

# **Morningstar Growth Real Return Fund**

ARSN 092 234 136

**Condensed Financial Report - For the half-year ended 31 December 2019**

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## Condensed Financial Report - For the half-year ended 31 December 2019

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## Directors' report

The directors of Morningstar Investment Management Australia Limited (ABN 54 071 808 501) the "Responsible Entity", the Responsible Entity of Morningstar Growth Real Return Fund (the "Fund"), present their interim report together with the condensed financial statements of the Fund, for the half-year ended 31 December 2019.

### Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

During the half-year, the Fund continues to invest funds in accordance with its investment return objectives and investment strategies as set out in the current product disclosure statements and in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the half-year ended 31 December 2019 (2018: Nil).

There were no significant changes in the nature of the Fund's activities during the half-year ended 31 December 2019.

### Directors

The following persons held office as directors of the Responsible Entity during the half-year or since the end of the half-year and up to the date of this report:

Daniel Edward Needham (director)

Christopher Galloway (director)

James Wickham (director)

Scott Schilling (director)

Fiona White (company secretary)

### Review of results and operations

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

#### Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	<b>Half-year ended</b>	
	<b>31 December 2019</b>	31 December 2018
	<b>\$'000</b>	\$'000
Net profit/(loss) attributable to unitholders before finance costs	<u>14,641</u>	<u>(5,871)</u>
<b>Distributions - Class A</b>		
Distribution paid and payable	<u>1,414</u>	<u>1,052</u>
Distribution (cents per unit)	<u>0.3719</u>	<u>0.2693</u>
<b>Distributions - Class B</b>		
Distribution paid and payable	<u>121</u>	<u>70</u>
Distribution (cents per unit)	<u>0.3768</u>	<u>0.2494</u>
<b>Distributions - Class Z</b>		
Distribution paid and payable	<u>-</u>	<u>-</u>
Distribution (cents per unit)	<u>0.4896</u>	<u>0.5109</u>

## **Directors' report (continued)**

### **Significant changes in state of affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial period.

### **Matters subsequent to the end of the financial period**

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

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

### **Rounding of amounts**

The Fund is a registered scheme 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 director's report and financial statements. Amounts in the director's report and the financial statements have been rounded to the nearest thousand 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 3.

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

Director

Sydney

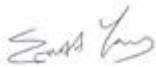
10 March 2020

**Auditor's Independence Declaration**

## **Auditor's Independence Declaration to the Directors of Morningstar Investment Management Australia Limited as Responsible Entity for Morningstar Growth Real Return Fund**

As lead auditor for the review of the financial report of Morningstar Growth Real Return Fund for the half-year ended 31 December 2019, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Mark Jones  
Partner  
10 March 2020

**Morningstar Growth Real Return Fund**  
**Condensed statement of comprehensive income**  
**For the half-year ended 31 December 2019**

		<b>Half-year ended</b>	
		<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b><i>Investment income</i></b>			
Trust distributions		2,334	2,119
Change in fair value of financial instruments held at fair value through profit or loss	4	<u>13,291</u>	<u>(6,905)</u>
<b><i>Total investment income/(loss)</i></b>		<u>15,625</u>	<u>(4,786)</u>
<b><i>Expenses</i></b>			
Management fees		984	1,082
Other operating expenses		<u>-</u>	<u>3</u>
<b><i>Total operating expenses</i></b>		<u>984</u>	<u>1,085</u>
<b><i>Net profit/(loss) attributable to unitholders before finance costs</i></b>		<u>14,641</u>	<u>(5,871)</u>
<b><i>Financing costs attributable to unitholders</i></b>			
Distributions to unitholders	5	(1,535)	(1,122)
(Increase)/decrease in net assets attributable to unitholders	6	<u>(13,106)</u>	<u>6,993</u>
<b><i>Net profit/(loss) attributable to unitholders after finance costs</i></b>		<u>-</u>	<u>-</u>
Other comprehensive income for the half-year		<u>-</u>	<u>-</u>
<b><i>Total comprehensive income for the half-year</i></b>		<u>-</u>	<u>-</u>

*The above condensed statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Morningstar Growth Real Return Fund**  
**Condensed statement of financial position**  
**As at 31 December 2019**

	As at	
	31 December 2019	30 June 2019
	Note	\$'000
<i>Assets</i>		
Cash and cash equivalents		1,665
Receivables		36
Financial assets held at fair value through profit or loss	7	385,075
<b>Total assets</b>		<b>386,776</b>
<i>Liabilities</i>		
Distribution payable	5	1,969
Payables		159
Due to brokers - payable for securities purchased		-
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>2,128</b>
<b>Net assets attributable to unitholders - liability</b>	6	<b>384,648</b>

*The above condensed statement of financial position should be read in conjunction with the accompanying notes.*



**Morningstar Growth Real Return Fund**  
**Condensed statement of changes in equity**  
**For the half-year ended 31 December 2019**

