



# Product Review

## IOOF Balanced Investor Trust

ISSUE DATE 07-03-2022

### About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	61-80% GROWTH ASSETS
SUB SECTOR REVIEWED	LOW-COST DIVERSIFIED
TOTAL FUNDS RATED	17

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	IOOF BALANCED INVESTOR TRUST
APIR CODE	IOF0232AU
PDS OBJECTIVE	TO PROVIDE CAPITAL GROWTH OVER THE MEDIUM TO LONG TERM BY INVESTING IN A DIVERSIFIED PORTFOLIO OF GROWTH AND DEFENSIVE ASSETS THROUGH A RANGE OF INVESTMENT MANAGERS.
INTERNAL OBJECTIVE	TO ACHIEVE TOTAL RETURNS AFTER FEES IN EXCESS OF THE CPI +3.5% OVER A ROLLING 10-YEAR BASIS AND TO OUTPERFORM THE COMPOSITE BENCHMARK BY 1.0% P.A AFTER FEES OVER ROLLING FIVE YEAR PERIODS.
STATED RISK OBJECTIVE	TRACKING ERROR OF BETWEEN 0.5-1.0% P.A. OVER A ROLLING FIVE-YEAR TIME PERIOD
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	\$3.6BN AS AT 31 DECEMBER 2021
FUND INCEPTION	16-12-2013
MANAGEMENT COSTS	0.5% P.A.
RESPONSIBLE ENTITY	IOOF INVESTMENT SERVICES LTD

### About the Fund Manager

FUND MANAGER	IOOF INVESTMENT SERVICES LTD
OWNERSHIP	100% OWNED BY INSIGNIA FINANCIAL LTD
ASSETS MANAGED IN THIS SECTOR	\$59BN AS AT 31 DECEMBER 2021
YEARS MANAGING THIS ASSET CLASS	28

### Investment Team

PORTFOLIO MANAGER	DAN FARMER (CIO), STANLEY YEO (DEPUTY CIO)
INVESTMENT TEAM SIZE	22
INVESTMENT TEAM TURNOVER	LOW-MOD
STRUCTURE / LOCATION	PM / MELBOURNE AND SYDNEY
ASSET CONSULTANT	MERCER

### Investment process

ASSET ALLOCATION	STRATEGIC, DYNAMIC
SECTOR EXPOSURE	ACTIVE, ENHANCED PASSIVE, PASSIVE
GROWTH / DEFENSIVE SPLIT %	70 / 30
USE OF ALTERNATIVES	YES

### Fund rating history

MARCH 2022	RECOMMENDED
APRIL 2021	RECOMMENDED
APRIL 2020	RECOMMENDED

### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Strengths

- The Trust is managed by an experienced and well-led investment team.
- IOOF implements a robust and consistently applied research process underpinning underlying manager selection and portfolio construction functions.
- Relatively strong alignment of interests of the investment team with end investors.
- Since the acquisition of MLC (June 2021) the IOOF Investment team have been selectively accessing the MLC team investment team and resources. This has been very measured and to complement the IOOF Investment process and manager selection.

### Weaknesses

- Although the value proposition is strong, the Fund's fees are slightly higher compared to other low-cost peers.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
CREDIT RISK	●		
FOREIGN CURRENCY RISK		●	
LEVERAGE RISK	●		
SECURITY CONCENTRATION RISK	●		
SECURITY LIQUIDITY RISK	●		
REDEMPTION RISK	●		

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

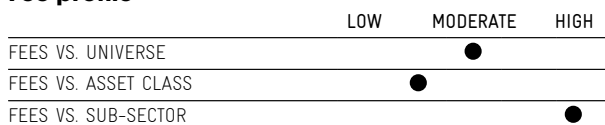
We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: RAFIQ KHAN | APPROVED BY: ISRIN KHOR

# IOOF Balanced Investor Trust

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## Fee profile



Fee BIometrics are a function of expected total fee as a percentage of expected total return.

