

Product Review

OnePath Geared Australian Shares Index Trust

ISSUE DATE 10-11-2023

Key information

FUND MANAGER	INVESCO AUSTRALIA LIMITED
RESPONSIBLE ENTITY	ONEPATH FUNDS MANAGEMENT LIMITED
APIR CODE	MMF1541AU
ASSET CLASS	AUSTRALIAN EQUITIES
SECTOR	AUSTRALIAN LARGE CAP
SUB SECTOR	GEARED - PASSIVE
INVESTMENT TYPE	GEARED MANAGED FUND
PDS OBJECTIVE	THE TRUST AIMS TO ACHIEVE RETURNS THAT MAGNIFY THE S&P/ASX 300 ACCUMULATION INDEX RETURNS BEFORE TAKING INTO ACCOUNT FEES, CHARGES AND TAX
INDEX PROVIDER	S&P DOW JONES INDICES
UNDERLYING INDEX	S&P/ASX 300 INDEX
DERIVATIVE USE	THE TRUST MAY INVEST IN DERIVATIVES, INCLUDING FUTURES, OPTIONS, WARRANTS AND SWAPS TO GAIN EXPOSURE TO INVESTMENT MARKETS AND TO MANAGE RISKS ASSOCIATED WITH MARKET PRICE, INTEREST RATE AND CURRENCY FLUCTUATIONS.
SECURITIES LENDING	NOT PERMITTED
FUND INCEPTION	31 AUGUST 2006
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	\$66.58M (SEPT 2023)

Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.82
PERFORMANCE FEE COSTS	0
NET TRANSACTION COSTS	0.08
NET OF BUY SPREAD / SELL SPREAD	0.04 / 0.04
ANNUAL FEES AND COSTS (PDS)	0.9

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 'Investment Grade Index' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- The Fund provides investors with an efficient means of gaining leveraged, passive exposure to a broad-based portfolio of Australian equity securities.
- The Underlying Manager, Invesco, is a large, well-resourced and reputable passive investment manager.
- The Underlying Manager, Invesco, has a dedicated index management team which is supported by specialist functions such as trading and corporate actions analysis.

Weaknesses

- The Fund is expensive when compared to other platform index products from other providers rated by Lonsec. This is the only index option available to investors in the OnePath platform network.
- The Underlying Index typically takes on large exposure to the Financials and Materials sectors, which may expose investors to some unintended macroeconomic and idiosyncratic risks from time to time.
- OnePath uses a single lender to provide financing. Lonsec believes having a range of loan providers helps reduce the risk associated with a single financier and could potentially result in a lower cost of funding.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK			●
SECURITY LIQUIDITY RISK		●	
CREDIT 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 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

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.

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	LOW	MODERATE	HIGH
RISK TO INCOME			●

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

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?

- OnePath Geared Australian Shares Index Fund ('MMF1541AU' or 'the Fund') is a rules-based, market capitalisation weighted fund that provides exposure to the 300 largest and most liquid stocks listed on the Australian share market. The Fund aims to provide a geared exposure to the S&P/ASX 300 Index ('ASX 300' or 'the Underlying Index'), before fees, expenses and taxes. The Fund will gain its equity exposure by investing in the OnePath Australian Shares Index Pool ('the Underlying Pool').
- OnePath Funds Management Limited ('OnePath' or 'the Manager') acts as the Responsible Entity of the Fund and has outsourced the equities index management to Invesco Australia ('Invesco' or 'the Underlying Manager'). Invesco passively manages the Fund and the Underlying Index is provided by S&P Dow Jones Indices ('S&P' or 'the Index Provider').
- The Fund's PDS, dated 22 July 2022, disclosed Annual Fees and Costs ('AFC') totaling 0.905% p.a. (of gross asset value). (1) management fees and costs of 0.825% p.a., and (2) net transaction costs estimate of 0.08% p.a. Assuming a target gearing level of 50%, this would represent an AFC of 1.73% p.a in net asset value terms. The AFC represents a bundled fee, inclusive of, for instance, investment costs and platform fees. OnePath has not disclosed a breakdown in the platform fee structure. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates, particularly with respect to net transaction costs.

Gearing

- The Fund aims to amplify its returns by gearing the unitholder's exposure to the Underlying Pool. OnePath is responsible for the management of the loan facility, with the maximum Loan to Value Ratio ('LVR') for the Fund at 65% as stipulated under the loan agreement. That said, OnePath has an LVR target range between 45% - 55%, but typically maintains its LVR of around 50%. This can be rebalanced daily to maintain the LVR if required. While there are no formal bands in place, the Fund has not deviated far from this target in the past few years.
- The Fund's debt levels are reviewed daily and are managed by the Portfolio Management and Implementation team. OnePath aims to limit gearing to the level supported by expected dividends and

borrowing costs, whereby income earned by the Fund covers interest payments. Lonsec notes that OnePath has obtained a competitive rate on its loans through a related entity which reduces funding costs.

