

Morningstar International Shares Active ETF (Managed Fund)

ARSN 129 136 447

Annual report

For the year ended 30 June 2022

For personal use only

Morningstar International Shares Active ETF (Managed Fund)

ARSN 129 136 447

Annual report - For the year ended 30 June 2022

Contents

	Page
Directors' report	1
Auditor's independence declaration	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	20
Independent auditor's report to the unitholders of Morningstar International Shares Active ETF (Managed Fund)	21

Directors' report

The directors of Morningstar Investment Management Australia Limited (ABN 54 071 808 501), the Responsible Entity of Morningstar International Shares Active ETF (Managed Fund), present their report together with the financial report of Morningstar International Shares Active ETF (Managed Fund) ("the Fund"), for the year ended 30 June 2022.

Principal activities

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

During the 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 was constituted on 01 July 2019 and commenced operations on 26 August 2019. The Fund is an Exchange Traded Managed Fund (ETMF) issued under the AQUA rules and admitted to trading status on ASX with official quotation of its securities commencing on 12 November 2019 (ASX: MSTR).

The Fund did not have any employees during the year (2021: Nil).

There were no significant changes in the nature of the Fund's 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 Needham (director) (resigned 12 March 2022)

Christopher Galloway (director)

James Wickham (director)

Scott Schilling (director) (resigned 12 March 2022)

James Downing (director) (appointed 11 March 2022)

Joanne Brady (director) (appointed 11 March 2022)

Fiona White (company secretary)

Review of results and operations

The investment policy of the Fund is detailed in the current product disclosure statement 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:

	Year ended	
	30 June 2022	30 June 2021
	\$'000	\$'000
Operating profit	<u>(15,390)</u>	<u>31,740</u>
Distributions		
Distribution paid and payable	<u>5,131</u>	<u>26,036</u>
Distribution (cents per unit)	<u>32.6654</u>	<u>216.8643</u>

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 year.

Directors' report (continued)

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund 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 Fund 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 Fund.

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 Fund 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 Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 11 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 11 to the financial statements.

Interests in the Fund

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

The value of the Fund's 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 Fund is 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 Fund.

Directors' report (continued)

Rounding

The Fund is an entity 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 4.

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



Director

Sydney

20 September 2022



**Building a better
working world**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Morningstar Investment Management Australia Limited, as Responsible Entity for Morningstar International Shares Active ETF (Managed Fund)

As lead auditor for the audit of the financial report of the Morningstar International Shares Active ETF (Managed Fund) for the financial year ended 30 June 2022, 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;
- b) No contraventions of any applicable code of professional conduct in relation to the audit; and
- c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Elliott Shadforth
Partner
20 September 2022

For personal use only

Morningstar International Shares Active ETF (Managed Fund)
Statement of comprehensive income
For the year ended 30 June 2022

	Notes	Year ended	
		30 June 2022 \$'000	30 June 2021 \$'000
Investment income			
Trust distributions		3,474	25,225
Changes in fair value of financial instruments held at fair value through profit or loss	4	(18,399)	6,885
Other investment income		<u>15</u>	<u>-</u>
Total investment income/(loss)		<u>(14,910)</u>	<u>32,110</u>
Expenses			
Management fees	11	<u>480</u>	<u>370</u>
Total operating expenses		<u>480</u>	<u>370</u>
Profit/(loss) for the financial year		<u>(15,390)</u>	<u>31,740</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the financial year		<u>(15,390)</u>	<u>31,740</u>

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

Morningstar International Shares Active ETF (Managed Fund)
Statement of financial position
30 June 2022

	Notes	As at	
		30 June 2022 \$'000	30 June 2021 \$'000
Assets			
Cash and cash equivalents	10(b)	2	1
Receivables	3	3,502	25,233
Financial assets held at fair value through profit or loss	6	<u>125,576</u>	<u>110,766</u>
Total assets		<u>129,080</u>	<u>136,000</u>
Liabilities			
Distribution payable	9	5,131	26,036
Payables	8	<u>30</u>	<u>35</u>
Total liabilities		<u>5,161</u>	<u>26,071</u>
Net assets attributable to unitholders - equity	5	<u>123,919</u>	<u>109,929</u>

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

Morningstar International Shares Active ETF (Managed Fund)
Statement of changes in equity
For the year ended 30 June 2022

