

Morningstar Investment Funds - Series 3

Annual report

For the year ended 30 June 2018

Morningstar Investment Funds - Series 3

Annual report - For the year ended 30 June 2018

Morningstar Balanced Real Return Fund

ARSN 092 229 975

Morningstar Moderate Real Return Fund

(formerly known as Morningstar Conservative Real Return Fund)

ARSN 092 232 589

Morningstar Growth Real Return Fund

ARSN 092 234 136

Morningstar High Growth Real Return Fund

ARSN 092 226 358

Morningstar Multi- Asset Real Return Fund

ARSN 092 232 356

Morningstar Investment Funds - Series 3

Annual report - For the year ended 30 June 2018

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Directors' report

The directors of Morningstar Investment Management Australia Limited (ABN 54 071 808 501), the Responsible Entity of Morningstar Investment Funds - Series 3, present their report together with the financial report of Morningstar Balanced Real Return Fund, Morningstar Moderate Real Return Fund (formerly known as Morningstar Conservative Real Return Fund), Morningstar Growth Real Return Fund, Morningstar High Growth Real Return Fund and Morningstar Multi-Asset Real Return Fund (collectively "the Schemes"), for the year ended 30 June 2018.

Principal activities

The Schemes are registered managed investment schemes domiciled in Australia.

During the year, the Schemes continue to invest funds in accordance with their investment return objectives and investment strategies as set out in the current product disclosure statements and in accordance with the provisions of the Schemes' Constitutions.

The Schemes did not have any employees during the year (2017: Nil).

There were no significant changes in the nature of the Schemes' activities during the year.

Directors

The following persons held office as directors of the Responsible Entity from the beginning of the financial year up to the date of this report unless noted otherwise:

Daniel Edward Needham (director)

Christopher Galloway (director)

Heather Brilliant (director) (resigned 1 September 2017)

James Wickham (director) (appointed 23 August 2017)

Scott Schilling (director)

Fiona White (company secretary)

Directors' report (continued)

Review of results and operations

The investment policy of the Schemes continues to be that detailed in the current product disclosure statements and in accordance with the provisions of the governing documents of the Schemes.

Results

The performance of the Schemes, as represented by the results of their operations, were as follows:

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net operating profit/(loss)	<u>9,803</u>	<u>17,988</u>	<u>3,608</u>	<u>6,608</u>	<u>21,395</u>	<u>44,364</u>
Distributions - Class A						
Distribution paid and payable	<u>7,735</u>	<u>22,987</u>	<u>2,145</u>	<u>6,418</u>	<u>6,100</u>	<u>30,169</u>
Distribution (cents per unit)	<u>4.0689</u>	<u>14.8943</u>	<u>2.4811</u>	<u>7.5144</u>	<u>1.6989</u>	<u>9.7314</u>
Distributions - Class B						
Distribution paid and payable	<u>619</u>	<u>4,962</u>	<u>133</u>	<u>766</u>	<u>453</u>	<u>3,183</u>
Distribution (cents per unit)	<u>4.0283</u>	<u>14.4570</u>	<u>2.5131</u>	<u>7.3814</u>	<u>1.7004</u>	<u>9.6466</u>
Distributions - Class Z						
Distribution paid and payable	<u>-</u>	<u>1,671</u>	<u>-</u>	<u>861</u>	<u>-</u>	<u>3,924</u>
Distribution (cents per unit)	<u>4.5518</u>	<u>15.2566</u>	<u>2.9306</u>	<u>7.9112</u>	<u>2.1654</u>	<u>10.7165</u>

Directors' report (continued)

Review of results and operations (continued)

Results (continued)

	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Net operating profit/(loss)	<u>2,166</u>	<u>7,857</u>	<u>8,721</u>	<u>6,753</u>
Distributions - Class A				
Distribution paid and payable	<u>470</u>	<u>4,004</u>	<u>931</u>	<u>3,038</u>
Distribution (cents per unit)	<u>1.3388</u>	<u>17.5917</u>	<u>1.6669</u>	<u>7.1911</u>
Distributions - Class B				
Distribution paid and payable	<u>1</u>	<u>433</u>	<u>10</u>	<u>28</u>
Distribution (cents per unit)	<u>1.4288</u>	<u>16.3681</u>	<u>1.7927</u>	<u>7.4074</u>
Distributions - Class Z				
Distribution paid and payable	<u>-</u>	<u>993</u>	<u>2,319</u>	<u>601</u>
Distribution (cents per unit)	<u>1.7138</u>	<u>18.4223</u>	<u>2.2346</u>	<u>7.8177</u>

Significant changes in state of affairs

Morningstar Conservative Real Return Fund has been renamed to Morningstar Moderate Real Return Fund with effect from 29 September 2017. Other than this, there were no significant changes in the state of affairs of the Schemes that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (i) the operations of the Schemes in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Schemes in future financial years.

Directors' report (continued)

Likely developments and expected results of operations

The Schemes will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Schemes and in accordance with the provisions of the Schemes' Constitutions.

The results of the Schemes' operations will be affected by a number of factors, including the performance of investment markets in which the Schemes invest. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Schemes and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Schemes.

Indemnification and insurance of officers or auditors

During the financial year, the Responsible Entity paid premiums in respect of contracts insuring the directors, secretary, and all executive officers of the Responsible Entity against a liability incurred as a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contracts of insurance prohibit disclosure of the amount of the premium.

During or since the end of the financial year, the Responsible Entity has not indemnified an officer or auditor of the Schemes or of any related body corporate against a liability incurred as an officer or auditor. In addition, the Responsible Entity neither paid, nor agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

Fees paid to and interests held in the Schemes by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in Note 13 to the financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

The number of interests in the Schemes held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 13 to the financial statements.

Interests in the Schemes

The movement in units on issue in the Schemes during the year is disclosed in Note 5 to the financial statements.

The value of the Schemes' assets and liabilities are disclosed in the statement of financial position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Schemes are not subject to any particular or significant environmental regulations under a law of the Commonwealth, State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Schemes.

Directors' report (continued)

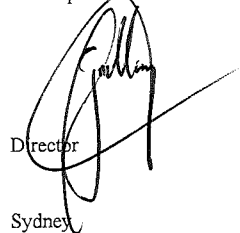
Rounding

The Schemes are entities of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and the financial statements have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the directors.


Director

Sydney

25 September 2018

Auditor's Independence Declaration to the Directors of Morningstar Investment Management Australia Limited, as Responsible Entity for Morningstar Investment Funds - Series 3

For the following Morningstar Investment Funds - Series 3 (the "Schemes"):

- ▶ Morningstar Balanced Real Return Fund;
- ▶ Morningstar Moderate Real Return Fund ((formerly known as Morningstar Conservative Real Return Fund);
- ▶ Morningstar Growth Real Return Fund;
- ▶ Morningstar High Growth Real Return Fund; and
- ▶ Morningstar Multi Asset Real Return Fund.

As lead auditor for the audits of the above Schemes for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Mark Jones
Partner
25 September 2018

Morningstar Investment Funds - Series 3
Statements of comprehensive income
For the year ended 30 June 2018

	Note	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment income							
Interest income		-	-	-	-	-	-
Trust distributions		10,879	25,462	4,156	10,910	22,848	58,303
Change in fair value of financial instruments held at fair value through profit or loss	4	(17)	(6,431)	(70)	(3,802)	663	(11,999)
Other investment income		-	-	-	-	-	-
Total investment income/(loss)		10,862	19,031	4,086	7,108	23,511	46,304
Expenses							
Management fees		1,057	1,043	477	500	2,112	1,940
Transaction costs		-	-	-	-	-	-
Other operating expenses		2	-	1	-	4	-
Total operating expenses		1,059	1,043	478	500	2,116	1,940
Net operating profit/(loss)		9,803	17,988	3,608	6,608	21,395	44,364
Financing costs attributable to unitholders							
Distributions to unitholders	10	(8,354)	(29,620)	(2,278)	(8,045)	(6,553)	(37,276)
Profit/(loss) for the year		1,449	(11,632)	1,330	(1,437)	14,842	7,088
Other comprehensive income for the year		-	-	-	-	-	-
Increase/(decrease) in net assets attributable to unitholders	5	1,449	(11,632)	1,330	(1,437)	14,842	7,088

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of comprehensive income
For the year ended 30 June 2018

		Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Note	\$'000	\$'000	\$'000	\$'000
<i>Investment income</i>					
Interest income		-	-	2	-
Trust distributions		2,628	8,722	8,188	6,117
Change in fair value of financial instruments held at fair value through profit or loss	4	(257)	(723)	931	940
Other investment income		<u>1</u>	<u>-</u>	<u>74</u>	<u>-</u>
<i>Total investment income/(loss)</i>		<u>2,372</u>	<u>7,999</u>	<u>9,195</u>	<u>7,057</u>
<i>Expenses</i>					
Management fees		205	141	343	304
Transaction costs		-	-	5	-
Other operating expenses		<u>1</u>	<u>1</u>	<u>126</u>	<u>-</u>
<i>Total operating expenses</i>		<u>206</u>	<u>142</u>	<u>474</u>	<u>304</u>
<i>Net operating profit/(loss)</i>		<u>2,166</u>	<u>7,857</u>	<u>8,721</u>	<u>6,753</u>
<i>Financing costs attributable to unitholders</i>					
Distributions to unitholders	10	<u>(471)</u>	<u>(5,430)</u>	<u>(3,260)</u>	<u>(3,667)</u>
<i>Profit/(loss) for the year</i>		<u>1,695</u>	<u>2,427</u>	<u>5,461</u>	<u>3,086</u>
Other comprehensive income for the year		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Increase/(decrease) in net assets attributable to unitholders</i>	5	<u>1,695</u>	<u>2,427</u>	<u>5,461</u>	<u>3,086</u>

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of financial position
30 June 2018

	Note	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
		30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Assets							
Cash and cash equivalents	12(b)	4,096	1,109	509	-	7,530	2,062
Deposits held with brokers for margin		-	-	-	-	-	-
Receivables	3	20	18	9	9	41	36
Financial assets held at fair value through profit or loss	6	<u>197,362</u>	<u>175,488</u>	<u>90,162</u>	<u>94,692</u>	<u>356,166</u>	<u>316,451</u>
Total assets		<u>201,478</u>	<u>176,615</u>	<u>90,680</u>	<u>94,701</u>	<u>363,737</u>	<u>318,549</u>
Liabilities							
Bank overdraft	12(b)	-	-	-	160	-	-
Distribution payable	10	5,486	12,663	1,100	4,042	2,301	23,313
Payables	9	93	81	37	39	188	164
Financial liabilities held at fair value through profit or loss	7	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>5,579</u>	<u>12,744</u>	<u>1,137</u>	<u>4,241</u>	<u>2,489</u>	<u>23,477</u>
Net assets attributable to unitholders - liability	5	<u>195,899</u>	<u>163,871</u>	<u>89,543</u>	<u>90,460</u>	<u>361,248</u>	<u>295,072</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of financial position
30 June 2018

	Note	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
		30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Assets					
Cash and cash equivalents	12(b)	1,939	121	13,563	291
Deposits held with brokers for margin		-	-	1,028	206
Receivables	3	4	2	242	108
Financial assets held at fair value through profit or loss	6	<u>34,596</u>	<u>24,021</u>	<u>173,903</u>	<u>42,500</u>
Total assets		<u>36,539</u>	<u>24,144</u>	<u>188,736</u>	<u>43,105</u>
Liabilities					
Bank overdraft	12(b)	-	-	-	-
Distribution payable	10	59	2,410	1,332	1,941
Payables	9	20	14	50	27
Financial liabilities held at fair value through profit or loss	7	<u>-</u>	<u>-</u>	<u>332</u>	<u>-</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>79</u>	<u>2,424</u>	<u>1,714</u>	<u>1,968</u>
Net assets attributable to unitholders - liability	5	<u>36,460</u>	<u>21,720</u>	<u>187,022</u>	<u>41,137</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of changes in equity
For the year ended 30 June 2018

The Schemes' net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Schemes have no equity, and no items of changes in equity have been presented for the current or comparative year.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of cash flows
For the year ended 30 June 2018

	Note	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cash flows from operating activities</i>							
Transaction costs of financial instruments held at fair value through profit or loss		-	-	-	-	-	-
Trust distributions received		-	-	-	-	-	-
Other income received		-	-	-	-	-	-
RITC received/(paid)		(2)	15	-	5	(5)	6
Management fees paid		(1,045)	(1,113)	(479)	(520)	(2,089)	(1,966)
Other expenses paid		(2)	-	(1)	-	(3)	-
<i>Net cash inflow/(outflow) from operating activities</i>	12(a)	(1,049)	(1,098)	(480)	(515)	(2,097)	(1,960)
<i>Cash flows from investing activities</i>							
Proceeds from sale of financial instruments held at fair value through profit or loss		75,874	378,769	46,788	211,391	104,039	448,985
Purchase of financial instruments held at fair value through profit or loss		(87,125)	(164,810)	(38,269)	(90,182)	(121,100)	(189,219)
<i>Net cash inflow/(outflow) from investing activities</i>		(11,251)	213,959	8,519	121,209	(17,061)	259,766
<i>Cash flows from financing activities</i>							
Proceeds from applications by unitholders		58,613	63,923	17,794	26,755	87,788	72,872
Payments for redemptions by unitholders		(28,934)	(255,034)	(20,175)	(142,851)	(37,136)	(310,115)
Distributions paid		(14,631)	(20,541)	(5,086)	(4,740)	(26,883)	(17,956)
<i>Net cash from inflow/(outflow) financing activities</i>		15,048	(211,652)	(7,467)	(120,836)	23,769	(255,199)
<i>Net increase/(decrease) in cash and cash equivalents</i>							
Cash and cash equivalents at the beginning of the year		1,109	(100)	(160)	(18)	2,062	(545)
Effects of foreign currency exchange rate changes on cash and cash equivalents		239	-	97	-	857	-
<i>Cash and cash equivalents at the end of the year</i>	12(b)	4,096	1,109	509	(160)	7,530	2,062

The above statements of cash flows should be read in conjunction with the accompanying notes.

Morningstar Investment Funds - Series 3
Statements of cash flows
For the year ended 30 June 2018

	Note	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
		30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
<i>Cash flows from operating activities</i>					
Transaction costs of financial instruments held at fair value through profit or loss		-	-	(5)	-
Trust distributions received		-	71	238	-
Other income received		1	-	70	-
RITC received/(paid)		(2)	5	(4)	1
Management fees paid		(199)	(155)	(337)	(303)
Other expenses paid		(1)	(1)	(109)	-
<i>Net cash inflow/(outflow) from operating activities</i>	12(a)	(201)	(80)	(147)	(302)
<i>Cash flows from investing activities</i>					
Proceeds from sale of financial instruments held at fair value through profit or loss		11,932	99,247	58,587	171,175
Purchase of financial instruments held at fair value through profit or loss		(20,260)	(20,880)	(183,215)	(145,526)
<i>Net cash inflow/(outflow) from investing activities</i>		(8,328)	78,367	(124,628)	25,649
<i>Cash flows from financing activities</i>					
Proceeds from applications by unitholders		18,530	16,612	159,626	5,864
Payments for redemptions by unitholders		(5,634)	(91,781)	(19,226)	(27,882)
Distributions paid		(2,673)	(2,998)	(3,845)	(3,046)
<i>Net cash from inflow/(outflow) financing activities</i>		10,223	(78,167)	136,555	(25,064)
<i>Net increase/(decrease) in cash and cash equivalents</i>					
Cash and cash equivalents at the beginning of the year		121	1	291	(9)
Effects of foreign currency exchange rate changes on cash and cash equivalents		124	-	1,492	17
<i>Cash and cash equivalents at the end of the year</i>	12(b)	1,939	121	13,563	291

The above statements of cash flows should be read in conjunction with the accompanying notes.

1 General information

These financial statements cover Morningstar Balanced Real Return Fund, Morningstar Moderate Real Return Fund (formerly known as Morningstar Conservative Real Return Fund), Morningstar Growth Real Return Fund, Morningstar High Growth Real Return Fund and Morningstar Multi-Asset Real Return Fund (collectively “the Schemes”) as individual entities. The Schemes were constituted on 27 March 2000 and were incorporated in Australia.

The Responsible Entity of the Schemes is Morningstar Investment Management Australia Limited (“the Responsible Entity”). The registered office of the Responsible Entity is Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo, Sydney NSW 2000.

On 5 May 2016, the Attribution Managed Investment Trust (“AMIT”) regime, applying to Managed Investment Trusts was enacted under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. With its introduction, the Responsible Entity has amended the Scheme’s Constitution to allow the Scheme to operate as an AMIT. As of 30 June 2018, the Scheme met the other conditions to adopt the AMIT tax regime and continue to classify the units as financial liability.

The financial statements were authorised for issue by the directors on 25 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia.

The financial statements have been prepared on a historical cost basis, except for investments in financial assets and financial liabilities which have been measured at fair value.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets and liabilities at fair value through profit or loss. The amount expected to be recovered or settled within twelve months in relation to these balances cannot be reliably determined.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated under the option available to the Schemes under ASIC Corporations Instrument 2016/191.

Statement of Compliance

The financial statements have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Schemes are for-profit entity for the purposes of preparing Financial Statements.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. Management’s assessment of the impact of these new standards (to the extent relevant to the Schemes) and interpretations is set out below:

(i) AASB 9 Financial Instruments (effective 1 January 2018 and will therefore apply to schemes from 1 July 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption.