## What is this Fund?

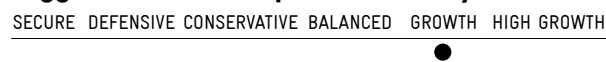
- The IOOF Balanced Investor Trust (the Trust) is a 70%/30% growth / defensive Multi-Manager offering that has exposure to a broad range of asset classes (including equities, fixed interest, property and alternatives) and employs specialist investment managers to implement active, enhanced passive and passive strategies. The Trust aims to achieve total returns after fees in excess of the CPI +3.5% over a rolling 10-year basis, and to outperform the composite benchmark by 1.0% over rolling five year periods (after fees).
- The Trust is managed by IOOF Investment Services Ltd ('IOOF' or 'the Manager'). IOOF adopts a Multi-Manager investment approach. IOOF's investment philosophy is guided by a number of key principles which have foundations in academic research. Firstly, active managers can outperform sector benchmarks over the long term. Secondly, in-depth research and analysis can provide superior insight and provide potential for outperformance. In addition, the Strategic Asset Allocation (SAA) decision is the single largest contributor to a portfolio's success, actively (or tactically) moving from the SAA in the short term can be a source of unrewarded risk, and investment style can have a significant impact on performance.
- The Manager seeks to generate returns through SAA, medium term Strategic Tilting and manager selection. The Trust is constructed to be style neutral.
- As per the PDS dated 30 November 2019, the ongoing annual fees and cost to investors in the Trust includes (a) management fees and costs of 0.50% p.a. which comprise 0.50% p.a. management fee and (b) net transaction costs for the Trust which were 0.13% p.a. for the 12-month period ended 30 June 2021. Transaction costs include explicit (e.g. brokerage, stamp duty, clearing) and implicit (buy/sell spreads in multi-asset) costs of buying and selling underlying assets (like shares or fixed income) and the cost of hedging/protection strategies incurred in managing the Trust. These costs are not paid to the Manager. Some transaction costs may be incurred due to investor activity (e.g. buying securities when new application money flows into the Trust and selling securities to meet Trust redemptions) and these may be recouped via the Trust's buy/sell spreads (an investor activity fee). As at the time of this review, the Trust's buy/sell spreads were 0.05%/0.06% but as these can change frequently depending on market conditions, please refer to the Manager for the latest information.

## Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Trust is a growth-oriented portfolio that is best suited to long-term investors. A small income exposure should slightly reduce the shorter-term fluctuations of the Trust's value. It is best suited to a long-term investor who can accept some investment risk over the long run. The Trust has a high exposure to shares and property to provide long-term investment growth.

## Suggested Lonsec risk profile suitability



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

- IOOF Holdings Ltd has changed its name to Insignia Financial Ltd. The Insignia Financial Group is made up of a number of leading brands including IOOF and MLC.
- Since the acquisition, there has been no changes to the investment philosophy and/or process
- Within global equities, terminated TT International and appointed Vontobel, Royal London and Vaughan Nelson.
- Within emerging market equities, appointed emerging market managers including Berkeley Street (small cap mandate) and William Blair.
- Within fixed interest, replaced Metrics Credit Partners Senior Loan with Metrics Credit Partners WS Inv Trust.
- Since the acquisition of MLC (June 2021) the IOOF Investment team have been selectively accessing the MLC team investment team and resources. This has been very measured and to complement the IOOF Investment process and manager selection.
- Access to MLC Asset consulting resource – JANA. The input from JANA has been limited and complementary to the services received from the IOOF dedicated asset consultants – Mercer.

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## IOOF Balanced Investor Trust

### Lonsec Opinion of this Fund

#### People and resources

- In May 2021, Insignia Financial Ltd (ASX code: IFL.) completed its transaction agreement with National Australia Bank (ASX Code: NAB) to acquire 100% of the MLC wealth management business. Since this completion, the transaction has finalised and investment resources and personnel have begun working together managing their respective products. There is a wealth of sharing and collaborating when it comes to investment management and this has been additive to both sides. There has been very little disruption to investment process and personnel. Lonsec believes this process was professionally and seamlessly managed, and has resulted in a very smooth transition and ongoing function of both businesses. Reporting lines, roles and responsibilities remain clear and undisrupted.
- The investment team is led by CIO Dan Farmer and further succession planning efforts also saw the appointment of Stanley Yeo as Deputy CIO and Head of Equities. Farmer previously managed the Australian equities portfolios at IOOF, and prior to joining the organisation, was Senior Executive Investments at Telstra Super. Farmer also serves on the IMC. Lonsec believes that Farmer possesses the appropriate experience and skills to lead the team and has navigated changes that has arisen from the MLC/Insignia Financial Ltd merger.
- The team consists of 22 people in total, other than Farmer and Yeo. The rest of the team comprise of six heads of asset class/implementation, one head of governance, five portfolio/asset managers, one asset allocation manager, three performance analysts, three implementation analysts and one governance specialist. IOOF does not have resources solely dedicated to managing the diversified Trusts, which are the responsibility of Yeo.
- IOOF relies on the services of an external asset consultant, Mercer when formulating individual strategies. Mercer provides ad-hoc advice and is an important input in terms of formulating strategic asset allocation and strategic tilting. Lonsec views Mercer as well-equipped to provide guidance and advice to the team. Lonsec believes there is a balance to be struck by the Manager when considering advice from Mercer whilst maintaining full discretion over portfolio management decisions. Pleasingly, their working relationship appears collaborative but this will continue to be an area of focus for Lonsec in future reviews.
- The Manager's variable remuneration structure is measured against individual asset sector benchmarks and peer group comparisons and is linked to rolling one and three-year performance periods. Lonsec considers this to be a reasonable alignment with short and medium-term performance, however less so with longer-term objectives in high risk profile funds managed by the team. IOOF allows members of the investment team to receive their bonuses (up to 100% base) in IFL shares. Lonsec views this change positively and believes it promotes further alignment and retention across the team. Lonsec understands the scheme is available to more senior investors Farmer and Yeo have additional locked-up

