the value of all assets of the Fund less liabilities of the Fund (excluding any amount representing the value of the investors' interests in the Fund or rights attaching to units, unless they have become due and payable to the relevant investor, regardless of whether characterised as equity or debt in the accounts of the Fund) and is calculated in accordance with the Constitution of the Fund.

'**Ongoing Advice Fee**' (if applicable) is a fee agreed between you and your financial adviser that is generally paid on a regular basis for ongoing financial advice provided to you.

'**PDS**' means Product Disclosure Statement.

'RITC' means Reduced Input Tax Credit as defined in A New Tax System (Goods and Services Tax) Act 1999.

'Staff Investor' is an investor who is an employee as defined by Morningstar's internal human resource policies and procedures governing its staff investment program.

'you' or **'your'** means an investor or prospective investor in the Fund(s).

Contact Details

Responsible Entity and issuer:

Morningstar Investment Management Australia Limited

Level 36, Australia Square

264 George Street

Sydney NSW 2000

Tel: +61 2 9276 4550

Fax: +61 2 9276 4560

Web: www.morningstarinvestments.com.au

Email: AUDistribution@morningstar.com



Level 36, Australia Square
264 George Street
Sydney NSW 2000

Tel: +61 2 9276 4550
Fax: +61 2 9276 4560
AUDistribution@morningstar.com

www.morningstarinvestments.com.au