The directors do not expect this to have a significant impact on the recognition and measurement of the Fund’s financial instruments as they are carried at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the fund.

(ii) *AASB 15 Revenue from Contracts with Customers (effective 1 January 2018 and will therefore apply to schemes from 1 July 2018)*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that would be expected to have a material impact on the Fund.

(c) Financial instruments

(i) *Classification*

The Schemes' investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

These include derivative financial instruments such as futures, forward contracts, options and interest rate swaps. All derivatives in a net receivable or payable position are shown on a gross basis and reported as either derivative financial assets or derivative financial liabilities. The Schemes do not designate any derivatives as hedges in a hedging relationship, with any gains or losses arising from a change in fair value taken directly to net profit or loss for the year.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted unit trusts, unlisted equity instruments, fixed interest securities, money market securities and commercial paper.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Schemes' documented investment strategy. The Schemes' policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) *Recognition / derecognition*

The Schemes recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Schemes have transferred substantially all risks and rewards of ownership.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) are included in the statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used in a market at the reporting date applicable for an instrument with similar terms and conditions.

Where other pricing models are used, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, where possible, using applicable pricing/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issue.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Schemes would receive or pay to terminate the contract at the reporting date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted investment funds are recorded at the redemption value per unit as reported by the managers of such funds.

In accordance with the exception under AASB 10 Consolidated financial statements, the schemes does not consolidate subsidiaries in the financial statements. Investments in subsidiaries are accounted for as financial instruments at fair value through profit or loss.

Held for trading

All investments are initially recognised at fair value, being fair value of the consideration paid excluding transaction costs. After initial recognition, the financial assets and liabilities held for trading are revalued to fair value at each reporting date.

For investments that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date.

For investments with no active market such as unlisted equity securities, fair values are determined using discounted cash flow models, or other appropriate valuation methodologies. These models use inputs that include growth forecasts, dividend ratios, capital expenditure and terminal values. Additionally where limited data exists for certain assets, prices are interpolated using historical and long-term pricing relationships.

The fair value of units in managed investments schemes is determined by reference to published bid prices at the close of business on the reporting date, being the redemption price as established by the underlying Schemes' Responsible Entity.

Gains or losses on investments held for trading are recognised in the statement of comprehensive income. Investments of the Schemes which are considered to be held for trading are equity securities, units in managed investment schemes, derivatives and some interest bearing securities which have been acquired principally for the purpose of selling in the near term.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

Designated at fair value through profit or loss

All investments are initially recognised at fair value, being the fair value of the consideration paid excluding transaction costs. After initial recognition, the financial assets designated as at fair value through profit or loss are revalued to fair value at each reporting date.

For investments that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date.

Gains or losses on investments designated at fair value through profit or loss are recognised in the statement of comprehensive income. Investments of the Schemes that have been designated at fair value through profit or loss include certain interest bearing securities that are not held for trading but for which there is no positive intention to hold to maturity.

These investments have been designated at fair value through profit or loss as doing so results in more relevant information. These investments are part of the full group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with the risk management and investment strategies of the Schemes. Further details on how the fair values of financial instruments are determined are disclosed in Note 14.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities due to mandatory distributions. The units can be redeemed from the Schemes at any time for cash equal to a proportionate share of the Schemes' net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to redeem units from the Schemes.

(e) Cash and cash equivalents

For the purpose of presentation in the statement of financial position, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(f) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(g) Investment income

Interest income and expenses are recognised in the statement of comprehensive income for all debt instruments using the effective interest method.

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at acquisition or origination date. Interest income includes the amortisation of any discount or premium or other differences between initial carrying amount of an interest-bearing instrument and its amount calculated on an effective interest rate basis.

Dividend income is recognised on when the Schemes' right to receive the payment is established. Dividend revenue is presented net of withholding tax in the statement of comprehensive income.

Trust distributions (including distributions from cash management trusts) are recognised on a present entitlement basis.

2 Summary of significant accounting policies (continued)

(g) Investment income (continued)

Net changes in the fair value of financial instruments measured at fair value through profit or loss

Net changes in the fair value of financial instruments are recognised as income and are determined as the difference between the fair value at the balance date or consideration received (if sold during the financial year) and the fair value as at the prior balance date or initial fair value (if acquired during the financial year).

(h) Expenses

All expenses, including management fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(i) Income tax

Under current legislation, the Schemes are not subject to income tax provided the income of the Schemes is distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Schemes).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Schemes are not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Schemes to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Schemes currently incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the statement of comprehensive income.

(j) Distributions

In accordance with the Schemes' Constitutions, the Schemes distribute their distributable income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(k) Increase/decrease in net asset attributable to unitholders

Non-distributable income is included in net assets attributable to unitholders and may consist of unrealised changes in fair value of financial instruments held at fair value through profit or loss, derivative financial instruments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same period in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the Schemes' financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Schemes compete for funds and is regulated. The Australian dollar is also the Schemes' presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(m) Due to/from brokers

Unsettled sales/purchases of investments represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the reporting date.

(n) Receivables

Receivables may include amounts for dividends, trust distributions and interest. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

(o) Payables

Payables include liabilities, accrued expenses and redemptions monies owing by the Schemes which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Schemes' Constitutions.

(p) Applications and redemptions

Applications received for units in the Schemes are recorded net of any entry fees payable prior to the issue of units in the Schemes. Redemptions from the Schemes are recorded gross of any exit fees payable after the cancellation of units redeemed.

(q) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Schemes by third parties such as investment management fees have been passed onto the Schemes. The Schemes qualify for RITC at a rate of at least 55%; hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

2 Summary of significant accounting policies (continued)

(r) Classes of units

Members who purchased units in Morningstar Investment Funds - Series 3 invest in one or more of the following classes of units:

- Class A;
- Class B; and
- Class Z

All classes of units in Morningstar Investment Funds - Series 3 are exposed to the same underlying pool of assets.

(s) Use of estimates

The Schemes make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the financial instruments held, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them. Models are calibrated by back testing to actual transactions to ensure that outputs are reliable.

To the extent practicable, models use observable data. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(t) Unit prices

Unit prices are determined in accordance with the Schemes' Constitutions and are calculated as the net assets attributable to unitholders of the Schemes, less estimated costs, divided by the number of units on issue, on a forward pricing basis, as determined by the Responsible Entity.

(u) Comparatives

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in this financial report.

3 Receivables

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Unit trust distributions receivable	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
RITC receivable	20	18	9	9	41	36
Other receivables	-	-	-	-	-	-
Total receivables	20	18	9	9	41	36

	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Unit trust distributions receivable	-	-	227	103
Interest receivable	-	-	2	-
RITC receivable	4	2	9	5
Other receivables	-	-	4	-
Total receivables	4	2	242	108

4 Change in fair value of financial instruments held at fair value through profit or loss

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial instruments						
Net gain/(loss) on financial instruments held for trading	4	-	1	-	(48)	-
Net gain/(loss) on financial instruments designated at fair value through profit or loss	<u>(21)</u>	<u>(6,431)</u>	<u>(71)</u>	<u>(3,802)</u>	<u>711</u>	<u>(11,999)</u>
Net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(17)</u>	<u>(6,431)</u>	<u>(70)</u>	<u>(3,802)</u>	<u>663</u>	<u>(11,999)</u>
Net realised gain/(loss) on financial instruments designated at fair value through profit or loss and held for trading	654	2,750	357	3,073	4,050	4,683
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss and held for trading	<u>(671)</u>	<u>(9,181)</u>	<u>(427)</u>	<u>(6,875)</u>	<u>(3,387)</u>	<u>(16,682)</u>
Net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(17)</u>	<u>(6,431)</u>	<u>(70)</u>	<u>(3,802)</u>	<u>663</u>	<u>(11,999)</u>
			Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
			30 June 2018	30 June 2017	30 June 2018	30 June 2017
			\$'000	\$'000	\$'000	\$'000
Financial instruments						
Net gain/(loss) on financial instruments held for trading			(3)	-	(632)	(10)
Net gain/(loss) on financial instruments designated at fair value through profit or loss			<u>(254)</u>	<u>(723)</u>	<u>1,563</u>	<u>950</u>
Net gains/(losses) on financial instruments held at fair value through profit or loss			<u>(257)</u>	<u>(723)</u>	<u>931</u>	<u>940</u>
Net realised gain/(loss) on financial instruments designated at fair value through profit or loss and held for trading			76	(918)	558	1,424
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss and held for trading			<u>(333)</u>	<u>195</u>	<u>373</u>	<u>(484)</u>
Net gains/(losses) on financial instruments held at fair value through profit or loss			<u>(257)</u>	<u>(723)</u>	<u>931</u>	<u>940</u>

5 Net assets attributable to unitholders

(a) Movements in number of units and net assets attributable to unitholders during the year were as follows:

	Morningstar Balanced Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Opening balance	162,859	150,451	122,798	122,169	14,716	13,419	220,918	216,146	1	1	24,684	24,085
Applications	58,425	55,427	60,768	60,959	3,390	3,186	2,992	2,962	-	-	2	2
Redemptions	(27,796)	(26,394)	(22,304)	(22,414)	(2,710)	(2,540)	(210,274)	(206,439)	-	-	(26,394)	(26,181)
Units issued upon reinvestment of distributions	658	618	1,597	1,524	305	282	1,080	1,019	-	-	1,709	1,671
Increase/(decrease) in net assets attributable to unitholders	-	1,317	-	(11,787)	-	132	-	(269)	-	-	-	424
Closing balance	194,146	181,419	162,859	150,451	15,701	14,479	14,716	13,419	1	1	1	1

	Morningstar Moderate Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Opening balance	86,532	85,083	79,471	80,063	5,470	5,377	64,239	64,562	1	-	62,479	62,196
Applications	17,051	17,023	23,852	24,305	767	771	2,367	2,423	-	-	26	27
Redemptions	(19,301)	(19,337)	(16,903)	(17,246)	(844)	(838)	(61,336)	(62,134)	-	-	(63,364)	(63,471)
Units issued upon reinvestment of distributions	70	71	112	112	63	63	200	199	-	-	860	861
Increase/(decrease) in net assets attributable to unitholders	-	1,264	-	(2,150)	-	66	-	326	-	-	-	387
Closing balance	84,352	84,104	86,532	85,084	5,456	5,439	5,470	5,376	1	-	1	-

5 Net assets attributable to unitholders (continued)

	Morningstar Growth Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Opening balance	314,868	272,154	281,157	246,356	26,700	22,897	140,237	121,786	23	21	173,897	150,070
Applications	94,590	84,345	71,152	64,992	3,898	3,443	8,813	7,858	-	-	22	22
Redemptions	(37,861)	(33,879)	(39,131)	(35,734)	(3,702)	(3,257)	(124,216)	(109,752)	-	-	(178,298)	(164,629)
Units issued upon reinvestment of distributions	429	386	1,690	1,474	332	295	1,866	1,617	1	1	4,402	3,924
Increase/(decrease) in net assets attributable to unitholders	-	13,761	-	(4,934)	-	1,079	-	1,388	-	2	-	10,634
Closing balance	<u>372,026</u>	<u>336,767</u>	<u>314,868</u>	<u>272,154</u>	<u>27,228</u>	<u>24,457</u>	<u>26,700</u>	<u>22,897</u>	<u>24</u>	<u>24</u>	<u>23</u>	<u>21</u>

	Morningstar High Growth Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Opening balance	25,422	21,719	8,836	8,082	-	-	50,784	45,198	1	1	43,677	38,796
Applications	20,675	18,359	16,737	16,189	194	171	1	-	-	-	452	423
Redemptions	(6,305)	(5,634)	(1,760)	(1,730)	-	-	(50,785)	(46,247)	-	-	(45,204)	(43,804)
Units issued upon reinvestment of distributions	166	149	1,609	1,392	-	-	-	-	-	-	1,076	994
Increase/(decrease) in net assets attributable to unitholders	-	1,692	-	(2,214)	-	3	-	1,049	-	-	-	3,592
Closing balance	<u>39,958</u>	<u>36,285</u>	<u>25,422</u>	<u>21,719</u>	<u>194</u>	<u>174</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

5 Net assets attributable to unitholders (continued)

	Morningstar Multi- Asset Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Opening balance	42,311	40,682	42,205	39,341	488	455	1	1	-	-	21,602	20,019
Applications	23,980	24,060	5,272	5,199	119	114	682	665	140,331	135,452	1	-
Redemptions	(6,254)	(6,223)	(5,247)	(5,145)	(61)	(57)	(225)	(221)	(13,158)	(12,946)	(22,222)	(22,516)
Units issued upon reinvestment of distributions	15	15	81	79	9	9	30	28	-	-	619	601
Increase/(decrease) in net assets attributable to unitholders	-	2,140	-	1,208	-	24	-	(18)	-	3,297	-	1,896
Closing balance	<u>60,052</u>	<u>60,674</u>	<u>42,311</u>	<u>40,682</u>	<u>555</u>	<u>545</u>	<u>488</u>	<u>455</u>	<u>127,173</u>	<u>125,803</u>	<u>-</u>	<u>-</u>

As stipulated within the Schemes' Constitutions, each unit represents a right to an individual share in the Schemes and does not extend to a right in the underlying assets of the Schemes. There are three classes of unitholders in the Schemes being Class A; Class B; and Class Z.

(b) Capital risk management

The Schemes manage their net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can significantly change on a daily basis as the Schemes are subject to daily applications and redemptions at the discretion of unitholders.

Management monitors the Schemes' redemptions and assesses the impact of requests for large redemptions on remaining unitholders. Where the impact is significant, management may decide to pay a special distribution and/or may delay payment of the redemption amount.

6 Financial assets held at fair value through profit or loss

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Held for trading						
Derivatives	-	-	-	-	-	-
Total held for trading	-	-	-	-	-	-
Designated at fair value through profit or loss						
Listed unit trusts	-	-	-	-	-	-
Unlisted unit trusts	<u>197,362</u>	175,488	<u>90,162</u>	94,692	<u>356,166</u>	316,451
Total designated at fair value through profit or loss	<u>197,362</u>	175,488	<u>90,162</u>	94,692	<u>356,166</u>	316,451
Total financial assets held at fair value through profit or loss	<u>197,362</u>	175,488	<u>90,162</u>	94,692	<u>356,166</u>	316,451
Comprising:						
Derivatives						
International share price index futures	-	-	-	-	-	-
Unlisted unit trusts						
Units in unlisted Australian equity trusts	139,757	155,384	53,746	71,727	288,879	289,405
Units in unlisted Australian fixed interest trusts	<u>57,605</u>	20,104	<u>36,416</u>	22,965	<u>67,287</u>	27,046
Total unlisted unit trusts	<u>197,362</u>	175,488	<u>90,162</u>	94,692	<u>356,166</u>	316,451
Listed unit trusts						
International listed trusts	-	-	-	-	-	-
Total listed unit trusts	-	-	-	-	-	-
Total financial assets held at fair value through profit or loss	<u>197,362</u>	175,488	<u>90,162</u>	94,692	<u>356,166</u>	316,451

6 Financial assets held at fair value through profit or loss (continued)

	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Fair value	Fair value	Fair value	Fair value
Held for trading				
Derivatives	-	-	<u>141</u>	<u>4</u>
Total held for trading	<u>-</u>	<u>-</u>	<u>141</u>	<u>4</u>
Designated at fair value through profit or loss				
Listed unit trusts	-	-	12,961	3,940
Unlisted unit trusts	34,596	24,021	160,801	38,556
Total designated at fair value through profit or loss	34,596	24,021	173,762	42,496
Total financial assets held at fair value through profit or loss	34,596	24,021	173,903	42,500
Comprising:				
Derivatives				
International share price index futures	-	-	141	4
Unlisted unit trusts				
Units in unlisted Australian equity trusts	31,687	21,100	124,320	26,694
Units in unlisted Australian fixed interest trusts	2,909	2,921	36,481	11,862
Total unlisted unit trusts	34,596	24,021	160,801	38,556
Listed unit trusts				
International listed trusts	-	-	12,961	3,940
Total listed unit trusts	<u>-</u>	<u>-</u>	12,961	3,940
Total financial assets held at fair value through profit or loss	34,596	24,021	173,903	42,500

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in Note 14.

7 Financial liabilities held at fair value through profit or loss

	As at	
	Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017
	Fair value \$'000	Fair value \$'000
Held for trading		
Derivatives	<u>332</u>	-
Total held for trading	<u>332</u>	-
Total financial liabilities held at fair value through profit or loss	<u>332</u>	-
Comprising:		
Derivatives		
International share price index futures	<u>332</u>	-
Total derivatives	<u>332</u>	-
Total financial liabilities held at fair value through profit or loss	<u>332</u>	-

8 Remuneration of auditors

The auditor's remuneration for all of the above Schemes were paid by the sector schemes and are reflected in the financial statements of the relevant Schemes. Sector schemes are schemes managed through Morningstar Investment Management Australia Limited that receive inter-funding investments from the Schemes.