periods for three years with respective tenure and performance hurdles in place.

#### Asset allocation

- IOOF has a clearly defined SAA process that is segregated into three primary steps: 1) Develop risk and return estimates and ensure they are consistent with the Trust's guidelines, 2) Stress test the predefined asset allocation under various different scenarios, 3) Implement the desired allocation across the portfolio. Lonsec believes the overall SAA process is reasonably intuitive, and not unlike peers in this sector.
- IOOF also employs a 'Strategic Tilting' framework whereby occasional deviations from long term SAA are made when the Manager views markets to be at extremes of mispricing. Lonsec is supportive of this approach, believing it may provide a basis for improving the risk/return outcome for investors. Furthermore, Lonsec is encouraged by IOOF introducing dedicated resourcing to the asset allocation process.
- In recent years, Lonsec has noticed a more concerted effort to conduct more regular reviews of the static SAA benchmarks. Lonsec has been supportive of this effort, as the active approach to SAA provides not only a source of value add (or loss minimisation in down markets) but also encourages innovation (potential asset classes and strategies), free thought and more timely adoption of market

#### Research approach

- IOOF's research process integrates both quantitative and qualitative factors. The quantitative process is used to establish specific risk/return objectives at both the Trust and sector level and also to assist in screening, modelling and identifying managers that in aggregate have the attributes to construct a blended portfolio to meet a specific return and risk target. Overall, Lonsec considers IOOF's manager research process to be detailed and transparent.
- IOOF's research process aims to establish a narrow universe of funds that have been filtered by various criteria including IOOF's house views on suitable styles of managers for given asset classes and managers rated highly by Mercer. While Lonsec has a positive view of the depth and breadth of Mercer's domestic and global manager coverage, Lonsec is mindful of increased turnover within Mercer's Manager Research Boutique (MRB) over recent years. Combined with IOOF's sector specialist model, Mercer's MRB has allowed the Manager to undertake research across a broader range of underlying managers and strategies. Stability at Mercer will be important to IOOF and the Fund's management.
- Pleasingly, IOOF has a well-developed list of designated back-up managers in the event of an adverse scenario eventuating (i.e. key Portfolio Manager departing). Lonsec looks favourably on multi-manager strategies having well-formulated contingency plans, believing it to be consistent with industry 'best practice'.

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### ESG Integration

- The Manager has articulated a commitment to the integration of ESG within their investment process with evidence of a policy framework and public positioning. The ESG policy is freely available on the firm's website. Overall Lonsec views the strength of this commitment to be in-line with peers.
- The level of disclosure with respect to the Manager's proxy voting policy and voting outcomes is in-line with peers with a limited policy framework. While reporting on voting decisions is publicly available, the reporting is lagging peers. The Manager does not provide any details on engagement policy or engagement outcomes.
- There is clear evidence of ESG incorporation when selecting a manager. Elements of ESG are visible throughout the product design process. High-level monitoring of ESG characteristics at manager level is evident. Overall ESG integration within the investment process is in-line with peers.
- The lead portfolio manager demonstrates an ability to engage on broad ESG topics and the Manager has a systematic approach to track engagement outcomes. ESG is integrated across majority of the portfolio. The Manager has an observable approach to performing detailed look-through ESG analysis of underlying holdings. Overall, on a peer relative basis, Lonsec considers the overall level of ESG integration within the Fund to be LOWMOD.

### Portfolio construction

- IOOF's portfolio construction process is largely dependent on its desired level of volatility, its macroeconomic assessment of markets and its underlying manager research effort. Initially, individual sector specialists are responsible for constructing their individual sleeves of the portfolio, with an optimisation process taking place independently at the headline fund level.
- Pleasingly the Manager has opted to diversify its underlying exposures across a wide array of individual asset classes, notably, equities, fixed income, listed and unlisted property and alternatives. Lonsec looks favourably on multi manager offerings diversifying their underlying asset class selection, believing it can promote a wider source of alpha generation.
- Lonsec views positively the inclusion of enhanced passive and active managers in the Trust's line-up, as it reflects the Manager's investment philosophy that combines active management (to provide optimal returns in the long term) and passive management (to lower costs and lower active risk in certain asset classes that are efficient or homogeneous in nature).
- Lonsec considers it necessary to have a robust compliance culture and well-integrated back office infrastructure to adequately manage internal mandates (i.e. Quant Plus). In this regard, Lonsec believes IOOF is capable of managing these mandates but will continue to reassess this in future reviews.

