

Product Review

OptiMix Wholesale Balanced Trust — Class A

ISSUE DATE 04-05-2022

About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	61-80% GROWTH ASSETS
SUB SECTOR REVIEWED	MULTI-MANAGER
TOTAL FUNDS RATED	16

About this Fund

ASIC R6240 CLASSIFIED	NO
FUND REVIEWED	OPTIMIX WHOLESALE BALANCED TRUST – CLASS A
APIR CODE	LEF0044AU
PDS OBJECTIVE	TO ACHIEVE RETURNS (BEFORE FEES, CHARGES AND TAXES) THAT ON AVERAGE EXCEED INFLATION BY AT LEAST 5.0% P.A., OVER PERIODS OF 10 YEARS OR MORE.
STATED RISK OBJECTIVE	TO ACHIEVE A TRACKING ERROR OF LESS THAN 3.0% P.A. MEASURED AGAINST A BLENDED BENCHMARK OVER ONE YEAR PERIODS.
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$786.9M (JANUARY 2022)
FUND INCEPTION	01-04-2004
MANAGEMENT COSTS	1.55% P.A. (INCLUDES INDIRECT COSTS OF 0.63% P.A.)
RESPONSIBLE ENTITY	ONEPATH FUNDS MANAGEMENT LIMITED

About the Fund Manager

FUND MANAGER	ONEPATH FUNDS MANAGEMENT LIMITED
OWNERSHIP	100% OWNED BY INSIGNIA FINANCIAL LTD (ASX CODE: IFL)
ASSETS MANAGED IN THIS SECTOR	\$59BN (DECEMBER 2021)
YEARS MANAGING THIS ASSET CLASS	28

Investment Team

PORTFOLIO MANAGER	LIAM WILSON
INVESTMENT TEAM SIZE	22
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	PM / MELBOURNE AND SYDNEY
ASSET CONSULTANT	MERCER

Investment process

ASSET ALLOCATION	STRATEGIC, DYNAMIC
SECTOR EXPOSURE	ACTIVE, PASSIVE
GROWTH / DEFENSIVE SPLIT % (NEUTRAL)	76 / 24
USE OF ALTERNATIVES	YES

Fund rating history

MAY 2022	RECOMMENDED
APRIL 2021	INVESTMENT GRADE
MAY 2020	INVESTMENT GRADE

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.
- Increased breadth of resources and tools in particular manager research, asset allocation, performance analytics, governance and implementation teams.
- The Manager implements a robust and consistently applied research process underpinning underlying manager selection and portfolio construction functions.
- Since the acquisition of MLC in May 2021, the investment team have been selectively accessing the MLC investment team insights and resources. This has been very measured and designed to complement the Manager's investment process and manager selection.

Weaknesses

- Although the value proposition is strong, the Trust's overall fee load is relatively high in the peer group.

Fund Risk Characteristics

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

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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?

- The OptiMix Wholesale Balanced Trust ('the Trust') is a 76%/24% growth/defensive multi-manager fund with exposure to a broad range of asset classes (including equities, fixed income, property and alternatives) and employs a selection of specialist fund managers. The objective of the Trust is to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 5.0% p.a., over periods of 10 years or more.
- OnePath Funds Management Limited ('the Manager') is part of the group of companies and related bodies comprising Insignia Financial Limited. The Trust is managed by the IOOF investment team. The Manager has offered diversified investment products to investors for more than two decades, making it one of the longest standing managers in this peer group.
- The Manager aims to add value via Strategic Asset Allocation (SAA), Dynamic Asset Allocation (DAA) and manager selection.
- IOOF adopts a Multi-Manager investment style, taking an active approach. IOOF's investment philosophy is guided by a number of key principles which have foundations in academic research; active managers can outperform sector benchmarks over the long-term, in-depth research and analysis can provide superior insight and provide the potential for outperformance, and investment style can have a significant impact on performance.
- As per the PDS update dated 9 February 2022, the ongoing annual fees and cost to investors in the Trust includes (a) management fees and costs of 1.55% p.a. which comprises a 0.92% p.a. management fee and 0.63% p.a. indirect costs. The indirect costs also include the net transaction costs 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 0.03% / 0.03% 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 Trust. 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.
- Multi-Asset Class Multi-Manager Funds are well suited to investors who desire a diversified portfolio, but have limited capital to invest.
- 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 equities and property securities to provide long-term investment growth.