9 Payables

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Management fees payable	93	81	37	39	187	164
Other payables	-	-	-	-	1	-
Total Payables	93	81	37	39	188	164

	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Management fees payable	20	14	33	27
Other payables	-	-	17	-
Total Payables	20	14	50	27

10 Distributions to unitholders

The distributions during the period were as follows:

	Morningstar Balanced Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distribution paid												
– August	-	-	1,794	1.4490	-	-	3,141	1.4328	-	-	358	1.4658
– September	546	0.3088	2,387	1.6683	45	0.3063	192	1.2900	-	0.4042	409	1.7019
– December	217	0.1193	20	0.0132	18	0.1237	12	0.0807	-	0.2496	33	0.1447
– March	1,263	0.6928	3,921	2.5472	106	0.6911	328	2.5153	-	0.8186	594	2.6420
– May	-	-	1,888	1.2018	-	-	169	1.1940	-	-	277	1.2592
– June	471	2.9480	874	8.0148	202	2.9071	560	7.9442	-	3.0794	-	8.0430
Distribution payable												
– June	<u>5,238</u>	<u>2.9480</u>	<u>12,103</u>	<u>8.0148</u>	<u>248</u>	<u>2.9071</u>	<u>560</u>	<u>7.9442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,735</u>	<u>4.0689</u>	<u>22,987</u>	<u>14.8943</u>	<u>619</u>	<u>4.0283</u>	<u>4,962</u>	<u>14.4570</u>	<u>-</u>	<u>4.5518</u>	<u>1,671</u>	<u>15.2566</u>

	Morningstar Moderate Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distribution paid												
– August	-	-	499	0.6461	-	-	413	0.6495	-	-	419	0.6786
– September	306	0.3408	531	0.6328	17	0.3387	22	0.4022	-	0.4279	419	0.6865
– December	220	0.2447	746	0.8745	13	0.2564	49	0.9282	-	0.3657	12	0.9903
– March	521	0.5926	512	0.5865	31	0.6012	23	0.5655	-	0.7035	8	0.7066
– May	-	-	138	0.1573	-	-	10	0.1802	-	-	3	0.2297
– June	37	1.3030	70	4.6172	33	1.3168	129	4.6558	-	1.4335	-	4.6195
Distribution payable												
– June	<u>1,061</u>	<u>1.3030</u>	<u>3,922</u>	<u>4.6172</u>	<u>39</u>	<u>1.3168</u>	<u>120</u>	<u>4.6558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,145</u>	<u>2.4811</u>	<u>6,418</u>	<u>7.5144</u>	<u>133</u>	<u>2.5131</u>	<u>766</u>	<u>7.3814</u>	<u>-</u>	<u>2.9306</u>	<u>861</u>	<u>7.9112</u>

10 Distributions to unitholders (continued)

	Morningstar Growth Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distribution paid												
– August	-	-	1,911	0.6623	-	-	917	0.6609	-	-	1,197	0.6952
– September	961	0.2800	1,415	0.4775	75	0.2824	103	0.3859	-	0.4035	920	0.5376
– December	127	0.0363	607	0.2021	11	0.0427	60	0.2313	-	0.1468	468	0.3348
– March	2,602	0.7346	2,349	0.7697	193	0.7315	187	0.7724	-	0.8624	1,214	0.9006
– May	-	-	30	0.0095	-	-	5	0.0201	-	-	123	0.0923
– June	172	0.6480	1,189	7.6103	111	0.6438	1,266	7.5760	-	0.7527	2	8.1560
Distribution payable												
– June	<u>2,238</u>	<u>0.6480</u>	<u>22,668</u>	<u>7.6103</u>	<u>63</u>	<u>0.6438</u>	<u>645</u>	<u>7.5760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,100</u>	<u>1.6989</u>	<u>30,169</u>	<u>9.7314</u>	<u>453</u>	<u>1.7004</u>	<u>3,183</u>	<u>9.6466</u>	<u>-</u>	<u>2.1654</u>	<u>3,924</u>	<u>10.7165</u>

	Morningstar High Growth Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distribution paid												
– August	-	-	88	0.9245	-	-	433	0.9013	-	-	408	0.9411
– September	92	0.2944	62	0.4570	-	0.3555	-	-	-	0.4056	221	0.5104
– December	-	-	-	-	-	-	-	0.0175	-	-	29	0.0895
– March	292	0.8303	199	0.9609	-	0.8149	-	0.2113	-	1.1360	335	1.0795
– June	28	0.2141	1,245	15.2493	-	0.2584	-	15.2380	-	0.1721	-	15.8018
Distribution payable												
– June	<u>58</u>	<u>0.2141</u>	<u>2,410</u>	<u>15.2493</u>	<u>1</u>	<u>0.2584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>470</u>	<u>1.3388</u>	<u>4,004</u>	<u>17.5917</u>	<u>1</u>	<u>1.4288</u>	<u>433</u>	<u>16.3681</u>	<u>-</u>	<u>1.7138</u>	<u>993</u>	<u>18.4223</u>

10 Distributions to unitholders (continued)

	Morningstar Multi- Asset Real Return Fund											
	Class A				Class B				Class Z			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distribution paid												
– September	143	0.3332	638	1.5087	2	0.3096	1	1.5776	357	0.4484	340	1.6482
– December	128	0.2207	-	-	1	0.2372	-	-	323	0.3441	-	-
– March	308	0.5262	358	0.8472	3	0.5681	5	1.0983	653	0.6668	228	1.2038
– May	-	-	33	0.0790	-	-	-	0.0643	-	-	33	0.1775
– June	6	0.5868	68	4.7562	4	0.6778	22	4.6672	-	0.7753	-	4.7882
Distribution payable												
– June	<u>346</u>	<u>0.5868</u>	<u>1,941</u>	<u>4.7562</u>	<u>-</u>	<u>0.6778</u>	<u>-</u>	<u>-</u>	<u>986</u>	<u>0.7753</u>	<u>-</u>	<u>-</u>
	<u>931</u>	<u>1.6669</u>	<u>3,038</u>	<u>7.1911</u>	<u>10</u>	<u>1.7927</u>	<u>28</u>	<u>7.4074</u>	<u>2,319</u>	<u>2.2346</u>	<u>601</u>	<u>7.8177</u>

11 Derivative financial instruments

In the normal course of business, the Schemes may enter into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date whose value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Schemes' portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Scheme against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and/or adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

The Schemes held the following derivative financial instruments during the year:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

	Morningstar Multi- Asset Real Return Fund					
	2018			2017		
	Fair values			Fair values		
Contract/ Notional	Assets	Liabilities	Contract/ Notional	Assets	Liabilities	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
International share price index futures	4,856	<u>141</u>	332	(1,894)	<u>4</u>	-
		<u>141</u>	<u>332</u>		<u>4</u>	-

12 Reconciliation of net operating profit/(loss) to net cash used in/from operating activities

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities						
Net operating profit/(loss)	9,803	17,988	3,608	6,608	21,395	44,364
Change in fair value of investments	17	6,431	70	3,802	(663)	11,999
(Increase)/decrease in receivables	(2)	15	-	5	(5)	6
Increase/(decrease) in payables	12	(70)	(2)	(20)	24	(26)
Trust distribution received/ reinvested	<u>(10,879)</u>	<u>(25,462)</u>	<u>(4,156)</u>	<u>(10,910)</u>	<u>(22,848)</u>	<u>(58,303)</u>
Net cash inflow/(outflow) from operating activities	<u>(1,049)</u>	<u>(1,098)</u>	<u>(480)</u>	<u>(515)</u>	<u>(2,097)</u>	<u>(1,960)</u>
(b) Components of cash and cash equivalents						
Cash at bank	4,096	1,109	509	-	7,530	2,062
Bank overdraft	<u>-</u>	<u>-</u>	<u>-</u>	<u>(160)</u>	<u>-</u>	<u>-</u>
	<u>4,096</u>	<u>1,109</u>	<u>509</u>	<u>(160)</u>	<u>7,530</u>	<u>2,062</u>
(c) Non-cash financing and investing activities						
Reinvestment of unitholder distributions in the Schemes	(900)	(4,214)	(134)	(1,172)	(682)	(7,015)
Reinvestment of dividend and distribution income of the Schemes	<u>(10,879)</u>	<u>(25,462)</u>	<u>(4,156)</u>	<u>(10,910)</u>	<u>(22,848)</u>	<u>(58,303)</u>

12 Reconciliation of net operating profit/(loss) to net cash used in/from operating activities (continued)

	Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
	Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000
(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities				
Net operating profit/(loss)	2,166	7,857	8,721	6,753
Change in fair value of investments	257	723	(931)	(940)
(Increase)/decrease in receivables	(2)	40	(134)	(102)
Increase/(decrease) in payables	6	(14)	23	1
Trust distribution received/ reinvested	<u>(2,628)</u>	<u>(8,686)</u>	<u>(7,826)</u>	<u>(6,014)</u>
Net cash inflow/(outflow) from operating activities	<u>(201)</u>	<u>(80)</u>	<u>(147)</u>	<u>(302)</u>
(b) Components of cash and cash equivalents				
Cash at bank	1,939	121	13,563	291
Bank overdraft	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,939</u>	<u>121</u>	<u>13,563</u>	<u>291</u>
(c) Non-cash financing and investing activities				
Reinvestment of unitholder distributions in the Schemes	(149)	(2,386)	(24)	(708)
Reinvestment of dividend and distribution income of the Schemes	<u>(2,628)</u>	<u>(8,686)</u>	<u>(7,826)</u>	<u>(6,014)</u>

13 Related party transactions

Responsible Entity

The Responsible Entity of the Schemes is Morningstar Investment Management Australia Limited (ABN 54 071 808 501). The registered office of the Responsible Entity is Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo, Sydney NSW 2000.