### Risk management

- Lonsec has been sufficiently comfortable with the appropriately structured risk management functions embedded within the investment process. While continually evolving, the Manager has integrated compliance systems which enable underlying mandates to be implemented to ensure compliance with their predefined guidelines.
- Underlying managers are typically accessed via separately managed accounts enabling IOOF to tailor mandates to its requirements, e.g. maximum stock bet limits or maximum cash holdings. Lonsec considers this a positive structure as it can facilitate tighter portfolio construction, better product design control, the opportunity for better pricing, improved tax efficiency for investors and the ability to manage implementation and transitions more efficiently.
- IOOF closely monitors manager portfolios and weightings on a daily basis and investigates daily any excess return outliers exceeding the 99% confidence level. In Lonsec's opinion, ongoing mandate monitoring is very important within the Multi-Manager structure, as it is just as critical for underlying managers to be adhering to their investment process as it is that the process be of high quality.
- The Product Operational Accounting and the Office of the Responsible Entity undertakes operational due diligence on potential investment managers and undertakes annual reviews of the operational risks associated with employed managers. Lonsec views this positively as it reduces the workload of Portfolio Managers and improves specialisation.
- The team is continuing to improve the transparency of the underlying portfolios, and have added these portfolios into Bloomberg PORT and FactSet.

### Performance

- The Trust targets a return in excess of CPI+3.5% p.a. after fees over ten years. Lonsec highlights that the Trust closely mirrors its sister IOOF MultiSeries 70 Trust with respect to asset allocation, underlying capabilities exposure and investment objective.
- Lonsec notes that pleasingly, over the five years to 31 January 2022, the IOOF Balanced Investor Trust returned 8.4% p.a. (after fees) and met its investment objective. On a three year basis, the Fund returned 9.4% p.a. (after fees), slightly below the peer median and in excess of the investment objective.
- The Fund has recorded volatility lower than the peer median across various time frames and has also recorded better drawdown profile than peers in terms of magnitude. The Fund's Sharpe Ratios are above the peer median across various time frames.
- Although the Fund has met its investment objectives, the Fund has underperformed the Lonsec 70% Growth Index across three and five years, only marginally.

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## IOOF Balanced Investor Trust

### Overall

- Lonsec has maintained the Trust's **'Recommended'** rating following its most recent review. The rating reflects the high regard and conviction for the experience and calibre of the investment team. The rating is also underpinned by Lonsec's positive view of the Trust's robust and repeatable investment process. Notably, the increased resourcing post integration of the OnePath P&I team provides further depth of expertise within investment management, asset allocation and risk management.
- In addition, Lonsec will be closely monitoring the progress of the MLC Wealth acquisition and its impact on the investment team and Trust performance.

### People and Resources

#### Corporate overview

Insignia Financial Ltd ('Insignia Financial') is a wealth management company offering products and services across; financial advice and distribution, portfolio and estate administration and investment management.

Insignia Financial is listed on the Australian Stock Exchange (ASX code: IFL.) As at 31 December 2021, Insignia Financial had \$325.8bn in Funds Under Management and Administration.

These services are operated through a suite of brands including; IOOF, Shadforth, Lonsdale, Bridges Financial Services, Consultum Financial Advisers, M3 Financial Services, RI Advice, Australian Executor Trustees.

#### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DANIEL FARMER	CIO	26 / 12
STANLEY YEO	HEAD OF EQUITIES AND DEPUTY CIO	22 / 11
MANISH UTREJA	PORTFOLIO MANAGER SMART CHOICE & HEAD OF ALTERNATIVES	22 / 2
SIMON GROSS	HEAD OF PROPERTY	42 / 18
MARK D'ARCY-BEAN	ASSET MANAGER	36 / 3
OSVALDO ACOSTA	HEAD OF FIXED INTEREST ASSETS	21 / 5
MARK NORDIO	SENIOR MANAGER - FIXED INTEREST ASSETS AND STRATEGY	28 / 2
PAUL CRISCI	PORTFOLIO MANAGER (AUSTRALIAN EQUITIES)	22 / 4
LIAM WILSON	PORTFOLIO MANAGER (GLOBAL EQUITIES)	18 / 2
KERRY DUCE	HEAD OF ASSET ALLOCATION	34 / 2
SIDNEY CHONG	ASSET ALLOCATION MANAGER	31 / 2

The investment team is further supported by Head of Investment Execution Rhodri Payne and Head of Portfolio Implementation David Djukanovic who has three additional members in his team.

