



Level 3, International Tower 1  
100 Barangaroo Avenue  
Barangaroo NSW 2000

Telephone: +61 2 9276 4444  
Facsimile: +61 2 8572 9913

Locked Bag 25, Royal Exchange  
Sydney NSW 1225

29 August 2018

Dear Investor,

### Updates to the Morningstar Investment Funds' PDS

We'd like to provide you with some updated information relating to the Morningstar Investment Funds.

**After reading this, no further action is required from you and the updated information will be reflected in new product disclosure statements (PDS) to be issued at the end of September 2018.**

| Update   | Applies to                                  |
|--|---|
| <b>1 Investment management fee reductions</b>              | – Real Return Funds and select Sector Funds |
| <b>2 Lower minimum initial investment amounts</b>          | – All Morningstar Investment Funds          |
| <b>3 Updates to indirect costs and spreads</b>             | – All Morningstar Investment Funds          |
| <b>4 Enhanced reporting and disclosure requirements</b>    | – All Morningstar Investment Funds          |
| <b>5 Details of new external dispute resolution scheme</b> | – All Morningstar Investment Funds          |
| <b>6 Product feature revisions</b>                         | – Select Sector Funds                       |
| <b>7 Updated contact information</b>                       | – All Morningstar Investment Funds          |

## 1 Investment management fee reductions

We regularly review our product suite and commercial terms. This ensures we continue to provide our investors with solutions designed to achieve the best possible investment outcomes at a fair price.

Following the completion of our 2018 review, and in line with our [investment principles](#), we are pleased to advise we are **reducing our investment management fees** (net of GST and reduced input tax credits) as follows:

| Investment Fund                                | Current (% pa) | New (% pa) | Reduction (% pa) |
|--|----------------|------------|------------------|
| <b>Real Return Suite</b>                       |                |            |                  |
| Morningstar Multi Asset Real Return Fund       | 0.72           | 0.70       | 0.02             |
| Morningstar High Growth Real Return Fund       | 0.76           | 0.63       | 0.13             |
| Morningstar Growth Real Return Fund            | 0.70           | 0.57       | 0.13             |
| Morningstar Balanced Real Return Fund          | 0.64           | 0.51       | 0.13             |
| Morningstar Moderate Real Return Fund          | 0.57           | 0.44       | 0.13             |
| <b>Sector Specialist Suite</b>                 |                |            |                  |
| Morningstar Australian Shares Fund             | 0.46           | 0.41       | 0.05             |
| Morningstar International Shares Fund          | 0.51           | 0.45       | 0.06             |
| Morningstar International Shares (Hedged) Fund | 0.56           | 0.47       | 0.09             |
| Morningstar International Bonds (Hedged) Fund  | 0.62           | 0.50       | 0.12             |

## 2 Lower minimum initial investment amounts

Based on investor feedback and demand, we've reduced the minimum initial investment amount for our investment funds to \$10,000.

It's now easier for more investors to access our suite of professionally managed investment portfolios.

Importantly, you should consider the relevant disclosure document and seek financial advice to determine if our investment funds are appropriate for you, in line with your goals, objectives and current situation.

### **3 Updates to indirect costs and spreads**

In our September 2017 PDS we changed the way investment fees and costs are presented in our disclosure documents in line with ASIC's regulatory changes. At a minimum we will update indirect costs in our disclosure documents on an annual basis. **Accordingly, we will be updating the indirect costs information in our PDSs for the Financial Year ended 30 June 2018.**

In addition, we regularly conduct reviews of buy/sell spreads as part of our investment operations process. **Based on a recent spread review, we will be updating the spreads in the new disclosure documents.**

### **4 Enhanced reporting and disclosure requirements**

We'd like to inform you of additional disclosure and reporting requirements relating to the Morningstar Investment Funds.

**The regulator (ASIC) requires funds with 100 or more direct investors to be classified as a 'disclosing entity' (as defined by the Corporations Act). A 'disclosing entity' will need to meet additional, regular reporting and disclosure requirements (as determined by ASIC).**

We comply with any continuous disclosure obligations by lodging documents with ASIC as and when required and by posting any continuous disclosure notices at:

<https://morningstarinvestments.com.au/disclosure>

In addition, copies of any documents lodged with ASIC in relation to the Funds may be obtained from, or can be inspected at, an ASIC office. Investors will have the right to obtain a copy of the following documents:

- the most recent annual financial report lodged with ASIC; and
- any subsequent half yearly financial report lodged with ASIC after the lodgement of the annual report.