Parent Entities

The immediate Australia parent entity is Morningstar Australasia Pty Limited. The ultimate parent is Morningstar Inc, a company incorporated in the US.

Key management personnel

(a) Directors

The following persons held office as directors of the Responsible Entity from the beginning of the financial year up to the date of this report unless noted otherwise:

Daniel Edward Needham (director)

Christopher Galloway (director)

Heather Brilliant (director) (resigned 1 September 2017)

James Wickham (director) (appointed 23 August 2017).

Scott Schilling (director)

Fiona White (company secretary)

(b) Other key management personnel

In addition to the Directors noted above, Morningstar Investment Management Australia Limited, the Responsible Entity of the Schemes, is considered to be key management personnel with the authority for the strategic direction and management of the Schemes.

13 Related party transactions (continued)

Related party transactions

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Schemes and the Responsible Entity are as follows:

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$	\$	\$	\$	\$	\$
Fees paid and payable to the Responsible Entity	<u>1,056,572</u>	<u>1,043,079</u>	<u>477,048</u>	<u>500,226</u>	<u>2,112,389</u>	<u>1,939,584</u>
			Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
			30 June 2018	30 June 2017	30 June 2018	30 June 2017
			\$	\$	\$	\$
Fees paid and payable to the Responsible Entity			<u>204,928</u>	<u>141,373</u>	<u>393,790</u>	<u>303,446</u>

Key management personnel unitholdings

At 30 June 2018, no key management personnel held units in the Schemes (2017: Nil).

Key management personnel remuneration

Key management personnel are paid by a related party of the Responsible Entity. Payments made from the Schemes to the Responsible Entity do not include any remuneration amounts directly attributable to key management personnel.

Key management personnel loan disclosures

The Schemes have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period (2017: Nil).

13 Related party transactions (continued)

Investments

The Schemes held investments in the following schemes which were also managed by the Responsible Entity or its related parties:

Fund Name	Morningstar Balanced Real Return Fund				30 June 2017			
	30 June 2018		Interest held	Distribution received/receivable	30 June 2017		Interest held	Distribution received/receivable
	Units held	Fair value of investment			Units held	Fair value of investment		
	Units	\$	%	\$	Units	\$	%	\$
Morningstar Alpha Strategies Fund	11,774,662	17,703,911	9.37	925,042	15,240,810	22,818,388	10.02	461,899
Morningstar Australian Bonds Fund	17,962,665	16,616,723	6.75	305,051	-	-	-	-
Morningstar Cash Fund	41,411,029	40,987,808	8.57	613,753	20,307,740	20,104,257	4.40	729,405
Morningstar Global Inflation Linked Sec (Hedged) Fund	12,436,747	13,573,466	7.56	92,515	-	-	-	-
Morningstar Multi-Asset All Growth Fund	82,285,649	81,842,953	24.35	7,269,643	85,223,290	84,679,566	27.04	19,322,610
Morningstar Multi-Asset Defensive Fund	<u>27,887,993</u>	<u>26,636,658</u>	<u>33.03</u>	<u>1,672,845</u>	<u>48,425,263</u>	<u>47,886,290</u>	<u>33.95</u>	<u>4,948,704</u>
		<u>197,361,519</u>		<u>10,878,849</u>		<u>175,488,501</u>		<u>25,462,618</u>

Fund Name	Morningstar Moderate Real Return Fund				30 June 2017			
	30 June 2018		Interest held	Distribution received/receivable	30 June 2017		Interest held	Distribution received/receivable
	Units held	Fair value of investment			Units held	Fair value of investment		
	Units	\$	%	\$	Units	\$	%	\$
Morningstar Alpha Strategies Fund	5,654,763	8,502,275	4.50	444,250	7,002,431	10,483,969	4.60	212,220
Morningstar Australian Bonds Fund	15,179,318	14,041,932	5.70	257,783	-	-	-	-
Morningstar Cash Fund	22,605,096	22,374,072	4.68	389,674	23,197,716	22,965,274	5.03	531,927
Morningstar Diversified Alternatives Fund	-	-	-	-	-	-	-	1,452
Morningstar Global Inflation Linked Sec (Hedged) Fund	6,695,386	7,307,345	4.07	56,680	-	-	-	-
Morningstar Multi-Asset All Growth Fund	18,890,417	18,788,787	5.59	1,693,789	20,034,873	19,907,050	6.36	5,043,765
Morningstar Multi-Asset Defensive Fund	<u>20,047,461</u>	<u>19,147,931</u>	<u>23.74</u>	<u>1,314,135</u>	<u>41,801,266</u>	<u>41,336,018</u>	<u>29.30</u>	<u>5,120,834</u>
		<u>90,162,342</u>		<u>4,156,311</u>		<u>94,692,311</u>		<u>10,910,198</u>

13 Related party transactions (continued)

Investments (continued)

Fund Name	Morningstar Growth Real Return Fund				Morningstar Growth Real Return Fund			
	30 June 2018				30 June 2017			
	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$
Ibbotson International Shares Active (Hedged) Trust	-	-	-	-	4,243,856	6,108,394	46.66	484,755
Morningstar Alpha Strategies Fund	21,139,755	31,784,890	16.81	1,660,784	27,615,645	41,345,868	18.16	836,939
Morningstar Australian Bonds Fund	16,709,194	15,457,174	6.28	282,890	-	-	-	-
Morningstar Cash Fund	52,365,261	51,830,088	10.84	748,219	27,320,149	27,046,401	5.93	819,094
Morningstar Global Inflation Linked Sec (Hedged) Fund	22,328,296	24,369,102	13.57	148,401	-	-	-	-
Morningstar Global Trading Strategies Fund	-	-	-	-	-	-	-	2,687
Morningstar Multi-Asset All Growth Fund	207,758,143	206,640,404	61.49	18,411,110	-	-	-	-
Morningstar Multi-Asset Defensive Fund	27,309,376	26,084,005	32.34	1,596,121	52,427,217	51,843,702	36.75	6,227,320
Morningstar Multi-Asset Real Return Fund	-	-	-	-	191,327,339	190,106,671	60.71	49,932,575
		<u>356,165,663</u>		<u>22,847,525</u>		<u>316,451,036</u>		<u>58,303,370</u>

Fund Name	Morningstar High Growth Real Return Fund				Morningstar High Growth Real Return Fund			
	30 June 2018				30 June 2017			
	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$
Morningstar Alpha Strategies Fund	876,392	1,317,708	0.70	68,851	976,441	1,461,918	0.64	29,593
Morningstar Cash Fund	2,938,730	2,908,696	0.61	55,077	2,951,097	2,921,527	0.64	53,456
Morningstar Global Inflation Linked Securities (Hedged Fund)	1,460,762	1,594,276	0.89	16,382	1,110,675	1,187,889	0.79	129,993
Morningstar Multi-Asset All Growth Fund	28,930,553	28,774,906	8.56	2,487,250	18,568,370	18,449,904	5.89	8,508,444
		<u>34,595,586</u>		<u>2,627,560</u>		<u>24,021,238</u>		<u>8,721,486</u>

13 Related party transactions (continued)

Investments (continued)

Fund Name	Morningstar Multi- Asset Real Return Fund				Morningstar Multi- Asset Real Return Fund			
	30 June 2018				30 June 2017			
	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$	Units held Units	Fair value of investment \$	Interest held %	Distribution received/ receivable \$
Ibbotson International Shares Active (Hedged) Trust	13,950,342	19,451,241	99.99	2,980,464	4,850,314	6,981,300	53.33	149,912
Ibbotson International Shares Active (Unhedged) Trust	20,624,557	17,404,032	10.39	1,985,389	6,683,963	6,143,030	3.19	139,917
Ibbotson International Shares (Unhedged) Trust	4,226,145	20,747,456	8.09	726,419	950,863	3,919,820	2.66	59,629
Morningstar Australian Bonds Fund	9,491,785	8,780,566	3.57	237,430	2,025,085	1,877,415	0.72	145,386
Morningstar Australian Equity Income Fund (formerly known as Morningstar Australian Property Securities Fund)	48,107,411	6,783,626	21.53	151,071	-	-	-	-
Morningstar Cash Fund	27,986,041	27,700,024	5.79	393,890	10,085,808	9,984,748	2.19	156,026
Morningstar Diversified Alternatives Fund	36,263,587	25,797,916	45.80	531,231	7,314,180	5,015,552	20.41	285,652
Morningstar Global Inflation Linked Securities (Hedged Fund)	9,860,362	10,761,599	5.99	71,276	1,903,126	2,035,431	1.35	114,990
Morningstar International Shares (Hedged) Fund	21,386,057	10,280,919	2.19	279,104	3,410,322	1,524,516	0.37	6,949
Morningstar Multi-Asset All Growth Fund	-	-	-	-	-	-	-	4,955,251
Morningstar Multi-Asset Defensive Fund	9,189,077	8,776,763	10.88	272,343	-	-	-	-
		<u>156,484,142</u>		<u>7,628,617</u>		<u>37,481,812</u>		<u>6,013,712</u>

The principal activity of the fund is denoted by the name of the Fund.