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

- 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.
- The Manager has conducted a comprehensive product range and asset class review to achieve alignment across OnePath, OptiMix and IOOF MultiSeries strategies. This process was undertaken to reduce complexity and improve unitholder outcomes.
- Since the acquisition of MLC in May 2021, the Investment team have been selectively accessing the MLC investment team insights and resources. This has been very measured and designed to complement the Manager's investment process and manager selection.
- The Investment team has obtained access to MLC Asset Management's consulting resource – JANA. The input from JANA has thus far been limited compared to the services received from the incumbent dedicated asset consultant – Mercer.
- Following the comprehensive review, a number of underlying manager changes have occurred. The changes include:
 - Within Australian Equities, the Manager appointed AB, Acadian Asset Management, IOOF QuantPlus, Northern Trust, Northcape and Quest and terminated Vinva, Fidelity, Nikko, Yarra and Alphinity.
 - Within International Equities, the Manager appointed Challenger, Alphinity, Brown Advisory,

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Vontobel, Royal London and Vaughan Nelson and terminated LSV and MFS.

- Within Emerging Markets, the Manager appointed Neuberger Emerging, TT Emerging, Berkeley Street and William Blair and terminated Wells Capital, MFS and RARE.
- Within International Property, the Manager appointed Invesco and terminated Vanguard.
- Within Direct Property, the Manager appointed IOOF and Heitman.
- Within Alternatives, the Manager appointed Berkshire, BSP, ICG, Nassau, HarbourVest, Janus Henderson, PEM, Bentham, Tanarra and Metrics and terminated Blackrock.
- Within Fixed Interest, the Manager appointed Metrics Credit Partners, Janus Henderson, Brandywine, Invesco, Ardea, Stone Harbour and Western Asset and terminated Schroders, PIMCO and Wellington.

Lonsec Opinion of this Fund

People and resources

- In May 2021, Insignia Financial Ltd (ASX code: IFL) completed its transaction agreement with the National Australia Bank (ASX Code: NAB) to acquire 100% of the MLC wealth management business. Upon finalisation of this transaction, the investment resources and personnel have begun working together to manage their respective products. With both businesses having significant experience in investment management, there are positive synergies meaning the collaboration has been additive to both parties. Further, there have been minimal disruptions to investment processes or personnel. Lonsec believes this process was professionally managed and has therefore resulted in a smooth transition and ongoing function for 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. Lonsec believes that Farmer possesses the appropriate experience and skills to lead the team and has skilfully navigated the changes that have 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 comprises 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. The Manager does not have resources solely dedicated to managing the diversified Trusts, which are the responsibility of Liam Wilson.
- The Manager 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. Insignia Financial 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

- The Manager 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 pragmatic, and not unlike peers in this sector.
- The Manager 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 the Manager 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 (new asset classes and strategies), well-developed insights and more timely adoption of market innovations and emerging trends.

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 the 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 the team's house views on suitable

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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 the team'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, the Manager 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'.

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 the 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 the 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 Trust to be low to moderate.

Portfolio construction

- Post the integration of the investment approach with IOOF, the 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 separately 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 interest, 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 factor-based and active investment 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 the Manager is capable of managing these mandates but will continue to reassess this in future review.

Risk management

- Lonsec has been satisfied with the structure of the risk management functions embedded within the investment process. While continually evolving, the Manager has integrated compliance systems that enable underlying mandates to be implemented to ensure compliance with their predefined guidelines.
- Underlying managers are typically accessed via separately managed accounts enabling the Manager 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.
- The Manager 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 is 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 aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 5.0% p.a. over periods of 10 years or more. Over the past 10 years to 31 January 2022, the Trust returned 7.9% p.a. (net of fees) compared to CPI + 5.0% which equated to 7.1% p.a., therefore outperforming its return objective.
- The Trust underperformed the Lonsec Multi-Asset 61-80% Growth Assets Multi-Manager peer group median over three, five and 10 year periods, however it has outperformed over one year.

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- Volatility (as measured by standard deviation) has been slightly below the peer group median across one, three, five and 10 year time periods. The Sharpe ratio has been above peers over a one year period, however, is broadly in-line over three, five and 10 years.