	Notes	Year ended	
		30 June 2022 \$'000	30 June 2021 \$'000
Total equity at the beginning of the financial year		<u>109,929</u>	<u>91,831</u>
Comprehensive income/(loss) for the year			
Profit/(loss) for the year	5	<u>(15,390)</u>	<u>31,740</u>
Total comprehensive income/(loss) for the year		<u>(15,390)</u>	<u>31,740</u>
Transactions with unitholders			
Applications	5	51,654	26,534
Redemptions	5	(17,143)	(14,140)
Distributions paid and payable	5	<u>(5,131)</u>	<u>(26,036)</u>
Total transactions with unitholders		<u>29,380</u>	<u>(13,642)</u>
Total equity at the end of the financial year		<u><u>123,919</u></u>	<u><u>109,929</u></u>

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

Morningstar International Shares Active ETF (Managed Fund)
Statement of cash flows
For the year ended 30 June 2022

		Year ended	
		30 June 2022	30 June 2021
	Notes	\$'000	\$'000
<i>Cash flows from operating activities</i>			
Trust distributions received		25,225	-
Other income received		15	-
Management fees paid		(485)	(359)
RITC received/(paid)		(20)	(6)
<i>Net cash inflow/(outflow) from operating activities</i>	10(a)	24,735	(365)
<i>Cash flows from investing activities</i>			
Proceeds from sale of financial instruments held at fair value through profit or loss		18,418	14,504
Purchase of financial instruments held at fair value through profit or loss		(51,627)	(26,534)
<i>Net cash inflow/(outflow) from investing activities</i>		(33,209)	(12,030)
<i>Cash flows from financing activities</i>			
Proceeds from applications by unitholders		51,654	26,534
Payments for redemptions by unitholders		(17,143)	(14,140)
Distributions paid		(26,036)	-
<i>Net cash inflow/(outflow) from financing activities</i>		8,475	12,394
<i>Net increase/(decrease) in cash and cash equivalents</i>		1	(1)
Cash and cash equivalents at the beginning of the year		1	2
<i>Cash and cash equivalents at the end of the financial year</i>	10(b)	2	1

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

1 General information

These financial statements cover Morningstar International Shares Active ETF ("the Fund") as an individual entity. The Fund was constituted on 01 July 2019 and commenced its operation on 26 August 2019 and was incorporated in Australia.

The Fund is an Exchange Traded Managed Fund (ETMF) issued under the AQUA rules and admitted to trading status on ASX with official quotation of its securities commencing on 12 November 2019 (ASX: MSTR).

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

The financial statements were authorised for issue by the directors on 20 September 2022. 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 unless otherwise stated under the option available to the Fund under ASIC Corporations Instrument 2016/191.

Statement of Compliance

The financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 year beginning 1 July 2021. 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 year beginning 1 July 2021 that would be expected to have a material impact on the Fund. Since 1 July 2021, no standards have been issued, that are not yet effective, that would be expected to have a material impact on the Fund.

(c) Financial instruments

(i) Classification

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

- Financial instruments held 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 unlisted unit trusts.

Financial assets and financial liabilities held 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 Fund's documented investment strategy. The Fund's 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 Fund 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 Fund 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 statements 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 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 'Changes 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 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.

Investments in associates

In accordance with *AASB 128: Investments in Associates and Joint Ventures* the Fund has elected to account for investments in associates at fair value through profit and loss.

Assessment of Fund's investments as structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund.

The Responsible Entity has assessed whether the managed investment funds in which the Schemes invest in should be classified as structured entities. The Responsible Entity has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. The Responsible Entity has concluded on whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds.

As voting rights or similar rights are the dominant factor in deciding who controls the funds, the Responsible Entity has concluded that the managed investment funds in which the Fund invest in are not structured entities.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements 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 statements of financial position.

(v) Investment entity exception

An investment entity is an entity that:

- (a) obtains funds from one or more unitholders for the purpose of providing the unitholder(s) with investment management services
- (b) commits to its unitholder(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis

Typical characteristics of an investment entity include:

- (a) it has more than one investment;
- (b) it has more than one unitholder;
- (c) it has unitholders that are not related parties of the entity; and
- (d) it has ownership interests in the form of equity or similar interests.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Investment entity exception (continued)

The Fund has been determined to be an investment entity. Therefore, it does not consolidate its subsidiary, but rather, recognises them as investments at fair value through profit or loss. All transactions between the Fund and their related parties are at market value and on normal commercial terms and conditions. This includes purchases and sales of financial instruments as well as applications and redemptions of units. As such, the related parties do not transact with the Fund on terms that are unavailable to other unitholders therefore this does not preclude the Fund from meeting the definition of an investment entity.

