



# Product Review

## OnePath Diversified Bond Index

ISSUE DATE 12-12-2023

### Key information

FUND MANAGER	INVESCO AUSTRALIA LIMITED
RESPONSIBLE ENTITY	ONEPATH FUNDS MANAGEMENT LIMITED
APIR CODE	MMF1571AU
ASSET CLASS	FIXED INTEREST
SECTOR	DIVERSIFIED BONDS
SUB SECTOR	BETA - PASSIVE
INVESTMENT TYPE	UNLISTED UNIT TRUST
PDS OBJECTIVE	THE FUND SEEKS TO TRACK THE RETURN OF A TAILORED DIVERSIFIED INDEX REPRESENTING 30% TO AUSTRALIAN AND 70% TO GLOBAL FIXED INCOME MARKETS BEFORE ALL FEES AND CHARGES.
INDEX PROVIDER	BLOOMBERG
UNDERLYING INDEX	30% BBG AUSBOND COMPOSITE 0+ YEAR INDEX   70% BBG BARCLAYS GLOBAL AGGREGATE INDEX (AUD HEDGED)
DERIVATIVE USE	PERMITTED (E.G. CASH EQUITISATION)
SECURITIES LENDING	NOT PERMITTED
FUND INCEPTION	NOVEMBER 2010
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$139M (SEP 2023)

### Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.3
PERFORMANCE FEE COSTS	0
NET TRANSACTION COSTS	0
NET OF BUY SPREAD / SELL SPREAD	0.07 / 0.07
ANNUAL FEES AND COSTS (PDS)	0.3

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

### What this Rating means

The **'Recommended Index'** 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 Investment Manager, Invesco, is a large, well-resourced and reputable investment manager.
- Invesco has a dedicated index management team which is supported by specialist functions, e.g. trading and corporate actions analysis.

### Weaknesses

- Given the passive nature of the investment strategy, the transparency of the Fund is poor when compared to ETFs as well as some unlisted passive funds.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY		●	
SECURITY CONCENTRATION RISK	●		
SECURITY LIQUIDITY RISK		●	
CREDIT RISK		●	
INTEREST RATE RISK			●
FOREIGN EXCHANGE 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 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

#### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

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## Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE		●	
FEES VS. ASSET CLASS		●	
FEES VS. SUB-SECTOR		●	

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

## What is this Fund?

- The OnePath Diversified Bond Index Fund ('the Fund') aims to deliver the "blended" performance of two indices covering Australian and global fixed income markets. The Fund is a passively managed (or index) strategy.
- The Responsible Entity has appointed Invesco Australia as the Fund's underlying investment manager. Invesco uses a sampling approach to matching of the performance of the reference Bloomberg AusBond Composite 0+ Year Index (30%) and the BBG Barclays Global Aggregate Index (AUD Hedged) (70%).
- The indices are owned by Bloomberg and are designed to be a representation of the mainstream fixed income markets.
- The Fund is priced at 0.30% p.a. with this representing a bundled fee, inclusive of, for instance, investment costs, transaction cost and platform fees. OnePath has not disclosed a breakdown in the fee structure. Buy/sell spreads may be subject to change in response to evolving market circumstances and investors should refer to Fund documents.
- The Fund's PDS, dated July 2022, disclosed Annual Fees and Costs ('AFC') totaling 0.30% p.a. This value comprises solely of the management fee and costs. Lonsec notes that the management fee and costs are inclusive of platform fees.

## 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 Fund provides investors with exposure to high-quality, income-generating securities issued by governments, investment grade corporate issuers and securitised assets from around the world, with a skew towards developed markets.
- Investors should note that the Fund may not perfectly replicate the performance of the Underlying Index, but rather aims to minimise any deviation from the Underlying Index, before fees, expenses and tax.
- Fixed income funds can provide sound diversification benefits when combined with equities in a diversified portfolio, although they have limited application as standalone income producing products. Fixed income funds generally have low default risk and high credit

quality. Recommended allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.

## Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
	●	●	●	●	●

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

- Lonsec notes that there have been no material changes disclosed.