The investment team conducts qualitative and quantitative research and provides overall data support and recommendations to the six-member Investment Management Committee ('IMC'). The IMC ultimately considers and approves asset allocation decisions and manager appointments.

The IMC meets bi-monthly or more frequently if required, and comprises of Anthony Hodges (Chairman and External Member), Denise Allen and Mary-Anne Nunan (External Members), Daniel Farmer (CIO), Stanley Yeo (Deputy CIO) and Manish Utreja (Head of Alternatives). Osvaldo Acosta has been appointed as Secretary.

Back-office functions are performed by IOOF's Investment Operations Team. Compliance monitoring, custody, unit pricing, registry and financial reporting functions are outsourced to various parties including IOOF and BNP Paribas; while transition management and implementation are performed by a panel of transition managers including Citi, Macquarie, UBS and State Street.

#### Remuneration

The investment team is rewarded with a combination of base salary and variable bonus. 70% of the bonus is assessed on fund performance relative to the relevant peer group over one and three year periods, with the other 30% awarded on qualitative factors such as team contribution and client servicing. Members of the investment team may choose to receive their bonus (up to 100% of the base salary) in IFL shares.

#### Asset consultant

IOOF has appointed Mercer as its primary external asset consultant since July 2017. The Manager will seek Mercer's consultancy services when performing due diligence on prospective and currently appointed underlying managers, designing neutral benchmarks, stress testing and performing various other risk management functions. Mercer will also provide strategic tilting advice.

### Asset Allocation

#### Strategic asset allocation

IOOF conducts a formal review of this Trust's SAA on an annual basis. The SAA decision is the single largest contributor to a portfolio's success and is critical for linking the Trust's objectives to investment opportunities. The Manager broadly identifies this process as having two stages. The first involves deciding the broad asset class exposure (core assets). The second stage involves deciding performance enhancing exposures (sub-sectors of core assets and illiquid assets). The process combines both qualitative and quantitative inputs and leverages the resources of Mercer.

IOOF utilises the Mercer Capital Market Simulator, a forecasting and simulation model which allows the integration of multiple global economies, granular analysis on fixed interest assets and rigorous testing of asset models. Mercer's SAA process also involves the Global Portfolio Toolkit, which undertakes risk-based scenario analysis.

Having identified an asset allocation that broadly meets the Trust's objectives, stress testing is applied to review performance under various macroeconomic conditions. This includes different inflationary and

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GDP environments, as well as extreme equity market simulations. This quantitative input is overlaid with IOOF's qualitative judgement, allowing the Manager to impart their views on the SAA.

The SAA is set from a long term perspective and reviewed on a periodic basis to ensure it remains appropriate. Peer group considerations are taken into account when setting the SAA, however other factors such as potential asset classes are also considered.

The following table summarises the current benchmark asset allocations and the bands in which TAA can be implemented.

## Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	22%	10%	35%	22.0%
GLOBAL EQUITIES	29%	15%	40%	31.2%
AUSTRALIAN PROPERTY	2%	0%	20%	1.7%
GLOBAL PROPERTY	2%	0%	20%	1.7%
DIRECT PROPERTY	6%	0%	20%	7.4%
DIVERSIFIED FIXED INTEREST	26%	15%	40%	19.3%
ALTERNATIVES	9%	0%	20%	13.6%
CASH	4%	0%	15%	3.2%
AS AT 31 DECEMBER 2021	-	-	-	-

## Tactical/Dynamic asset allocation

IOOF believes that traditional TAA (comprising a small number of asset class decisions) can be a source of unrewarded risk to investors. As such, IOOF engage in 'Strategic Tilting', or Dynamic Asset Allocation (DAA), whereby occasional deviations from SAA can be made when markets are at extremes. This approach is based on the Manager's view that occasionally, markets exhibiting periods of extreme over and undervaluation present opportunities to buy assets cheaply or reduce risk by selling assets that are overvalued. This is distinct from TAA, as it specifically aims to capture the price adjustment associated with long-term mean reversion.

Strategic tilting decisions will have regard for a wide range of information sources, including advice from Mercer, monitoring of hedge funds, and market material from external research houses, investment banks and brokers.

## Research Approach

### Overview

IOOF's integrated quantitative and qualitative investment process aims to establish a narrow universe of funds that have been filtered by various criteria including IOOF's house views on suitable styles of managers for given asset classes and managers rated highly by Mercer. Qualitative research then focuses on the firm's background and history, the key people and resources, investment style and strategy, portfolio construction, and constraints.