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to unitholders.

The units are carried at the redemption amount that is payable at statement of financial position date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Units are classified as equity when they satisfy the following criteria under AASB 132 Financial instruments: Presentation:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss

(e) Cash and cash equivalents

For the purpose of presentation in the statements 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.

(f) Investment income

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

Interest income is recognised in the statements 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.

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

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).

(g) Expenses

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

(h) Income tax

Under tax legislation, the Fund is not liable to pay income tax because the AMIT tax regime applies and unitholders are attributed the income of the Fund.

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 Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund 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.

(i) Distributions

In accordance with the Fund's Constitution, the Fund attributes its taxable income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of changes in equity as distributions paid and payable.

2 Summary of significant accounting policies (continued)

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

Non-distributable income is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised as profit/(loss) in the Statement of changes in equity.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's 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 Fund compete for funds and is regulated. The Australian dollar is also the Fund's 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 ended exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of comprehensive income.

(l) 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.

(m) Receivables

Receivables may include amounts for trust distributions and interest. Trust Distribution is 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 in accordance with the policy set out in Note 2(f) above. 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.

(n) Payables

Payables include liabilities, accrued expenses and redemptions monies owing by the Fund 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 statements of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

(o) Applications and redemptions

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

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualify for RITC at a rate of at least 55%; hence investment management fees, custodial fees and other expenses have been recognised in the statements 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 statements of financial position. Cash flows relating to GST are included in the statements of cash flows on a gross basis.

(q) Use of estimates and significant judgement

The Fund 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 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.

3 Receivables

	30 June 2022	30 June 2021
	\$'000	\$'000
Unit trust distributions receivable	3,474	25,225
RITC receivable	<u>28</u>	<u>8</u>
Total receivables	<u>3,502</u>	<u>25,233</u>

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

	Year ended	
	30 June 2022	30 June 2021
	\$'000	\$'000
Financial instruments		
Net realised gain/(loss) on financial instruments held at fair value through profit or loss	1,011	1,463
Net unrealised gain/(loss) on financial instruments held at fair value through profit or loss	<u>(19,410)</u>	<u>5,422</u>
Net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(18,399)</u>	<u>6,885</u>

5 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments that meet the definition of a financial liability are to be classified as equity where certain strict criteria are met.

As part of the Fund's election into the AMIT regime, the fund does not have a contractual obligation to pay distributions to unitholders. As such, the net assets attributable to unitholders of the Fund have been classified as equity per the requirements of AASB 132. As stipulated within the Fund's Constitutions, a unit confers an equal undivided, vested, and infeasible interest in the assets as a whole, subject to the liabilities. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

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

	30 June 2022		30 June 2021	
	No. '000	\$'000	No. '000	\$'000
Opening balance	12,005	109,929	10,905	91,831
Profit/(loss) for the year	-	(15,390)	-	31,740
Applications	5,603	51,654	2,700	26,534
Redemptions	(1,900)	(17,143)	(1,600)	(14,140)
Distributions paid and payable	-	(5,131)	-	(26,036)
Closing balance	<u>15,708</u>	<u>123,919</u>	<u>12,005</u>	<u>109,929</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 to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

(b) Capital risk management

The Fund manages its net assets attributable to unitholders as capital. 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.

6 Financial assets held at fair value through profit or loss

	30 June 2022	30 June 2021
	Fair value \$'000	Fair value \$'000
Financial assets held at fair value through profit or loss		
Unlisted unit trusts		
Units in unlisted Australian equity trusts	<u>125,576</u>	<u>110,766</u>
Total unlisted unit trusts	<u>125,576</u>	<u>110,766</u>
Total financial assets held at fair value through profit or loss	<u>125,576</u>	<u>110,766</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in Note 12.