13 Related party transactions (continued)

Investment in subsidiary

	Morningstar Growth Real Return Fund	
	30 June 2018	30 June 2017
	\$	\$
Ibbotson International Shares Active (Hedged) Trust	-	6,108,394
Morningstar Multi-Asset Real Return Fund	-	190,106,671
Morningstar Multi-Asset All Growth Fund	<u>206,640,404</u>	<u>-</u>
Investments in subsidiaries at fair value	<u>206,640,404</u>	<u>196,215,065</u>

The Scheme meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but rather, it recognises Ibbotson International Shares Active (Hedged) Trust and Morningstar Multi-Asset Real Return Fund as investments at fair value through profit or loss.

		Morningstar Growth Real Return Fund	
		Ownership interest (%)	
		30 June 2018	30 June 2017
Name of unconsolidated subsidiary	Principal place of business		
Ibbotson International Shares Active (Hedged) Trust	Australia	-	46.66%
Morningstar Multi-Asset Real Return Fund	Australia	-	60.71%
Morningstar Multi-Asset All Growth Fund	Australia	61.49%	-

The above subsidiaries do not control any further subsidiaries.

Restrictions

The Scheme receives income in the form of dividend and interest from its investments in unconsolidated subsidiaries, and there are no significant restrictions on the transfer of funds from these entities to the Scheme.

Support

The Scheme has no contractual commitments or current intentions to provide any other financial or other support to its unconsolidated subsidiaries.

13 Related party transactions (continued)

Investment in subsidiary

	Morningstar Multi-Asset Real Return Fund	
	30 June 2018	30 June 2017
	\$	\$
	Ibbotson International Shares Active (Hedged) Trust	<u>19,451,241</u>
Investments in subsidiaries at fair value	<u>19,451,241</u>	<u>6,981,300</u>

The Scheme meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but rather, it recognises Ibbotson International Shares Active (Hedged) Trust as investment at fair value through profit or loss.

Name of unconsolidated subsidiary	Principal place of business	Morningstar Multi-Asset Real Return Fund	
		Ownership interest (%)	
		30 June 2018	30 June 2017
Ibbotson International Shares Active (Hedged) Trust	Australia	99.99%	53.33%

The above subsidiaries do not control any further subsidiaries.

Restrictions

The Scheme receives income in the form of dividend and interest from its investments in unconsolidated subsidiaries, and there are no significant restrictions on the transfer of funds from these entities to the Scheme.

Support

The Scheme has no contractual commitments or current intentions to provide any other financial or other support to its unconsolidated subsidiaries.

14 Financial risk management

(a) Financial risk management objectives, policies and processes

Risks arising from holding financial instruments are inherent in the Schemes' activities, and are managed through a process of ongoing identification, measurement and monitoring. The Schemes are exposed to credit risk, liquidity risk and market risk.

Financial instruments of the Schemes comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Schemes from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Schemes, as well as the level of risk that the Schemes are willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within Management on a regular basis as deemed appropriate, including the investment manager, compliance manager, other key management, the Investment Committee of the Investment manager, and ultimately the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Schemes may use derivatives to manage certain risk exposures.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. In order to avoid excessive concentration of risk, the Schemes monitor their exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

(b) Credit risk

Credit risk represents the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Schemes.

The Schemes' maximum credit risk exposure at reporting date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, and ensuring that transactions are undertaken with a large number of counterparties. As such, the Schemes do not have a concentration of credit risk that arises from exposure to derivatives from a single, or small group of counterparties.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Unsettled sales of investments are transactions with brokers awaiting settlement. The credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Schemes monitor the credit rating and financial positions of the brokers used to further mitigate this risk.

Substantially all of the assets of the Schemes are held by the custodian, JPMorgan. Bankruptcy or insolvency of the custodian may cause the Schemes' rights with respect to securities held by the custodian to be delayed or limited. The Schemes monitor their risk by monitoring the credit quality and financial positions of the custodian the Schemes use.

Credit risk is not considered to be significant to the Schemes except in relation to investments in debt securities.

Credit quality per class of debt instrument

The credit quality of financial assets is managed by the Schemes using Standard and Poor's rating categories, in accordance with the investment mandate of the Schemes. The Schemes' exposure in each grade is monitored on a weekly basis. This review process allows management to assess the potential loss as a result of risks and take corrective action.

14 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Schemes will experience difficulty in meeting obligations associated with financial liabilities.

This risk is controlled through the Schemes' investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Schemes maintain sufficient cash and cash equivalents to meet normal operating requirements. Units are redeemed on demand at the unit holders' option. However, the Directors do not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term. As stated in the Schemes' Constitution, where it is impracticable for the Responsible Entity to issue out redemptions during instances of stock market closures or emergency state of affairs, the Responsible Entity may at any time suspend the redemption of units.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

	Morningstar Balanced Real Return Fund									
	30 June 2018					30 June 2017				
	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000
Distribution payable	5,486	-	-	-	5,486	12,663	-	-	-	12,663
Payables	93	-	-	-	93	81	-	-	-	81
Net assets attributable to unitholders	<u>195,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,899</u>	<u>163,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,871</u>
Total financial liabilities	<u>201,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,478</u>	<u>176,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,615</u>

The table above analyses the Schemes' derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Morningstar Moderate Real Return Fund									
	30 June 2018					30 June 2017				
	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000
Bank overdraft	-	-	-	-	-	160	-	-	-	160
Distribution payable	1,100	-	-	-	1,100	4,042	-	-	-	4,042
Payables	37	-	-	-	37	39	-	-	-	39
Net assets attributable to unitholders	<u>89,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,543</u>	<u>90,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,460</u>
Total financial liabilities	<u>90,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,680</u>	<u>94,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,701</u>

The table above analyses the Schemes' derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

14 Financial risk management (continued)

(c) Liquidity risk (continued)

	Morningstar Growth Real Return Fund									
	30 June 2018					30 June 2017				
	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000
Distribution payable	2,301	-	-	-	2,301	23,313	-	-	-	23,313
Payables	188	-	-	-	188	164	-	-	-	164
Net assets attributable to unitholders	<u>361,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>361,248</u>	<u>295,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,072</u>
Total financial liabilities	<u>363,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,737</u>	<u>318,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>318,549</u>

The table above analyses the Schemes' derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Morningstar High Growth Real Return Fund									
	30 June 2018					30 June 2017				
	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000
Distribution payable	59	-	-	-	59	2,410	-	-	-	2,410
Payables	20	-	-	-	20	14	-	-	-	14
Net assets attributable to unitholders	<u>36,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,460</u>	<u>21,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,720</u>
Total financial liabilities	<u>36,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,539</u>	<u>24,144</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,144</u>

The table above analyses the Schemes' derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

14 Financial risk management (continued)

(c) Liquidity risk (continued)

	Morningstar Multi- Asset Real Return Fund									
	30 June 2018					30 June 2017				
	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000	Less than 1 month \$'000	1-6 months \$'000	7-12 months \$'000	Over 12 months \$'000	Total \$'000
Distribution payable	1,332	-	-	-	1,332	1,941	-	-	-	1,941
Payables	50	-	-	-	50	27	-	-	-	27
Financial liabilities held at fair value through profit or loss	-	332	-	-	332	-	-	-	-	-
Net assets attributable to unitholders	<u>187,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,022</u>	<u>41,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,137</u>
Total financial liabilities	<u>188,404</u>	<u>332</u>	<u>-</u>	<u>-</u>	<u>188,736</u>	<u>43,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,105</u>

The table above analyses the Schemes' derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the financial year to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

The Schemes buy and sell derivatives in the ordinary course of business, and also incur financial liabilities, in order to manage market risks.

Currency risk

Currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Schemes enter into forward foreign exchange contracts principally to hedge the foreign exchange risk implicit in the value of portfolio securities denominated in foreign currencies, and to secure a particular exchange rate for a planned purchase or sale of securities. The term of these contracts rarely exceeds twelve months.

For the following Scheme there are no currency risks associated since all monetary assets and liabilities are held in Australian dollars:

- Morningstar Moderate Real Return Fund

14 Financial risk management (continued)

(d) Market risk (continued)

Currency risk (continued)

The table below indicates the currencies to which the Schemes had significant exposure at 30 June 2018 (2017: Nil) on its assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian dollar on net assets attributable to unitholders and net operating profit before distributions, with all other variables held constant.