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

*The above condensed statement of changes in equity should be read in conjunction with the accompanying notes.*

**Morningstar Growth Real Return Fund**  
**Condensed statement of cash flows**  
**For the half-year ended 31 December 2019**

	Half-year ended	
	31 December 2019	31 December 2018
Note	\$'000	\$'000
<b><i>Cash flows from operating activities</i></b>		
RITC received/(paid)	-	(1)
Other income received	-	3
Management fees paid	(971)	(1,106)
Other expenses paid	<u>-</u>	<u>(3)</u>
<b><i>Net cash inflow/(outflow) from operating activities</i></b>	<b><u>(971)</u></b>	<b><u>(1,107)</u></b>
<b><i>Cash flows from investing activities</i></b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	29,335	34,250
Purchase of financial instruments held at fair value through profit or loss	<u>(28,868)</u>	<u>(44,871)</u>
<b><i>Net cash inflow/(outflow) from investing activities</i></b>	<b><u>467</u></b>	<b><u>(10,621)</u></b>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from applications by unitholders	35,603	44,788
Payments for redemptions by unitholders	(30,675)	(30,910)
Distributions paid	<u>(3,324)</u>	<u>(3,229)</u>
<b><i>Net cash inflow/(outflow) from financing activities</i></b>	<b><u>1,604</u></b>	<b><u>10,649</u></b>
<b><i>Net increase/(decrease) in cash and cash equivalents</i></b>	<b>1,100</b>	<b>(1,079)</b>
Cash and cash equivalents at the beginning of the half-year	1,665	7,530
Effects of foreign currency exchange rate changes on cash and cash equivalents	<u>-</u>	<u>313</u>
<b><i>Cash and cash equivalents at the end of the half-year</i></b>	<b><u>2,765</u></b>	<b><u>6,764</u></b>

*The above condensed statement of cash flows should be read in conjunction with the accompanying notes.*

## **1 General information**

These interim financial statements cover Morningstar Growth Real Return Fund (“the Fund”) as an individual entity. The Fund was constituted on 27 March 2000 and were incorporated in Australia.

The Responsible Entity of the Fund 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. The Attribution Managed Investment Trust (“AMIT”) regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. With its introduction, the Responsible Entity has amended the Scheme’s Constitution to allow the Scheme to operate as an AMIT, effective from 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions, however it is obligated to attribute taxable income to Unitholders for each financial year.

The financial statements of the Fund for the half-year ended 31 December 2019 were authorised by the directors on 10 March 2020. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## **2 Basis of preparation and significant accounting policies**

The accounting policies applied in these interim financial statements are the same as those applied to the Fund's financial statements for the year ended 30 June 2019.

### **(a) Basis of preparation**

This general purpose interim financial report for the half-year ended 31 December 2019 has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. 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 half-year financial report does not include all notes normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial position and financial performance of the Fund as that given by the annual financial report. As a result, this financial report should be read in conjunction with the most recent annual financial report of the Fund and any public announcement in respect of the Fund during the half-year.

The interim 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 Condensed 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 Fund under ASIC Corporations Instrument 2016/191.

The Fund is for-profit entity for the purposes of preparing Financial Statements.

### **(b) Changes in accounting standards**

The Fund has adopted all mandatory standards and amendments for the half-year beginning 1 July 2019. Adoption of these standards and amendments has not had any material effect on the financial position or performance of the Fund.

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial half-year beginning 1 July 2019 that would be expected to have a material impact on the Fund.

### **3 Financial risk management**

#### **(a) Fair Values of Financial Assets and Liabilities**

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 financial assets and financial liabilities held at fair value through profit or loss are measured at fair value. Gains and losses arising from the changes in the fair value are presented in the statements of comprehensive income within 'Change in fair value of financial instruments at fair value through profit or loss' in the period in which they arise.

- 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 rate 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 Fund 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.

#### **(b) Fair value hierarchy**

The Fund classifies 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, unobservable 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 judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment 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.

### 3 Financial risk management (continued)

#### (b) Fair value hierarchy (continued)

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2019 and 30 June 2019.

As at 31 December 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Assets</b>				
Financial assets held at fair value through profit or loss:				
Unlisted unit trusts	-	400,833	-	400,833
<b>Total</b>	-	400,833	-	400,833
As at 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial Assets</b>				
Financial assets held at fair value through profit or loss:				
Unlisted unit trusts	-	385,075	-	385,075
<b>Total</b>	-	385,075	-	385,075

There were no transfers between levels for recurring fair value measurements during the half-year ended 31 December 2019 (30 June 2019: Nil).