7 Remuneration of auditor

	Year ended	
	30 June 2022	30 June 2021
	\$	\$
Ernst & Young Australian firm		
Audit of financial statements	25,421	26,648
Other services - Compliance plan audit	2,894	2,006
Total remuneration for audit and other assurance services	<u>28,315</u>	<u>28,654</u>

8 Payables

	30 June 2022	30 June 2021
	\$'000	\$'000
Management fees payable	<u>30</u>	<u>35</u>
Total Payables	<u>30</u>	<u>35</u>

9 Distributions to unitholders

The distributions during the year were as follows:

	30 June 2022		30 June 2021	
	\$'000	CPU	\$'000	CPU
Distribution payable				
- June	<u>5,131</u>	<u>32.6654</u>	<u>26,036</u>	<u>216.8643</u>
	<u>5,131</u>	<u>32.6654</u>	<u>26,036</u>	<u>216.8643</u>

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

	Year ended	
	30 June 2022	30 June 2021
	\$'000	\$'000
(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities		
Net operating profit/(loss)	(15,390)	31,740
Changes in fair value of investments	18,399	(6,885)
(Increase)/decrease in receivables	21,731	(25,231)
Increase/(decrease) in payables	<u>(5)</u>	<u>11</u>
Net cash inflow/(outflow) from operating activities	<u>24,735</u>	<u>(365)</u>
(b) Components of cash and cash equivalents		
Cash at bank	<u>2</u>	<u>1</u>
	<u>2</u>	<u>1</u>

11 Related party transactions

Responsible Entity

The Responsible Entity of the Fund 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 Australian Parent Entity of the Responsible Entity is Morningstar Australasia Pty Limited. The ultimate parent is Morningstar Inc., a company incorporated in the US.

11 Related party transactions (continued)

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 Needham (director) (resigned 12 March 2022)

Christopher Galloway (director)

James Wickham (director)

Scott Schilling (director) (resigned 12 March 2022)

James Downing (director) (appointed 11 March 2022)

Joanne Brady (director) (appointed 11 March 2022)

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 Fund, is considered to be key management personnel with the authority for the strategic direction and management of the Fund.

Related party transactions

Under the terms of the Fund's PDS, management fees and costs are the remuneration to the Responsible Entity for managing and overseeing the Fund's investments. The management fees are charged by accruing them within the Fund's unit price on a daily basis. On a monthly basis, management fees are paid to the Responsible Entity and costs are incurred from the Fund's assets. The maximum management fee allowable under the Constitution is 3% p.a. of the NAV of the Fund. There is nil performance fee charged to the fund according to the PDS.

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:

	30 June 2022	30 June 2021
	\$	\$
Fees paid and payable to the Responsible Entity	<u>479,831</u>	<u>369,670</u>

Key management personnel unitholdings

Key Management Personnel held units in the Fund as follows:

	30 June 2022			Distribution received/ receivable
	Units held	Fair value of investment	Interest held	
	Units	\$	%	
Joanne Brady	1,965	16,156	0.01	642
Christopher Galloway	5,000	41,109	0.03	1,633
Daniel Needham	<u>500</u>	<u>4,111</u>	-	<u>163</u>
		<u>61,376</u>		<u>2,438</u>
	30 June 2021			
	Units held	Fair value of investment	Interest held	Distribution received/ receivable
	Units	\$	%	\$
Joanne Brady	1,965	22,264	0.02	4,261
Christopher Galloway	5,000	56,651	0.04	10,843
Daniel Needham	<u>500</u>	<u>5,665</u>	-	<u>1,084</u>
		<u>84,580</u>		<u>16,188</u>

12 Financial risk management (continued)

(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 Fund.

The Fund's 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 statements 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 Fund 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 Fund monitor the credit rating and financial positions of the brokers used to further mitigate this risk.

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

Credit risk is not considered to be significant to the Fund 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 Fund using Standard and Poor's rating categories, in accordance with the investment mandate of the Fund. The Fund's 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.

(c) Liquidity risk

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

This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintain sufficient cash and cash equivalents to meet normal operating requirements. Units are redeemed on demand at the unitholders' option. As stated in the Fund's 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.

	30 June 2022				
	Less than 1 month	1 - 6 months	7 - 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Distribution payable	5,131	-	-	-	5,131
Payables	30	-	-	-	30
Total financial liabilities	5,161	-	-	-	5,161
	30 June 2021				
	Less than 1 month	1 - 6 months	7 - 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Distribution payable	26,036	-	-	-	26,036
Payables	35	-	-	-	35
Total financial liabilities	26,071	-	-	-	26,071

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

12 Financial risk management (continued)

(d) Market risk (continued)

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 Fund 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.