### **5 Details of new external dispute resolution scheme**

We strive to provide our investors with quality investment portfolios and ongoing service, and have established resolution procedures for dealing with disputes. In addition to these procedures, we are a member of an external dispute resolution scheme (Financial Ombudsman Service, 'FOS') that helps consumers resolve disputes about financial services and products.

**From 1 November 2018, the FOS will be replaced by a new external dispute resolution (EDR) scheme called the Australian Financial Complaints Authority or 'AFCA'.**

AFCA replaces three existing EDR schemes – the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and Superannuation Complaints Tribunal (SCT). AFCA operations will be financed by contributions made by its members, including Morningstar. Like the existing FOS, the scheme will be free to consumers.

**For further information about AFCA, please visit their website at <https://www.afca.org.au>.**

## 6 Product feature revisions

As part of our regular review of asset classes and investment strategies, we're making the following revisions to our product features:

| Fund   | Revision  |
|--|---|
| Morningstar Australian Shares Fund                   | – Minimum investment period reduced to 5 years (from 7 years) to reflect our focus on companies that exhibit quality (e.g. a track record of sustainable and increasing profits, low debt levels) and compelling valuations.  |
| Morningstar International Shares Fund                |   |
| Morningstar International Shares (Hedged) Fund       | – We expect our disciplined approach will allow the strategies to recover more quickly and reliably than the overall market during periods of prolonged negative market performance, hence the shorter investment time period.  |
| Morningstar International Bonds (Hedged) Fund        | – Broader investment strategy to enable the fund to take advantage of specialised investments (such as senior bank loans and high-yield bonds) within the broader international fixed interest market.<br>– We expect the ability to access broader investment opportunities will help enhance portfolio diversification and investment outcomes. |
| Morningstar Global Property Securities (Hedged) Fund | – Revise the investment benchmark to provide better alignment with our investment approach, namely focusing on globally listed property securities that favour rental income generation (rather than profits from property development).  |

In addition, we're simplifying the way we describe our investment objectives and strategies for greater clarity. We believe the simplification changes will help investors better understand our role and approach in managing the Morningstar Investment Funds.

**Note: The product revisions do not increase the risk level/profile of the Morningstar Investment Funds.**

Refer to 'Appendix A – Updates to Sector Specialist Funds' for further details.

## 7 Updated contact information

To ensure our investors receive quality support services and ongoing care, we've established a dedicated customer support team to assist with queries relating to the Morningstar Investment Funds.

Accordingly, we will be updating the disclosure documents with a new contact number 1800 951 999 (toll free) and email address [invest@morningstar.com.au](mailto:invest@morningstar.com.au)

**Need more information?**

Further information will be available in the disclosure documents issued at the end of **September 2018**.

Alternatively, please contact your financial adviser, or a member of our customer support team between 9.00am and 5.00pm (Sydney time) Monday to Friday on 1800 951 999 (toll free), or email [invest@morningstar.com.au](mailto:invest@morningstar.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael Kwok', written in a cursive style.

Michael Kwok  
Product & Communications Manager  
Morningstar Investment Management

## Appendix A – Updates to Sector Specialist Funds

### Morningstar Australia Shares Fund

|   | <b>Current</b>  | <b>New</b>  |
|---|---|---|
| <b>Investment objective</b>                               | Aims to maximise outperformance relative to the benchmark over rolling 7 year periods by investing predominantly in listed Australian shares.   | To achieve meaningful capital growth over the medium to long term, while minimising the risk of permanent capital loss, by investing predominantly in listed Australian shares.   |
| <b>Investment strategy</b>                                | An actively managed Fund predominantly invested in Australian shares. To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund. The Fund may also hold some cash from time to time. | The Fund invests predominantly in listed Australian shares with the aim of producing superior long-term total returns relative to the benchmark. To achieve this aim, Morningstar constructs a well-diversified portfolio of companies that exhibit desirable fundamental quality and/or value characteristics. |
| <b>Minimum suggested timeframe for holding investment</b> | 7 years   | 5 years   |