## Lonsec Opinion of this Fund

### People and resources

- Invesco is a substantial global asset manager with US\$1.49 trillion in AUM as at September 2023 from across a range of asset classes and strategies. Indexing comprised US\$516bn of total AUM. Invesco's NASDAQ 100 tracker QQQ has been a success and while this has brought concentration risk to the business, Invesco has been broadening its offering and market presence considered by Lonsec as part of a growth and mitigation strategy. Lonsec notes that Invesco is an ETF specialist and will look on with interest to see how its Australian business strategy unfolds over time.
- The index business is led by Brian Hartigan, Global Head of Index Implementation and Passive Investments. Hartigan has been with Invesco, and a predecessor firm, since 2000 and is considered by Lonsec to be appropriately experienced. He leads over 20 dedicated indexing professionals. These include Peter Hubbard (and his team of 10 portfolio managers) focused on equities indices and Raphael Stern responsible for Fixed Income index tracking. This specialist resourcing is viewed positively.
- The portfolio management team is further supported by functional experts in areas such as trading and corporate actions. Additional support is also provided as needed by the Hong Kong Fixed Income desk.

### Investment approach

- The Fund tracks indices provided by Bloomberg. Bloomberg is well-regarded in the asset management industry as a provider of fixed interest indices. The index methodology is publicly available, and the rules considered transparent. The Underlying Indices are generally viewed as being the standard benchmarks for Australian and global fixed interest respectively for Australian investors.
- Invesco has been managing index strategies since 1999 and is considered to have a robust process to deliver on the Fund's objectives. Index management is facilitated by appropriate systems which assist the portfolio managers with proactive monitoring and risk controls. Invesco's index portfolio managers also actively undertake a range of tasks to validate the index composition and anticipate potential change to be able to quickly position portfolios.
- Implementation is facilitated through Invesco's well-staffed and resourced trading platform which includes market facing traders and technological

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support/development professionals. Invesco has a presence across key regional markets and can span a 24hr day. This allows the trading of the portfolios to be passed to open desks for completion.

## ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund and how well it integrates into the investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green/sustainable, or ethical standards.
- ESG integration for index tracking portfolios is largely limited to stewardship and engagement activities unless ESG considerations are clearly incorporated within the index. As such, for non-ESG driven indices, the ESG score provided by Lonsec is primarily an assessment of the overall ESG adoption, commitment, and policy framework implemented at the Manager level. Further, Lonsec notes that simple sector exclusions do not constitute the incorporation of ESG.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as ahead of peers. The Manager has an articulated commitment to the integration of ESG within their investment process with clear evidence of public positioning. The ESG policy, together with proxy voting and engagement policies are all freely available on the firm's website. The level of disclosure with respect to the Manager's proxy voting policy ahead of peers supported by a strong policy framework. Reporting on voting outcomes is publicly available, although rationales for dissenting votes is not provided. The Manager's engagement framework and reporting at corporate level are in line with peers. The updated ESG report provides more detailed engagement reporting compared to the previous review, however, company details are not disclosed.
- The Underlying Index used for this Fund has no basic filters applied and there is no integration of ESG factors in its construction.

## Overall

- Lonsec has maintained the Fund's 'Recommended<sup>Index</sup>' rating. Invesco, the underlying manager, is viewed as being a well-resourced and highly capable index manager. Additionally, the index being tracked is regarded as a standard asset class benchmark. That said, the level of transparency for this passive investment strategy is poor, particularly when compared with other passively managed funds and ETFs.

## People and Resources

OnePath Funds Management Ltd (OPFM) is the Responsible Entity and Fund Manager of the Trust. OPFM has been a wholly owned subsidiary of Insignia Financial since February 2020. Insignia Financial is listed on the Australian Stock Exchange (ASX code: IFL). As of September 2023, Insignia Financial had \$295bn in Funds Under Management and Administration. OPFM has appointed Invesco Australia as the underlying manager. Invesco is a global investment management firm managing investments across a comprehensive range of asset classes, investment styles and geographies. Globally, Invesco employs over 8,000 employees throughout offices in the US, Canada, Europe, and the Asia-Pacific. Invesco has a strong track record of managing smart-beta, index-based strategies. As at September 2023, Invesco has US\$516 billion of FUM invested across its suite of over 350 ETF and index strategies.

## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BRIAN HARTIGAN	GLOBAL HEAD OF INDEX IMPLEMENTATION AND PASSIVE INVESTMENTS	24 / 14
RAPHAEL STERN	DIRECTOR OF EMEA PORTFOLIO MANAGEMENT AND HEAD OF FIXED INCOME	18 / 6
DEEPAK BHARTI	SENIOR PORTFOLIO MANAGER, FIXED INCOME	16 / 6
RICHARD OSE	SENIOR PORTFOLIO MANAGER, FIXED INCOME	17 / 17
FREDDY WONG	HEAD OF ASIA PACIFIC, INVESCO FIXED INCOME	21 / 5
CHRIS LAU	SENIOR PORTFOLIO MANAGER, FIXED INCOME	28 / 10
HANNAH MAZUR	PORTFOLIO MANAGER, FIXED INCOME	14 / 5

Invesco's index management team is responsible for managing all passive portfolios. The team is lead by Brian Hartigan, Global Head of Index Implementation and Passive Investments. The oversight and day to day responsibility of the Funds are divided between senior portfolio managers and traders within the team across its respective investment mandates.

## Investment Approach

### Overview

The Fund is passively managed, and Invesco aims to deliver investment returns that closely match those of the blended Underlying Indices before fees, expenses and taxes.

The Invesco team uses 'stratified sampling' to achieve the risk/return characteristics of the respective Underlying Index:

- 30% Bloomberg AusBond Composite 0+ Year Index

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- 70% Bloomberg Barclays Global Aggregate Index AUD Hedged

Stratified sampling is an indexing strategy that involves investing in a representative sample of securities that collectively have an investment profile similar to that of the respective Underlying Index. The securities selected are expected to have aggregate investment characteristics such as duration, maturity, credit ratings, yield and liquidity similar to those of the respective Underlying Index.

Lonsec believes that stratified sampling is an appropriate investment strategy to track the performance of the Underlying Indices as it takes into account liquidity, transaction cost impact, and overall risk. Stratified sampling involves choosing a subset of index eligible securities to create a portfolio that behaves like an index.

## Underlying index

The Underlying Indices include exposure to debt from 24 local currency markets for the global version. The benchmark includes treasury, government-related and corporate bonds from both developed and emerging market issuers (minimum of investment grade rating).

Securities are included in the respective Underlying Indices based on issue size and amount outstanding, and security type. New market inclusion is reviewed on an annual basis through the Bloomberg Barclays index governance process. To be included, debt securities must be investment grade and sufficiently tradeable, convertible, non-securitized and hedgeable for offshore investors. The respective Underlying Index methodology uses standard rules based index methodology and market capitalisation weighting. The methodology includes the rules for constituent rebalancing, constituent inclusion, pricing sources, frequency and timing.

## Derivatives

Derivatives, such as interest rate futures, may be used to equitise any cash balances. Currency hedging is also facilitated through the use of derivatives.

## Transparency

Lonsec considers the Fund to be less transparent than other passive ETF and unlisted fund peers with regards to providing visibility to the underlying constituents of the Fund. The Fund's positions are not revealed on a daily basis (as is the case with ETFs), however, the 'top 10' holdings and sector allocation will be typically available on a four-to-six weeks lag as a part of the monthly Fund update.

## Liquidity

The Fund is accessed via direct application or redemption requests to OnePath, which is a relatively simple online and paper-based process. Relative to ETF products offering this exposure, the Fund has a slight disadvantage as applications and redemptions can take more time compared to buying / selling listed ETFs. Redemptions are normally processed within three business days of receipt of redemption request, in line with peers, compared to T+2 for ASX ETFs. Lonsec notes this time-frame can be exacerbated due to delays in document processing.

## Fees and Indirect Costs

The Fund has an AFC of 0.30% p.a. which represents a low-moderate cost relative to the broader peer group. Lonsec estimates that the Fund's AFC is broadly in line with other passive peer funds and most of the AFC is attributed to the Fund's high platform fee. Lonsec notes that the Fund's inclusion of the platform fee in the AFC makes a cost comparison with ETFs or unlisted funds more difficult given there are no direct peers with a similar fee structure.

## Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
ONEPATH DIVERSIFIED BOND INDEX FUND (MMF1571AU)	0.30	0.14
VANGUARD DIVERSIFIED BOND INDEX FUND (VAN0042AU)	0.29	0.25

- AFC is inclusive of platform fee. Unlisted Fund spreads are sourced from their latest PDS.