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

	Half-year ended	
	31 December 2019	31 December 2018
	\$'000	\$'000
<b>Financial instruments</b>		
Net realised gain/(loss) on financial instruments held at fair value through profit or loss	191	438
Net unrealised gain/(loss) on financial instruments held at fair value through profit or loss	13,100	(7,343)
Net gains/(losses) on financial instruments held at fair value through profit or loss	13,291	(6,905)

### 5 Distributions to unitholders

The distributions during the half-year were as follows:

	Class A			
	31 December 2019		31 December 2018	
	\$'000	CPU	\$'000	CPU
Distribution paid				
- September	1,414	0.3719	971	0.2482
- December	-	-	6	0.0211
Distribution payable				
- December	-	-	75	0.0211
	1,414	0.3719	1,052	0.2693

## 5 Distributions to unitholders (continued)

	Class B			
	31 December 2019		31 December 2018	
	\$'000	CPU	\$'000	CPU
Distribution paid				
- September	121	0.3768	68	0.2439
- December	-	-	1	0.0055
Distribution payable				
- December	-	-	1	0.0055
	<u>121</u>	<u>0.3768</u>	<u>70</u>	<u>0.2494</u>

	Class Z			
	31 December 2019		31 December 2018	
	\$'000	CPU	\$'000	CPU
Distribution paid				
- September	-	0.4896	-	0.3593
- December	-	-	-	0.1516
	<u>-</u>	<u>0.4896</u>	<u>-</u>	<u>0.5109</u>

## 6 Net assets attributable to unitholders

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

	Class A			
	31 December 2019		31 December 2018	
	No. '000	\$'000	No. '000	\$'000
Opening balance	381,062	355,299	372,026	336,767
Applications	35,796	33,965	45,908	41,702
Redemptions	(30,915)	(29,186)	(32,518)	(29,305)
Units issued upon reinvestment of distributions	125	119	83	76
Increase/(decrease) in net assets attributable to unitholders	-	12,077	-	(6,521)
Closing balance	<u>386,068</u>	<u>372,274</u>	<u>385,499</u>	<u>342,719</u>

	Class B			
	31 December 2019		31 December 2018	
	No. '000	\$'000	No. '000	\$'000
Opening balance	31,700	29,324	27,228	24,457
Applications	1,700	1,590	3,420	3,086
Redemptions	(1,513)	(1,431)	(1,776)	(1,605)
Units issued upon reinvestment of distributions	65	61	46	42
Increase/(decrease) in net assets attributable to unitholders	-	1,029	-	(471)
Closing balance	<u>31,952</u>	<u>30,573</u>	<u>28,918</u>	<u>25,509</u>

## 6 Net assets attributable to unitholders (continued)

	Class Z			
	31 December 2019		31 December 2018	
	No. '000	\$'000	No. '000	\$'000
Opening balance	24	25	24	24
Applications	48	48	-	-
Redemptions	(58)	(58)	-	-
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Closing balance	<u>14</u>	<u>15</u>	<u>24</u>	<u>23</u>

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

### (b) Capital risk management

The Fund manages its 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 Fund is subject to daily applications and redemptions at the discretion of unitholders.

Management monitors the Fund's 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.

## 7 Financial assets held at fair value through profit or loss

	31 December 2019	30 June 2019
	Fair value	Fair value
	\$'000	\$'000
<b>Financial assets held at fair value through profit or loss</b>		
<b>Unlisted unit trusts</b>		
Units in unlisted Australian equity trusts	343,492	313,226
Units in unlisted Australian fixed interest trusts	<u>57,341</u>	<u>71,849</u>
Total unlisted unit trusts	<u>400,833</u>	<u>385,075</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>400,833</u>	<u>385,075</u>

## 8 Events subsequent to the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2019 or on the results and cash flows of the Fund for the half-year ended on that date.

## 9 Contingent assets, contingent liabilities and commitments

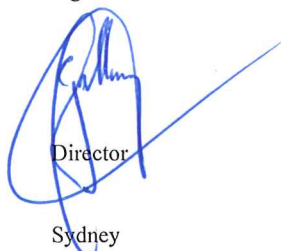
There are no outstanding contingent assets, contingent liabilities or commitments as at 31 December 2019 (30 June 2019: Nil).

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 4 to 12 of Morningstar Growth Real Return Fund are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 31 December 2019 and of its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date; and
  - (ii) complying with Accounting Standard AASB 134, *Interim Financial Reporting*, the *Corporation Act 2001* and other mandatory financial reporting requirements.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Director

Sydney

10 March 2020



# **Independent Auditor's Report to the Unitholders of Morningstar Growth Real Return Fund**

# Independent Auditor's Review Report to the unitholders of Morningstar Growth Real Return Fund

## Report on the Half Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Morningstar Growth Real Return Fund (the "Scheme"), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Scheme is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Scheme's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Directors' Responsibility for the Half-Year Financial Report

The directors of Morningstar Investment Management Australia Limited as the Responsible Entity of the Scheme are responsible for the preparation of the half-year financial report that gives 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Scheme's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Scheme, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in grey ink, appearing to read 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in grey ink, appearing to read 'Mark Jones'.

Mark Jones  
Partner  
10 March 2020