

July 2017

Dear Investor,

Information on managed fund distributions

We would like to provide you with some information regarding how distributions work, how they affect unit prices and why there may be a delay in releasing 30 June (end of financial year) unit prices.

Please take the time to carefully read the following information.

What is a distribution and why do managed funds pay distributions?

Managed funds earn income in the form of dividends and interest. They also realise capital gains (the profit made from selling an investment that has increased in value from the date of purchase). Fund managers are obligated by current tax law to pay out both of these components to investors in the form of distributions.

Distribution payments can take the form of cash paid to the investor (typically within 10 business days of distribution date) or as additional units reinvested into the relevant fund on behalf of the investor (much like reinvesting dividends for shares).

When do Morningstar managed funds pay distributions?

Typically, Morningstar funds pay distributions on a quarterly basis, as outlined in the relevant Product Disclosure Statement. In addition, distributions may also be paid outside of these periods where it is necessary to preserve unitholder equity as a result of significant investor activity.

How do distributions affect unit prices?

On the day that the distribution is payable to unitholders, the unit price of a fund will fall by the same amount of the distribution. Unitholders who are invested in the fund on the date when the distribution is payable will be entitled to a share of that distribution.

For example, if a fund has a unit price of \$1 on 30 June and declares a distribution of \$0.05 per unit, unitholders invested as at 30 June will be entitled to receive the \$0.05 per unit distribution. Unitholders can elect to receive the distribution in the form of cash (to their nominated bank account) or reinvest this by purchasing additional units in the fund. Consequently, the unit price of the fund will fall to \$0.95 to account for the \$0.05 per unit distribution.

What is the difference between receiving the distributions as cash or reinvesting distributions by purchasing additional units into the fund?

Unitholders electing to reinvest their distributions will see their total investment value in a fund unchanged on the same day the distribution is payable to unitholders, as the purchase of additional units in this scenario does not incur transaction costs (buy/sell spread).

The following is a sample illustration.

	Number of units	Unit price	Investment value
Investment before distribution is payable by the fund	100	\$1.00	\$100
Investment value after distribution is payable by the fund	100	\$0.95	\$95
Additional investment from purchase of units out of distribution paid by the fund	5.26	\$0.95	\$5
Total investment after reinvestment into the fund	105.26	\$0.95	\$100

Unitholders electing to receive their distributions in cash will see their total investment value in a fund decrease on the same day the distribution is payable to unitholders, as the unitholder will receive the cash distribution separately in their bank account (typically paid within 10 business day of the distribution date).

The following is a sample illustration.

	Number of units	Unit price	Investment value
Investment before distribution is payable by the fund	100	1.00	\$100
Investment value after distribution is payable by the fund	100	0.95	\$95
Total investment after reinvestment	100.00	0.95	\$95

Cash in the hands of the unit holder (not invested)	\$5
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Why is the distribution made on year end at 30 June often larger than other distributions made during the year?

Generally, the funds distribute components (such as capital gains) that are highly unpredictable in nature during year end to avoid over distributing to unitholders.

In addition, at Morningstar's discretion (as responsible entity) the funds can pay special distributions and/or stream capital gains to specific unitholders who have generated significant investor activity during the year to maintain unitholder equity and try to minimise large distributions on year end.

Why is there a delay in releasing unit prices after 30 June?

There is generally a delay in releasing unit prices after 30 June to allow for the calculation and processing of distributions.

More information

If you have any questions, please do not hesitate to contact us on +61 2 9276 4550.

We appreciate your ongoing support and are here to assist you as required.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael Kwok', with a stylized, cursive script.

Michael Kwok
Product & Communications Manager
Morningstar Investment Management