



## Notice to Unitholders regarding Proposed Changes to Constitutions for AMIT

23 June 2017

### Overview

Morningstar Investment Management Australia Limited (ABN 54 071 808 501, AFSL 228986) (**Morningstar**), in its capacity as the responsible entity (**RE**) of the Morningstar Funds listed in the Appendix (**Funds**), gives notice that it proposes to make changes to the constitutions of the Funds (**Fund Constitution**) to enable the Funds to elect to opt-in to the new Attribution Managed Investment Trust regime (**AMIT Regime**) from 1 July 2017.

ASIC has recently granted relief to allow responsible entities of registered managed investment schemes to make changes to their constitutions without obtaining approval from Unitholders, where the changes are for the implementation of the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016, the new tax regime for managed investment trusts referred to as the AMIT Regime.

Morningstar intends to rely on the ASIC relief to make changes to the Fund Constitution.

### Purpose of this Notice

The purpose of this website notice is to inform Unitholders that:

- Morningstar intends to opt-in to the AMIT Regime in respect of each Fund for the financial year commencing on 1 July 2017 (and for subsequent financial years);
- Morningstar proposes to make changes to the Fund Constitution pursuant to section 601GCA of Corporations Act to enable the Funds to opt-into the AMIT Regime;
- Morningstar will modify the Fund Constitution to give effect to the proposed changes on or after 1 July 2017, unless it receives written requests, by 5pm (Sydney time) on 30 June 2017 from Unitholders with at least 5% of the votes that may be cast, to call and arrange to hold a meeting of the relevant Fund's Unitholders. This meeting would be convened to consider and vote on a special resolution to amend the Fund Constitution to introduce the proposed changes.

In order to satisfy ourselves that all Unitholders are made aware of this change, Morningstar has elected to send this notice by email to all Unitholders also.

### AMIT Regime

The AMIT Regime is a new tax regime for managed investments trusts. Under the current tax regime, the net income of a Fund is allocated to Unitholders based on the relevant Unitholder's proportionate share of the income of the Fund to which they are "presently entitled".

Under the AMIT Regime, Unitholders will be taxed on the taxable income that is "attributed" to them by a Fund on a "fair and reasonable" basis. Under the AMIT Regime, Morningstar will be able to, for income tax purposes, attribute amounts of taxable income, exempt income, non-assessable non-exempt income, tax offsets and credits to Unitholders in accordance with their interests as set out in the Fund Constitution.

Further, if Morningstar notes a discrepancy between the amounts actually attributed to Unitholders for an income year and the amounts that should have been attributed, Morningstar will be able to reconcile the discrepancy by using the *unders and overs* allowance provisions in the regime.

Morningstar as RE of each Fund must make an election to opt-in to the AMIT Regime before the regime can be applied to the Funds.

## Summary of Reasons for the Proposed Changes

The proposed changes to the Fund Constitution will facilitate Morningstar to operate the Funds in accordance with the AMIT Regime. Morningstar believes that it is in its Unitholders' interest for the Funds to elect to apply the new AMIT Regime because:

- **Flow through on attribution basis:** AMIT Regime provides the ability to attribute taxable income to Unitholders on a 'flow through' basis while retaining its character for tax purposes in the hands of the Unitholders as if they receive that income directly.
- **Codification and certainty:** AMIT Regime is largely based on current industry practice and would treat AMITs as flow-through vehicles similar to the current present entitlement regime. However, the AMIT Regime codifies existing industry practice (which is largely unsupported by legislation), and the new provisions seek to provide substantially more clarity, certainty and flexibility for dealing with income derived by the Funds and taxation treatment of Unitholders in the Funds.
- **Efficiency and treatment of *unders and overs*:** AMIT Regime facilitates the carrying forward of certain under-estimations and over-estimations of taxable income allocated to Unitholders (i.e. *unders and overs*) and reconciling them in the year they are discovered by adjusting a Unitholder's entitlement to income in that year, as opposed to the existing law which requires Morningstar to amend previous years' tax returns and notify Unitholders of the amendments. This will help the Funds and Unitholders to prepare their tax returns efficiently and reduce paperwork and revisiting old tax returns;
- **Fixed trust certainty:** Under the AMIT Regime, each Fund is deemed a fixed trust and Unitholders are treated as having vested and indefeasible interests in the income and capital throughout the income year. This will generally make it easier to satisfy:
  - the trust loss rules requirements for carrying forward trust losses;
  - the franking credit rules which allow Morningstar to distribute franking credits; and
  - eligibility for CGT scrip-for-scrip rollover relief.
- **Multi class potential:** AMIT Regime also facilitates the development of different classes of Unitholders, for AMIT purposes, with different rights within a single Fund should Morningstar determine it to be appropriate or advantageous to its investors to do so.
- **Fairer cost base adjustment:** There will also be a fairer cost base adjustment for Unitholders' interests, with both up and down adjustments, and the elimination of some of the uncertainties concerning the treatment of tax deferred distributions, if applicable. This should minimise the current potential for double taxation which arises where there is a difference between the taxable income of a Fund and the amount of income distributed to Unitholders

## Effect of the Proposed Changes

Morningstar is proposing to change the Fund Constitution to allow the Funds to be effectively and efficiently operated under the AMIT Regime. The proposed changes are summarised below. These changes are necessary for, or incidental to, the Funds operating under the AMIT Regime, and therefore are required in order for the Funds to potentially take advantage of the benefits set out above.