Morningstar Balanced Real Return Fund						
30 June 2018	US Dollar AS'000	Euro AS'000	British Pound AS'000	Japanese Yen AS'000	Other AS'000	Total AS'000
Assets						
Cash and cash equivalents	-	-	-	1,933	-	1,933
Total assets	-	-	-	1,933	-	1,933
Liabilities						
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	-	-	-
Morningstar Growth Real Return Fund						
30 June 2018	US Dollar AS'000	Euro AS'000	British Pound AS'000	Japanese Yen AS'000	Other AS'000	Total AS'000
Assets						
Cash and cash equivalents	-	-	-	5,266	-	5,266
Total assets	-	-	-	5,266	-	5,266
Liabilities						
Payables	-	-	-	(1)	-	(1)
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	(1)	-	(1)

14 Financial risk management (continued)

(d) Market risk (continued)

Currency risk (continued)

Morningstar High Growth Real Return Fund						
30 June 2018	US Dollar A\$'000	Euro A\$'000	British Pound A\$'000	Japanese Yen A\$'000	Other A\$'000	Total A\$'000
Assets						
Cash and cash equivalents	327	-	-	646	-	973
Total assets	327	-	-	646	-	973
Liabilities						
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	-	-	-
Morningstar Multi- Asset Real Return Fund						
30 June 2018	US Dollar A\$'000	Euro A\$'000	British Pound A\$'000	Japanese Yen A\$'000	Other A\$'000	Total A\$'000
Assets						
Cash and cash equivalents	29	-	5,690	5,748	-	11,467
Deposits held with brokers for margin*	(649)	-	-	167	-	(482)
Accrued income*	3	-	-	(1)	-	2
Total assets	(617)	-	5,690	5,914	-	10,987
Liabilities						
Total liabilities (excluding net assets attributable to unitholders)	-	-	-	-	-	-

*The balances are disclosed separately by currency in the currency exposure tables and are aggregated in the Statement of financial position.

14 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Schemes do not have significant exposure to interest rate risk as all of the Schemes' instruments are non-interest bearing.

Further details of the Schemes' investments in unit trusts are disclosed in Note 6 to the financial statements.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from the Schemes' investment portfolio.

The effect of possible changes in market factors on the net assets attributable to unitholders and operating profit before distributions is represented by the trust's market beta relative to their market index, with all other variables held constant. The table below indicates the movement of the trust's net assets attributable to unitholders based on the movement in the index as per the table below:

	Morningstar Balanced Real Return Fund		Morningstar Moderate Real Return Fund		Morningstar Growth Real Return Fund	
	+10% \$'000	-10% \$'000	+10% \$'000	-10% \$'000	+10% \$'000	-10% \$'000
30 June 2018	2,645	(2,645)	703	(703)	6,375	(6,375)
30 June 2017	5,532	(5,532)	1,415	(1,415)	12,761	(12,761)
			Morningstar High Growth Real Return Fund		Morningstar Multi-Asset Real Return Fund	
			+10% \$'000	-10% \$'000	+10% \$'000	-10% \$'000
30 June 2018			816	(816)	5,144	(5,144)
30 June 2017			1,184	(1,184)	2,000	(2,000)

14 Financial risk management (continued)

(e) Fair value hierarchy

The Schemes classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, non-market observable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Schemes' financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2018 and 30 June 2017.

	Morningstar Balanced Real Return Fund							
	At 30 June 2018				At 30 June 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets designated at fair value through profit or loss:								
Unlisted unit trusts	-	<u>197,362</u>	-	<u>197,362</u>	-	<u>175,488</u>	-	<u>175,488</u>
Total	-	<u>197,362</u>	-	<u>197,362</u>	-	<u>175,488</u>	-	<u>175,488</u>

14 Financial risk management (continued)

(e) Fair value hierarchy (continued)

Morningstar Moderate Real Return Fund							
At 30 June 2018				At 30 June 2017			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Financial assets designated at fair value through profit or loss:							
Unlisted unit trusts	90,162	-	90,162	-	94,692	-	94,692
Total	90,162	-	90,162	-	94,692	-	94,692
Morningstar Growth Real Return Fund							
At 30 June 2018				At 30 June 2017			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Financial assets held for trading:							
Financial assets designated at fair value through profit or loss:							
Unlisted unit trusts	356,166	-	356,166	-	316,451	-	316,451
Total	356,166	-	356,166	-	316,451	-	316,451
Morningstar High Growth Real Return Fund							
At 30 June 2018				At 30 June 2017			
Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Financial assets designated at fair value through profit or loss:							
Unlisted unit trusts	34,596	-	34,596	-	24,021	-	24,021
Total	34,596	-	34,596	-	24,021	-	24,021

14 Financial risk management (continued)

(e) Fair value hierarchy (continued)

	Morningstar Multi- Asset Real Return Fund							
	At 30 June 2018				At 30 June 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets								
Financial assets held for trading:								
Derivatives	141	-	-	141	4	-	-	4
Financial assets designated at fair value through profit or loss:								
Unlisted unit trusts	-	160,801	-	160,801	-	38,556	-	38,556
Listed unit trusts	<u>12,961</u>	<u>-</u>	<u>-</u>	<u>12,961</u>	<u>3,940</u>	<u>-</u>	<u>-</u>	<u>3,940</u>
Total	<u>13,102</u>	<u>160,801</u>	<u>-</u>	<u>173,903</u>	<u>3,944</u>	<u>38,556</u>	<u>-</u>	<u>42,500</u>
Financial liabilities								
Financial liabilities held for trading:								
Derivatives	<u>332</u>	<u>-</u>	<u>-</u>	<u>332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>332</u>	<u>-</u>	<u>-</u>	<u>332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Investments, whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active unlisted unit trusts, active listed equities, exchange traded derivatives, currency contracts, money market securities, government bonds and listed corporate debt.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain unlisted corporate debt and floating rate notes, warrants, swaps, certain unlisted unit trusts, and certain listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include certain unlisted shares, certain corporate debt securities and unlisted unit trusts with suspended applications and withdrawals. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

(i) Transfers between levels

There have been no transfers between levels for the financial year ended 30 June 2018 (2017: Nil).

15 Events subsequent to the reporting period

No significant events have occurred since the reporting period which would impact on the financial position of the Schemes disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Schemes for the year ended on that date (2017: Nil).

16 Contingent assets and liabilities and commitments

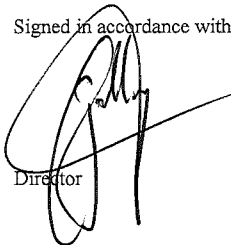
There are no contingent assets and liabilities or commitments as at 30 June 2018 (2017: Nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 52 of Morningstar Balanced Real Return Fund, Morningstar Moderate Real Return Fund (formerly known as Morningstar Conservative Real Return Fund), Morningstar Growth Real Return Fund, Morningstar High Growth Real Return Fund and Morningstar Multi-Asset Real Return Fund are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Schemes' financial position as at 30 June 2018 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a)
- (c) there are reasonable grounds to believe that the Schemes will be able to pay their debts as and when they become due and payable; and
- (d) the financial statements are in accordance with the provisions of the Schemes' Constitutions.

Signed in accordance with a resolution of the directors.



Director

Sydney

25 September 2018

Independent Auditor's Report to the unitholders of Morningstar Investment Funds - Series 3

Opinion

For the following Morningstar Investment Funds - Series 3 (the "Schemes"):

- ▶ Morningstar Balanced Real Return Fund;
- ▶ Morningstar Moderate Real Return Fund (formerly known as Morningstar Conservative Real Return Fund);
- ▶ Morningstar Growth Real Return Fund;
- ▶ Morningstar High Growth Real Return Fund; and
- ▶ Morningstar Multi Asset Real Return Fund.

We have audited the financial reports of the Schemes, which comprises the statements of financial position as at 30 June 2018, the statements of comprehensive income, statements of changes in net assets attributable to unitholders and statements of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial reports of the Schemes are in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Schemes' financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audits in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Reports* section of our report. We are independent of the Schemes in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audits of the financial reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Reports and Auditor's Report Thereon

The directors of Morningstar Investment Management Australia Limited as the Responsible Entity of the Schemes (the "Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial reports.

Our opinion on the financial reports does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audits or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Reports

The directors of the Responsible Entity are responsible for the preparation of financial reports that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial reports that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors of the Responsible Entity are responsible for assessing the Schemes' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Schemes or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audits. We also:

- ▶ Identify and assess the risks of material misstatement of the financial reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Schemes' internal control.

Auditor's Responsibilities for the Audit of the Financial Reports (continued)

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Schemes' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Schemes to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.



Ernst & Young



Mark Jones
Partner
Sydney
25 September 2018