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 is a geared 'long only', broad-based Australian equity index product. As such, the Fund will generally sit within the growth component of a balanced portfolio. As a geared fund, Lonsec considers the Fund suitable for blending with other beta or 'smart beta' funds for high-growth investors with an investment horizon of at least five years.
- Borrowings are used in the management of this Fund, with the mandate permitting an LVR ratio between 0% and 65%. However, the target ratio range is between 45% - 55%. Investors should be aware that gains and losses will be magnified by gearing and that levered investments will significantly underperform equivalent non-geared investments when the underlying assets experience negative returns.
- Investors should note that when the Fund rebalances its LVR due to market movements, it will involve borrowing additional capital after a period in which the market has risen, or redeeming debt after a period in which the market has fallen. As a result, the Fund is likely to have relatively high level of borrowings around market peaks (and vice-versa at market bottoms). This is a common trait of 'geared funds'. This trait will tend to magnify the Fund's downside risk at market peaks (and vice-versa) relative to an ungeared fund.
- It is important to note that the Fund's distributable income is derived from a portfolio of listed assets, and as such, distributions can fluctuate as listed companies are not obligated to maintain a certain level of, nor pay, dividends on a regular basis. This is unlike what is normally associated with traditional income-producing assets (for example, fixed interest).

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

- This is Lonsec's initial review of this Fund.

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Lonsec Opinion of this Fund

People and resources

- Invesco is a substantial global asset manager with \$1.5 trillion in assets under management ('AUM') as at June 2023 across a range of asset classes and strategies. The global indexing component comprised over \$551 billion of the total AUM. Invesco has been broadening its offering and market presence, which is considered by Lonsec to be a 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 30 dedicated indexing professionals. These include Peter Hubbard (and his team of five 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 Invesco's Australian active quantitative managers (IQS), e.g. cash flow sweeping as well as the Hong Kong Fixed Income desk.
- The Underlying Index is provided by S&P, which is a globally significant and deeply experienced index provider.

Investment approach

- Lonsec considers that S&P has adopted a conservative and simple market capitalisation weighted index methodology for the Underlying Index. Lonsec believes the index methodology contains robust and transparent constitution selection criteria. This includes framing the investment universe as being constrained to S&P/ASX 300 constituents only, with minimum liquidity and size requirements in place. However, Lonsec notes that the market capitalisation weighted methodology typically leads to a significant weighting in the Financials and Materials sectors, a feature which may expose investors to unintended macroeconomic and idiosyncratic risks from time to time.
- OnePath aims to maintain the weights of the Underlying Index whilst implementing a gearing overlay with a target ratio of 50%. The target LVR ranges between 45% and 55%. OnePath will typically remain within the LVR range but is permitted to apply an LVR below the minimum 45% to 0% in response to market movements. The level of gearing pertaining to the overall portfolio is monitored daily and when the LVR approaches the lower or upper end of this predefined range, OnePath will rebalance the portfolio to its target LVR of 50%. Lonsec considers the 'all in' borrowing cost to be competitive and to compare favourably to alternatives such as margin loans.
- 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 a proprietary system (XTF) which provides a visual dashboard for the portfolio managers and includes a range of flags for 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 support/development professionals. Invesco has a presence across key regional markets and can span a 24-hour 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, as well as how well it integrates into the overall 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 plus active voting, 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 provided the Fund with an '**Investment Grade Index**' rating. Lonsec believes that the Fund represents an efficient means of gaining leveraged passive exposure to a broad-based portfolio of Australian equity securities. Further, Lonsec considers Invesco to be a well-resourced and highly capable investment manager with strong supporting functions.

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- However, Lonsec notes that the Fund represents an expensive option for this type of strategy when compared to other 'platform' products in the Lonsec peer group. Likewise, the Underlying Index typically takes on large sector exposure to the Financials and Materials sectors which may expose investors to some unintended macroeconomic and idiosyncratic risks from time to time. Further, OnePath utilises a single lender to provide financing and believes that using various loan providers may assist in reducing the cost of funding.