## Appendix A – Updates to Sector Specialist Funds

### Morningstar International Bonds (Hedged) Fund

|                             | Current   | New  |
|-----------------------------|---|--|
| <b>Investment objective</b> | Aims to maximise outperformance relative to the benchmark over rolling 3 year periods by investing predominantly in international government and corporate bonds  | Aims to outperform the benchmark over rolling 3 year periods by investing predominantly in investment-grade international government and corporate bonds.  |
| <b>Investment strategy</b>  | An actively managed Fund with a 100% exposure to hedged international investment grade bonds. The portfolio aims to provide investors with a consistent income, whilst also looking to preserve the underlying capital. To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund. | An actively managed Fund invested predominantly in investment-grade international bonds hedged back to Australian dollars with the aim of providing investors with a consistent income while preserving underlying capital. To achieve this aim, the Fund invests in fixed income securities and/or managed investment schemes that exhibit desirable risk-return characteristics. |

## Appendix A – Updates to Sector Specialist Funds

### Morningstar International Shares Fund

|   | Current  | New  |
|---|--|--|
| <b>Investment objective</b>                               | Aims to deliver a similar or superior risk-return profile to the performance benchmark over rolling 7 year periods by investing predominantly in listed international shares.  | To achieve meaningful capital growth over the medium to long term, while minimising the risk of permanent capital loss, by investing predominantly in listed international shares.   |
| <b>Investment strategy</b>                                | An actively managed Fund predominantly invested in international shares. To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund. The Fund may also hold some cash from time to time. | The Fund invests predominantly in listed international shares with the aim of producing superior long-term total returns relative to the benchmark. To achieve this aim, Morningstar constructs a well-diversified portfolio of companies that exhibit desirable fundamental quality and/or value characteristics. |
| <b>Minimum suggested timeframe for holding investment</b> | 7 years  | 5 years  |



## Appendix A – Updates to Sector Specialist Funds

### Morningstar International Shares (Hedged) Fund

|   | Current  | New  |
|---|--|--|
| <b>Investment objective</b>                               | Aims to deliver a similar or superior risk-return profile to the performance benchmark over rolling 7 year periods by investing predominantly in listed international shares, supplemented by a passive currency overlay.  | To achieve meaningful capital growth over the medium to long term, while minimising the risk of permanent capital loss, by investing predominantly in listed international shares, supplemented by a passive currency overlay.   |
| <b>Investment strategy</b>                                | An actively managed Fund predominantly invested in international shares. To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund, supplemented by a passive currency overlay. The Fund may also hold some cash from time to time. | The Fund invests predominantly in listed international shares with the aim of producing superior long-term total returns relative to the benchmark. To achieve this aim, Morningstar constructs a well-diversified portfolio of companies that exhibit desirable fundamental quality and/or value characteristics, supplemented by a passive currency overlay. |
| <b>Minimum suggested timeframe for holding investment</b> | 7 years  | 5 years  |

## Appendix A – Updates to Sector Specialist Funds

### Morningstar Global Property Securities (Hedged) Fund

|                             | Current  | New   |
|-----------------------------|--|---|
| <b>Investment objective</b> | Aims to deliver a superior risk-return profile to the performance benchmark over rolling 5 year periods by investing predominantly in listed Real Estate Investment Trusts (REITs), particularly those that generate high levels of rental income from commercial property.  | Aims to deliver better or similar risk-adjusted returns to the benchmark over rolling 5 year periods by investing predominantly in listed Real Estate Investment Trusts (REITs), particularly those that generate high levels of rental income from commercial property, supplemented by a passive currency overlay.  |
| <b>Investment strategy</b>  | A Fund predominantly invested in international real estate investment trusts that generate high levels of rental income hedged back to Australian dollars. To implement this strategy, Morningstar may design portfolios and/or appoint managers to manage the assets of the Fund, supplemented by a passive currency overlay. | The Fund invests predominantly in listed Real Estate Investment Trusts (REITs) across global markets with the aim of producing better or similar risk-adjusted returns to the benchmark. A focus of the Fund is REITs that generate rental income from commercial property. In order to achieve the investment objective, Morningstar constructs a well-diversified portfolio of globally listed REITs that exhibit desirable fundamental quality and/or value characteristics, supplemented by a passive currency overlay. |
| <b>Benchmark</b>            | FTSE/NAREIT Developed Market Real Estate Index (\$A Hedged)  | FTSE EPRA/NAREIT Developed Rental Index (\$A Hedged)  |