The Fund has no currency risks associated since all monetary assets and liabilities are held in Australian dollars:

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 Fund's investment portfolio.

The table below indicates the effect of a reasonably possible movement in the fund's net assets attributable to unitholders.

	+10%	-10%
	\$'000	\$'000
30 June 2022	11,808	(11,808)
30 June 2021	11,077	(11,077)

(e) Fair value hierarchy

The Fund 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 Fund's financial assets measured at fair value according to the fair value hierarchy at 30 June 2022 and 30 June 2021.

	As at 30 June 2022			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held at fair value through profit or loss:				
Unlisted unit trusts	-	125,576	-	125,576
Total	-	125,576	-	125,576
As at 30 June 2021				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held at fair value through profit or loss:				
Unlisted unit trusts	-	110,766	-	110,766
Total	-	110,766	-	110,766

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.

12 Financial risk management (continued)

(e) Fair value hierarchy (continued)

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 unit trusts. 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 in unlisted unit trusts are recorded at the net asset value per unit as reported by the investment managers of such funds.

13 Events subsequent to the reporting period

No significant events have occurred since the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2022 or on the results and cash flows of the Fund for the year ended on that date.

14 Contingent assets and liabilities and commitments

There are no contingent assets and liabilities or commitments as at 30 June 2022 (30 June 2021: Nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 19 of Morningstar International Shares Active ETF (Managed 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 30 June 2022 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, and other mandatory professional reporting requirements.
- (b) there are reasonable grounds to believe that the Fund will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Director

Sydney

20 September 2022



**Building a better
working world**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the unitholders of Morningstar International Shares Active ETF (Managed Fund)

Opinion

We have audited the financial report of the Morningstar International Shares Active ETF (Managed Fund) ("Fund"), which comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement 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 report of the Scheme is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Scheme's financial position as at 30 June 2022 and of its 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 audit 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 Scheme 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 audit of the financial report 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Investment Existence and Valuation

Why significant

As an exchange traded managed fund, the Fund's most significant asset is an investment portfolio consisting primarily of one unlisted unit trust. As at 30 June 2022, the value of the Fund's financial assets, per Note 6 to the financial statements was as follows:

Value of investments (\$'000)	Investments as a % of Total Assets held by Fund
125,576	97%

As detailed in the Fund's accounting policy, as described in Note 2 (a) to the financial statements, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.

Pricing and other market drivers can have a significant impact on the value of these financial assets and the financial report. Accordingly, valuation of the investment portfolio was considered a key audit matter.

How our audit addressed the key audit matter

We assessed the effectiveness of the key controls in place in relation to the recognition and valuation of investments, through consideration of the assurance report on the controls of the Fund's administrator and custodian in relation to Fund Administration Services for the year ended 30 June 2022. We considered the auditor's qualifications and objectivity and results of their procedures.

We determined whether the valuation of the position in the portfolio held at 30 June 2022 reflected fair value by agreeing the security value per unit to the audited unit price of the underlying unlisted unit trust, Morningstar International Shares (Hedged) Fund.

We assessed the adequacy of the disclosures in Note 6 to the financial statements.

2. Responsible Entity's Fees

Why significant

Responsible Entity's Fees are the most significant expense for the Funds.

As at 30 June 2022, Responsible Entity's Fees for the Fund was as follows:

Responsible Entity's Fees	Responsible Entity's Fees as a % of Total Expenses incurred
\$479,831	100%

The Funds' accounting policy for Responsible Entity's Fees is described in Note 2 to the financial statements.

How our audit addressed the key audit matter

We assessed the design and operating effectiveness of the key controls in place in relation to the calculation of the Responsible Entity's fees, through consideration of the assurance report of the administrator and custodian referred to in the key audit matter above.

We performed a substantive analytical procedure over the Responsible Entity's fees, by reference to the contractual arrangements.

We assessed the adequacy of the disclosures in Note 11 to the financial statements.



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 Scheme (the "Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit 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 report 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 report that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the Scheme's 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 Scheme 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 report, 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.

For personal use only



**Building a better
working world**

- ▶ Obtain an understanding of internal control relevant to the audit 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 Scheme's internal control.
- ▶ 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 Scheme's 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 report or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents 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 audit.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Elliott Shadforth'.

Elliott Shadforth
Partner
Sydney
20 September 2022

For personal use only