### Screening of Managers

IOOF places a strong emphasis on active risk budgeting when in the Portfolio Construction process, and therefore identifies the type of managers / mandates required to fulfil particular roles within the available tracking error budget. As such, managers who would be unlikely to fulfil a certain role within the portfolio

will be screened out. This approach allows IOOF to minimize the universe of products to a manageable size rather than considering all available managers in each asset class. For example, IOOF's house view on Australian equities is that well-resourced active managers, with strong alignment of interest between investment staff and investors with relatively low funds under management, are most likely to outperform, and so will dedicate the research effort to these types of managers as opposed to the entire Australian equity universe.

IOOF also has access to Mercer's Global Investment Manager Database ('GIMD') to enhance the scope of their research capability and as an additional filtering tool to identify the most suitable funds. GIMD is an online database that encapsulates information ranging from manager research notes, historical performance statistics, ideas emerging in other markets, and economic research on approximately 5,300 managers and 26,000 funds.

Typically, IOOF will focus its research on managers rated B+ or higher by Mercer. However, the discovery of managers may be sourced through any source including Mercer, directly by IOOF, through existing networks and contacts with other industry participants, such as managers, consultants or superannuation plan operators. The IOOF investment team are encouraged to have a wide opportunity set for investment ideas.

### Research focus

The list of potential managers identified as research priorities by the screening process will then be subject to additional independent research by the IOOF team before they can be included in a portfolio. This 'double' layer of manager research typically ensures that final funds in the portfolios have undergone a rigorous review process.

IOOF undertakes a mix of both qualitative and quantitative research. From a qualitative perspective, IOOF considers factors such as the firm's background and history, financial position, the calibre of key decision makers and the depth of available resources, investment strategy and style, idea generation and portfolio construction processes and implementation constraints. The types of quantitative analysis conducted will include various types of performance, return and style based analytics and various types of portfolio holdings based attribution, and risk factor analytics.

## Portfolio Construction

### Overview

IOOF's primary objective with respect to the determination of manager weightings is to achieve a style neutral portfolio free from any undesired systematic style, capitalisation or other factor biases relative to the relevant benchmark. Manager weightings are also determined via an assessment of contribution to total active risk to ensure no one manager has a disproportionate expected contribution. However, a manager's contribution to total active risk is not considered in isolation but with reference to the correlation of its excess returns with other managers and the objective of the product.

To summarise the actual portfolio construction process, in the first instance, active risk and return targets are set for the Trust's risk profile. The tracking error or risk

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budget is then apportioned between allowable asset classes based on IOOF's house views of the available risks and opportunities. Finally, managers are selected and blended to fill the risk budget, with each manager's contribution to risk being commensurate with their expected contribution to the alpha target. The number and style of managers within each asset class are also pre-determined according to IOOF's house view.

Manager blending is conducted following both qualitative and quantitative assessments. Qualitative analysis includes a comparison analysis of each manager and the diversification benefits they offer. Quantitative analysis includes factors such as; correlation, historical returns, style biases, capitalisation analysis, regression analysis and various risk analytics.

Prior to submitting a manager recommendation to the IMC, the recommendation is peer reviewed by the Investment Manager Peer Review Group. This group consists of senior investment professionals (Chief Investment Officer and Portfolio Managers) that are ultimately responsible for the review of manager proposals before being formally considered by the IMC. This ensures any manager proposal to the IMC has been rigorously peer reviewed as a means of quality control and to minimise individual bias and subjectivity. It is also a means to consider the manager proposal in a total portfolio context.

### Underlying manager allocation

The following summarises the underlying managers within the Trust as at 31 December 2021. Consistent with IOOF's aim of broad style neutrality, there is a selection of managers with varying investment styles within each asset class.

#### Australian equities

- Acadian Asset Management
- IOOF QuantPlus
- Northcape Capital
- Quest Asset Partners
- Northern Trust
- AllianceBernstein

#### Global equities

- Challenger Index Plus/Enhanced
- Alphinity
- Brown Advisory Limited
- Vontobel
- Royal London
- Vaughan Nelson
- Neuberger Emerging
- TT emerging
- Berkeley Street emerging
- William Blair emerging

#### Australian Property

- Macquarie Investment Management

#### Global Property

- Macquarie Investment Management

#### Direct Property

- IOOF Investment Services Ltd

#### Alternatives

- Invesco
- Macquarie Investment Management

- Metrics Credit Partners
- AllianceBernstein
- Tanarra

#### Australian fixed interest

- Janus Henderson Global Investors
- Metrics Credit Partners
- Ardea
- Western Asset Management

#### Global fixed interest

- Brandywine Global Investment Management
- Invesco
- Stone Harbor EM Debt
- Western Asset Management

#### Cash and short-term securities

- IOOF Investment Services Ltd

## Risk Management

### Risk limits

All underlying managers are subject to constraints as specified in an investment management agreement. Most underlying managers are accessed via separately managed accounts. This enables IOOF to tailor mandates to its requirements, for example, maximum stock bet limits or maximum cash holdings.