## Performance

In May 2021, the Responsible Entity changed the underlying investment manager of the Fund from Vanguard to Invesco. Any performance prior to May 2021 belongs to the Fund's previous underlying investment manager. Hence, Lonsec's long-term tracking and relative performance calculations and charts do not reflect this change.

Over the last 12 months to October 2023, the Fund returned -0.49%, producing an excess return of -0.20%. While the tracking error of the Fund during this period was 0.30%.

## Risks

An investment in the Fund carries a number of standard investment risks associated with domestic investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the relevant PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

### Tracking error risk

The Fund seeks to minimise the tracking error against the index the Fund aims to track. There is no guarantee that this objective will be met.

### Performance risk

The value of, and returns (if any) from an investment in the Fund will depend upon the performance of the index. There is no guarantee the value of an investment in the Fund will increase.

### Interest rate risk

Changes in interest rates may have a direct impact (positive or negative) on the Fund's returns.

### Credit risk

Investors are exposed to the creditworthiness of the institutions the Fund invests in.

### Currency risk

The Fund is fully hedged. While the hedging helps ensure that fund returns are not impacted by currency

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volatility, it does not protect for underperformance against unhedged portfolios. When the Australian dollar is appreciating, hedged portfolios will outperform unhedged portfolios, and vice versa when the currency is depreciating.

### Further information

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Further information can be obtained by calling OnePath Funds Management Limited on 1800 031 810 or visiting [www.onepath.com.au](http://www.onepath.com.au).

OnePath Diversified Bond Index

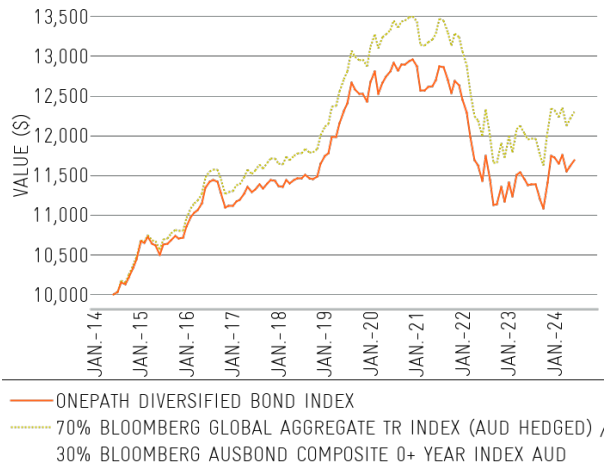
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Quantitative Performance Analysis - annualised after-fee % returns (at 30-6-2024)

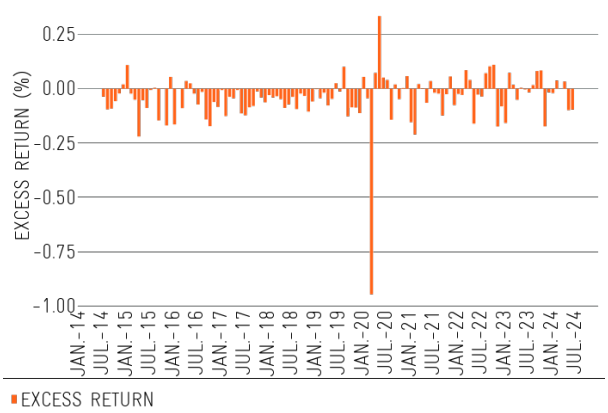
Performance metrics	1 YR	3 YR	5 YR	10 YR
TOTAL RETURN (% PA)	2.81	-2.72	-1.02	1.58
STANDARD DEVIATION (% PA)	5.27	5.63	4.95	3.99
EXCESS RETURN (% PA)	-0.16	-0.19	-0.37	-0.52
WORST DRAWDOWN (%)	-2.70	-13.92	-14.49	-14.49
TIME TO RECOVERY (MTHS)	1	NR	NR	NR
TRACKING ERROR (% PA)	0.26	0.27	0.52	0.40

PRODUCT: ONEPATH DIVERSIFIED BOND INDEX  
PRODUCT BENCHMARK: 70% BLOOMBERG GLOBAL AGGREGATE TR INDEX (AUD HEDGED) / 30% BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX AUD  
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of \$10,000 over 10 years



Monthly excess returns over 10 years



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# OnePath Diversified Bond Index

## Glossary

[Click here for the glossary of terms.](#)

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## Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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