Proposed Change	Effect of Amendment
Adoption into the AMIT Regime	New provision giving Morningstar a specific power to make an irrevocable election for the Funds to opt-in to and to operate pursuant to the AMIT Regime.
Income and capital distributions and accumulation, attribution	<ul style="list-style-type: none"><li>• New provisions to allow the attribution of capital and income allocations (including tax offsets, <i>unders or overs</i> and other amounts) to Unitholders on a fair and reasonable basis in accordance with the Fund Constitution.</li><li>• New provision to allow the RE to determine in its absolute discretion the amounts that may be attributed (if any) to a Unitholder and included in the redemption price of a unit.</li></ul>

	<ul style="list-style-type: none"> <li>Existing provisions for determining distributable income on present entitlement basis to be retained and will apply for financial years to which AMIT Regime does not apply.</li> </ul>
New powers and protections	<ul style="list-style-type: none"> <li>New provisions giving Morningstar specific power to elect to opt-in to the AMIT Regime and powers otherwise necessary or desirable to operate the Funds under the AMIT Regime.</li> <li>New provisions giving Morningstar specific powers which are expected to be necessary for the Funds to operate under the AMIT Regime, including determining taxable income components, making attributions to Unitholders and issuing member statements for that purpose.</li> <li>New provisions clarifying that Morningstar will not be liable in respect of, or as a consequence of, the proper exercise of powers provided to it for the purposes of the AMIT Regime.</li> <li>New provision which provides that each Unitholder indemnifies Morningstar for any taxes payable by the RE in complying with the AMIT Regime that reasonably relate to the Unitholder, including any taxes payable in respect of any attributed amounts reasonably determined by the RE for a Unitholder and any costs, expenses and liabilities incurred by the RE as a consequence of being liable to such taxes and claiming under any indemnity provided by the Unitholder.</li> </ul>
Other	<p>Other incidental changes will be made to:</p> <ul style="list-style-type: none"> <li>Facilitate the proposed amendments described above, for example to include specific definitions relevant to the AMIT Regime.</li> <li>Give Morningstar the power to do all things necessary, desirable or expedient to properly administer and operate the Funds as an AMIT under the AMIT Regime.</li> </ul>

A copy of the proposed changes to the Fund Constitution are available free of charge to Unitholders by request made in writing and sent by email to [auinvestmentproducts@morningstar.com](mailto:auinvestmentproducts@morningstar.com)

**Opportunity to request a meeting:**

Unitholders have at least 7 days from the date of this notice to request a meeting. If you wish to request a meeting, please email your request to [auinvestmentproducts@morningstar.com](mailto:auinvestmentproducts@morningstar.com) no later than close of business on Friday 30 June 2017.

If Morningstar does not receive a request from Unitholders with at least 5% of the votes that could be cast on a special resolution, by close of business on Friday 30 June 2017, it will amend the Fund Constitution on the terms set out above.

Morningstar will lodge a copy of the amendments made to the Fund Constitution with ASIC. Morningstar will also notify Unitholders in our next communication that the Fund Constitution has been changed including a summary of the reason for, and effect of, the changes made.

## Appendix A

	<b>Managed Fund</b>	<b>ARSN</b>
1	Morningstar Australian Shares High Alpha Fund	117 331 692
2	Morningstar Australian Shares Fund	092 226 563
3	Morningstar International Shares High Opportunities (Unhedged) Fund	110 632 481
4	Morningstar International Shares High Opportunities (Hedged) Fund	123 814 433
5	Ibbotson International Shares Active (Unhedged) Trust	092 225 486
6	Ibbotson International Shares Active (Hedged) Trust	092 226 876
7	Ibbotson International Shares (Unhedged) Trust	092 234 289
8	Morningstar International Shares (Unhedged) Fund	092 229 199
9	Morningstar International Shares (Hedged) Fund	092 227 435
10	Morningstar Australian Property Securities Fund	092 234 378
11	Morningstar Global Property Securities (Hedged) Fund	118 668 929
12	Morningstar Australian Bonds Fund	092 226 456
13	Morningstar International Bonds (Hedged) Fund	121 406 219
14	Ibbotson International Bonds Core (Hedged) Trust	092 232 203
15	Morningstar Global Inflation Linked Securities (Hedged)Fund	127 861 938
16	Morningstar Cash Fund	092 227 104
17	Morningstar Multi Asset Real Return Fund	092 232 356
18	Morningstar High Growth Real Return Fund	092 226 358
19	Morningstar Growth Real Return Fund	092 234 136
20	Morningstar Balanced Real Return Fund	092 229 975
21	Morningstar Conservative Real Return Fund	092 232 589
22	Morningstar Multi-Asset All Growth Fund	140 450 835
23	Morningstar Multi-Asset Defensive Fund	140 450 728
24	Morningstar High Growth Fund	125 073 752
25	Morningstar Growth Fund	092 232 427
26	Morningstar Balanced Fund	092 233 979
27	Morningstar Moderate Fund	092 227 337
28	Morningstar Conservative Fund	092 234 074
29	Ibbotson WS Dynamic Growth Trust (Active)	160 226 497
30	Ibbotson WS Dynamic Income Trust (Active)	160 225 605
31	Ibbotson Supplementary Opportunities Trust	129 136 410
32	Morningstar Global Trading Strategies Fund	124 464 704
33	Morningstar Alpha Strategies Fund	126 314 538
34	Morningstar Diversified Alternatives Fund	128 307 004
35	Intech Investment Trust No. 2	129 136 447

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