The risk tools employed by IOOF include Bloomberg, Factset, and BARRA. Risk analysis is also completed by Mercer, whenever a change to the portfolio is proposed.

### Risk monitoring

The IOOF investment manager monitoring process consists of a number of prescribed stages. This includes the review of monthly investment reports, review of quarterly manager questionnaires, formal quarterly manager interviews, quarterly manager review notes, ongoing quantitative performance analytics, and ongoing review of external research. Quarterly Manager Questionnaires cover not only risk and performance but also any changes or developments in people or process. Formal manager interviews (and site visits where practical) are also conducted on an ad-hoc basis where required.

Manager weightings are monitored on a daily basis and are re-balanced on an ongoing basis using cashflows. Using cashflows in this way means that active rebalancing of the portfolio is rarely required which minimises turnover and transaction costs / tax implications.

Product Operational Accounting and the Office of the Responsible Entity works with the Investment Team to review and assess the operational capabilities of all manager appointments.

This team also monitors, reviews and assesses the operational risks associated with employed Investment Managers on an annual basis.

Operational due diligence includes a review of the systems, policies, processes and resources managers have in place to monitor and manage operational risk exposures. Reviews typically focus on the below areas:

- Professional indemnity insurance
- Auditing Practices (with reference to GS007 requirements)
- Organisational structures

## IOOF Balanced Investor Trust

- Business Continuity Management
- Policy Summaries
- Risk Management Approaches
- Investment Compliance
- Breaches & Incidents

including Liquidity Risk, Counterparty Risk, Legal and Regulatory Risk.

### Implementation

Portfolio allocations are monitored daily and re-balanced as necessary (subject to a tolerance range of +/-3% at the asset class level and +/-5% at the manager level). Cashflows are actively used to rebalance the portfolio on an ongoing basis, so the tolerance bands are rarely breached. Cashflows are allocated using a proprietary cashflow management system which allows for straight through processing to underlying investment managers.

External transition managers are appointed from a panel at 'arms length' to ensure that objectivity is maintained. Custody, unit pricing, registry and financial reporting functions are outsourced to various parties including IOOF and BNP Paribas.

### Currency management

The Manager has discretion in what portion of its underlying portfolio will be hedged back to the Australian Dollar. Consequently, returns will often be partially affected by movements in the Australian Dollar versus other currencies globally.

Currency hedging will typically take place within the underlying mandates, as opposed to a currency hedging overlay on the aggregate portfolio.

### Risks

**An investment in the Trust carries a number of standard investment risks associated with investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:**

#### Market risk

Investment returns are influenced by the performance of the market as a whole. This means that your investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes you invest in and the timeframe you are considering.

#### Security and investment-specific risk

Within each asset class and each fund, individual securities like mortgages, shares, fixed interest securities or hybrid securities can be affected by risks that are specific to that investment or that security. For example, the value of a company's shares can be influenced by changes in company management, its business environment or profitability. These risks can also impact on the company's ability to repay its debt.

#### Currency risk

Investments in global markets or securities which are denominated in foreign currencies give rise to foreign currency exposure. This means that the value of these investments will vary depending on changes in the exchange rate.

#### Other risks

Please refer to the Trust's PDS for more details on items identified by the Responsible Entity and Manager



# IOOF Balanced Investor Trust

## Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2022)

### Performance metrics

	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	10.72	10.72	9.41	9.50	8.42	8.34	7.44	7.41
STANDARD DEVIATION (% PA)	5.30	6.42	8.17	10.61	6.95	9.08	6.96	8.65
EXCESS RETURN (% PA)	-0.39	-0.39	-0.37	-0.29	-0.46	-0.54	-0.35	-0.39
OUTPERFORMANCE RATIO (% PA)	41.67	50.00	41.67	45.83	38.33	44.17	39.29	45.24
WORST DRAWDOWN (%)	-2.62	-3.54	-11.99	-15.55	-11.99	-16.04	-11.99	-15.99
TIME TO RECOVERY (MTHS)	NR	NR	8	8	8	8	8	8
SHARPE RATIO	2.02	1.54	1.08	0.84	1.06	0.81	0.87	0.69
INFORMATION RATIO	-0.27	-0.27	-0.21	-0.11	-0.31	-0.34	-0.26	-0.28
TRACKING ERROR (% PA)	1.43	1.47	1.75	1.64	1.48	1.54	1.37	1.43