People and Resources

OnePath Funds Management Ltd is the Responsible Entity and Fund Manager of the Trust. OnePath is a financial services provider, focused on wealth and advice solutions and is a wholly-owned subsidiary of Insignia Financial Limited ('IFL'), and operates as part of Insignia Financial Limited. OnePath has appointed Invesco Australia as the Underlying Manager. Invesco is a global investment management firm managing investments across a wide range of asset classes, investment styles and geographies. Invesco employs over 8,000 employees globally and has a strong track record of managing smart-beta, index-based strategies. As at July 2023, Invesco had \$551 billion of FUM invested across its suite of 350+ ETF and index strategies.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
ONEPATH FUNDS MANAGEMENT		
DAN FARMER	CHIEF INVESTMENT OFFICER	28 / 14
STANLEY YEO	HEAD OF STRATEGY AND EQUITIES	24 / 14
DAVID DJUKANOVIC	HEAD OF EXPOSURE MANAGEMENT AND TRADING	18 / 8
INVESCO		
BRIAN HARTIGAN	GLOBAL HEAD OF INDEX IMPLEMENTATION AND PASSIVE INVESTMENTS	24 / 14
RITCHARD LONGMIRE	SENIOR PORTFOLIO MANAGER, INVESCO QUANTITATIVE STRATEGIES	25 / 6
NICOLE SCHNUDERL	SENIOR PORTFOLIO MANAGER, INVESCO QUANTITATIVE STRATEGIES	19 / 19
ANDRE ROBERTS	SENIOR PORTFOLIO MANAGER, INVESCO QUANTITATIVE STRATEGIES	30 / 6

Invesco's index management team is responsible for managing all passive portfolios. The team is led 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's investment objective is to provide geared exposure to the returns of the Australian share market. The Fund seeks to achieve this objective by combining the applications of investors with borrowed funds and investing in a long-only share portfolio that aims to replicate the holdings of the S&P/ASX 300 Index. The approach can be described as 'full replication', whereby the Fund will generally invest in all securities in the S&P/ASX 300 Index in the same weights as they are held in the Index. As the Fund purchases securities, it is expected to earn dividends and franking credits on the underlying share portfolio.

The Fund's Gearing Ratio or LVR will be managed by OnePath to be within a range of 45 - 55%. The level of gearing is monitored daily, and OnePath will rebalance the Gearing Ratio back to its 50% target generally when the Fund's gearing ratio reaches +/- 100 bps of its target. OnePath utilises a direct loan facility with ANZ Banking Group Limited ('ANZ').

Underlying index

The S&P/ASX 300 Index comprises approximately 300 Australian equity securities and represents over 80% of the value of all Australian-based companies and property trusts listed on the ASX. Index constituents are drawn from the universe of securities listed on the ASX. Securities are screened based on a range of eligibility criteria including domicile, number of securities available on the exchange and liquidity. All eligible constituent weights within the Index are determined by their float-adjusted market capitalisation. The Underlying Index rebalances on a semi-annual basis in March and September.

INDEX METRIC	DATA
INDEX PROVIDER	S&P
MARKET COVERED	AUSTRALIAN EQUITIES
WEIGHTING METHODOLOGY	MARKET CAPITALISATION WEIGHTED
MAXIMUM MARKET CAPITALISATION	BROADLY DIVERSIFIED
CONSTITUENT DETERMINATION	RULES-BASED
CONSTITUENCY FACTORS	SCREENS ON MINIMUM LIQUIDITY AND SIZE
REBALANCING FREQUENCY	SEMI-ANNUALLY

Transparency

Given the passive nature of the investment strategy, 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 two-month lag as a part of the monthly Fund update. Additionally, the Fund's AFC includes a platform fee which makes cost comparisons with ETF and unlisted fund peers difficult.

Lonsec notes that the methodology and characteristics of the family of S&P indices that the Fund tracks are readily available to retail investors through the S&P website. Lonsec believes that access to transparent and straightforward information on index products, their underlying indices and their index methodology is

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crucial to investors' understanding and ability to gauge suitability.

Liquidity

The Fund is invested in 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 the 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. Lonsec notes the Underlying Index Pool FUM was \$6.9bn as at September 2023.

Fees and Indirect Costs

The Fund's AFC of 0.905% p.a. represents a higher cost exposure for an Australian-g geared passive fund. Moreover, the AFC is one of the most expensive in the passive Lonsec peer group. However, 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.

Most ETFs calculate management fees and costs as a percentage of the Net Asset Value (NAV), however, it is common practice among geared funds to calculate fees as a portion of Gross Asset Value (GAV) which includes the borrowings.

Additionally, the Fund has a bid / ask spread of 0.08% which represents a moderate spread relative to the peer group. The bid / ask spread for an ETF represents the average daily spread over a one-year period but may not reflect the actual spread incurred, while the bid / ask spread on an index fund is fixed.

Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (%) P.A.)
ONEPATH WHOLESALE GEARED AUSTRALIAN SHARES INDEX TRUST (MMF1541AU)	0.905	0.08
CFS GEARED INDEX GLOBAL SHARE (FSF5688AU)	0.51	0.05-0.15

- The AFC is inclusive of the platform fee. The spreads for unlisted funds are sourced from the Manager's most recent PDS issuance.