PRODUCT: IOOF BALANCED INVESTOR TRUST

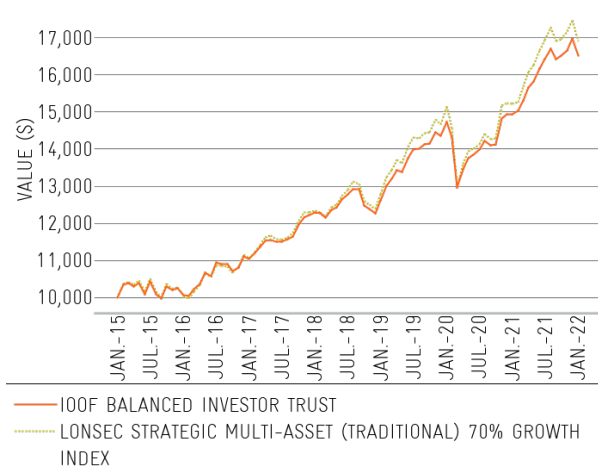
LONSEC PEER GROUP: MULTI-ASSET - 61-80% GROWTH ASSETS - LOW-COST DIVERSIFIED

PRODUCT BENCHMARK: LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

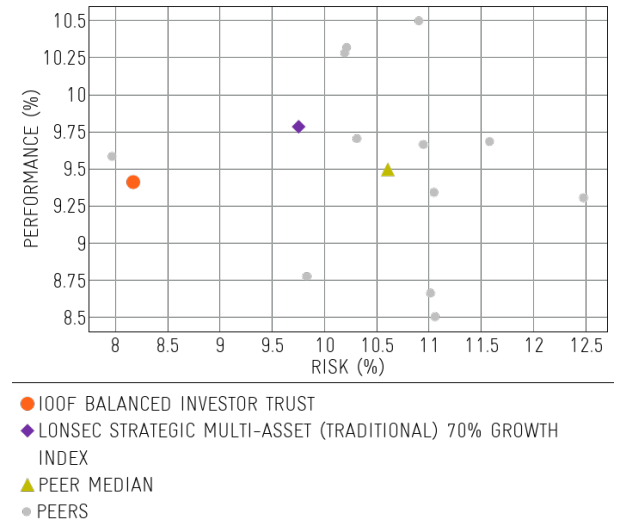
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

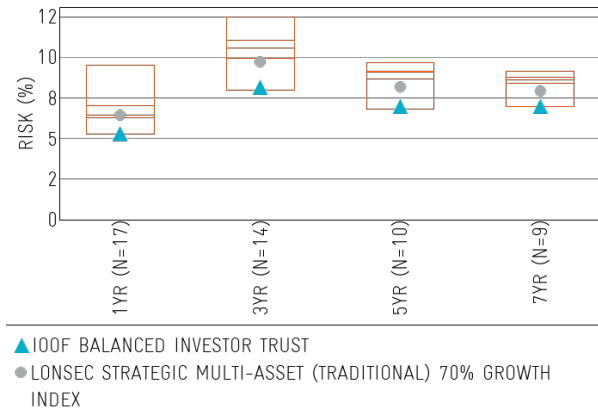
### Growth of \$10,000 over seven years



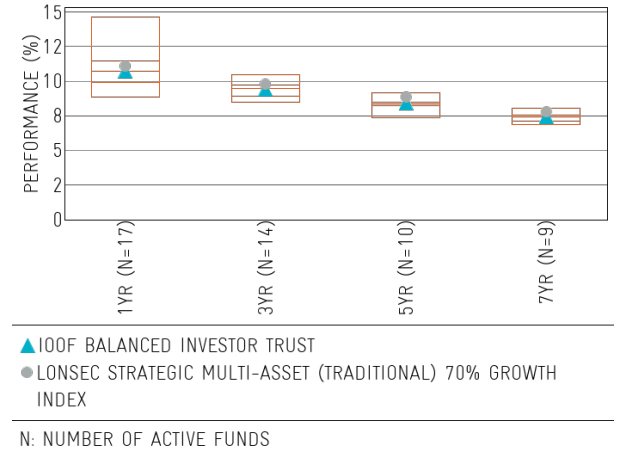
### Risk-return chart over three years



### Quartile chart — risk



### Quartile chart — performance



# IOOF Balanced Investor Trust

## Glossary

**Total return** ‘Top line’ actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss (‘peak to trough’) experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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