Performance

In May 2021, the Responsible Entity changed the underlying investment manager of the Fund from Vanguard to Invesco. Thus, the Fund is still building a prolonged track record of performance.

On an absolute basis, the Fund has delivered a total return (after fees) of 17.8% and -2.77% p.a. over the same one and two-year periods to September 2023. This is compared to the S&P/ASX 300 Index's performance of 12.92% and 1.92% p.a. over the same period.

Lonsec notes that geared Australian equity funds will display much higher volatility (as measured by Standard Deviation) than the S&P/ASX 300 Index across all periods. For instance, over the two-year period, the

Fund had a standard deviation of 35.71% p.a. compared to the standard deviation of the S&P/ASX 200 Index of 14.96% p.a.

Tracking Error is not a relevant metric in the context of this Fund because it does not aim to replicate the returns of an index.

Lonsec notes all performance data are quoted after fees.

Risks

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

Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Performance risk

The value of, and returns (if any) from an investment in the Fund will depend upon the performance of the stocks comprising the S&P/ASX 300 Index as well as the level of gearing of leverage employed. There is no guarantee the value of an investment in the Fund will increase.

Derivatives risk

While not currently utilised, OnePath has scope to use exchange-traded derivatives (e.g. futures and options over securities and indices) to gear the Fund, Lonsec does not expect this to be widely adopted.

In addition to any risk associated with the underlying asset (or index) for which a derivative is valued, derivative prices are affected by other factors including:

- Market liquidity;
- Interest rates; and
- Counter-party risk.

Leverage risk

Investors should be aware that gains and losses are magnified through the use of borrowings. Geared investments may significantly underperform equivalent non-g geared investments when the underlying assets experience negative returns.

Further information

Further information can be obtained by calling OnePath Funds Management Limited on 1800 031 810 or visiting www.onepath.com.au.

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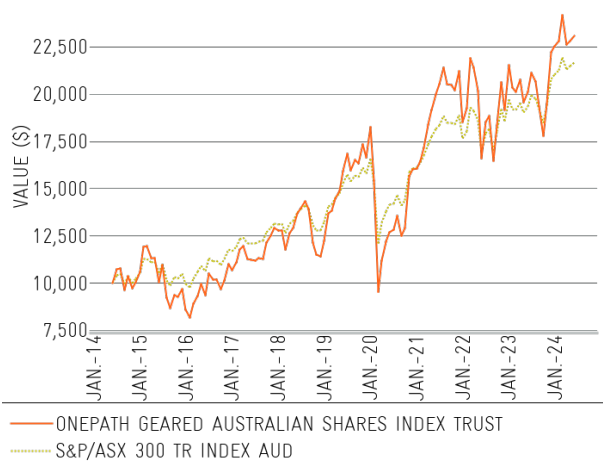
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Quantitative Performance Analysis - annualised after-fee % returns (at 30-6-2024)

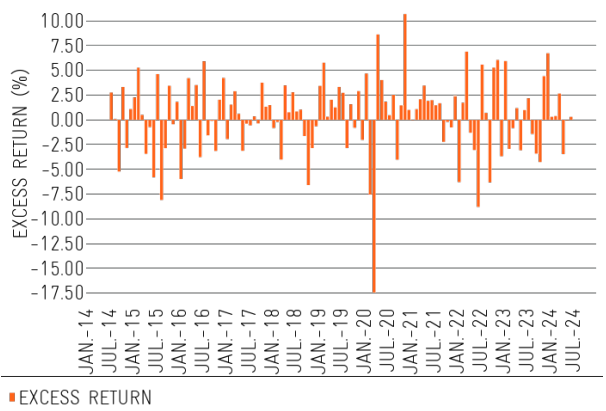
Performance metrics	1 YR	3 YR	5 YR	10 YR
TOTAL RETURN (% PA)	14.80	4.90	7.69	8.73
STANDARD DEVIATION (% PA)	22.86	27.02	32.06	27.45
EXCESS RETURN (% PA)	2.87	-1.17	0.47	0.68
WORST DRAWDOWN (%)	-15.75	-24.74	-47.72	-47.72
TIME TO RECOVERY (MTHS)	2	15	13	13
TRACKING ERROR (% PA)	11.40	13.36	15.53	13.42

PRODUCT: ONEPATH GEARED AUSTRALIAN SHARES INDEX TRUST
PRODUCT BENCHMARK: S&P/ASX 300 TR 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



OnePath Geared Australian Shares Index Trust

Glossary

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

About Lonsec

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Analyst Disclosure and Certification

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