Overall

- Lonsec has upgraded the Fund to a '**Recommended**' rating at its recent review. Lonsec notes the integration of OnePath's capabilities into the broader IOOF investment team has been completed. The rating is underpinned by Lonsec's positive view of the Trust's robust and repeatable investment process. Lonsec has high regard for the expanded investment team and lead Portfolio Manager, Liam Wilson is considered sufficiently skilled and experienced to manage the Trust effectively.
- Lonsec notes the Trust's overall fee load is considered high.

People and Resources

Corporate overview

OnePath Funds Management Ltd (OPFM) is the Responsible Entity and Fund Manager of the Trust. OPFM was acquired by Insignia Financial in February 2020. Insignia Financial is listed on the Australian Stock Exchange (ASX code: IFL). As of 31 December 2021, Insignia Financial had \$325.8bn in Funds Under Management and Administration.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DAN FARMER	CHIEF INVESTMENT OFFICER	26 / 12
STANLEY YEO	DEPUTY CIO & HEAD OF EQUITIES	22 / 12
LIAM WILSON*	PORTFOLIO MANAGER (EQUITIES)	19 / 2
PAUL CRISCI	PORTFOLIO MANAGER (AUSTRALIAN EQUITIES)	22 / 5
KERRY DUCE	HEAD OF ASSET ALLOCATION	34 / 2
SIDNEY CHONG	ASSET ALLOCATION MANAGER	32 / 2
OSVALDO ACOSTA	HEAD OF FIXED INTEREST ASSETS	21 / 5
MARK NORDIO	SENIOR MANAGER FIXED INTEREST ASSETS AND STRATEGY	28 / 2
SIMON GROSS	HEAD OF PROPERTY	42 / 18
MARK D'ARCY-BEAN	ASSET MANAGER PROPERTY INVESTMENT	36 / 4
MANISH UTREJA	PORTFOLIO MANAGER & HEAD OF ALTERNATIVES	21 / 2
SEAN ROBERTSON	INVESTMENT MANAGER - ALTERNATIVES	22 / 2
*LEAD PORTFOLIO MANAGER FOR THE TRUST	-	/

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.

Liam Wilson is the Trust's lead portfolio manager and is primarily responsible for undertaking portfolio construction and manager selection functions for the OnePath/OptiMix multi-asset portfolios. He is also involved in the manager research process across Australian and global equities asset classes. Wilson previously held responsibilities for Australian and international equity and fixed income fund manager research and market analysis, including implementation of INGIM overlay strategies within multi-manager portfolios. Wilson has over 19 years of financial markets experience. He is supported by the investment team of asset class specialists and portfolio managers.

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 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 the Investment Operations Team. Compliance monitoring, custody, unit pricing, registry and financial reporting functions are outsourced to various parties including Insignia Financial 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

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

The Manager 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.

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The Manager 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 GDP environments, as well as extreme equity market simulations. This quantitative input is overlayed with the Manager'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.

A notable feature of the SAA is the discrete allocations to Global Small Companies and Global Emerging Markets. Also notable is the absence of an allocation to Australian Property. The allocation to Alternative Assets (Growth) comprises a range of strategies including private credit, CTA/trend and macro hedge funds, while Alternatives (Defensive) includes absolute return fixed income, trend following and market neutral strategies.

The following table summarises the current benchmark asset allocations, the bands in which DAA can be implemented and the actual weight as at January 2022.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	23.0%	7%	47%	22.7%
GLOBAL EQUITIES	30.0%	9%	49%	29.2%
UNLISTED ASSETS	4.0%	0%	14%	1.8%
GLOBAL PROPERTY	2.5%	0%	16%	3.0%
LISTED INFRASTRUCTURE SECURITIES	4.5%	0%	16%	5.6%
ALTERNATIVES	17.0%	1%	38%	21.6%
AUSTRALIAN & GLOBAL FIXED INTEREST	14.0%	0%	37%	14.6%
CASH	5.0%	0%	23%	1.4%

Tactical/Dynamic asset allocation

The Manager believes that traditional TAA (comprising a small number of asset class decisions) can be a source of unrewarded risk to investors. As such, the Manager engages 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 inputs from Mercer, monitoring of hedge funds, and market material

from external research houses, investment banks and brokers

Research Approach

The Manager's integrated quantitative and qualitative investment process aims to establish a narrow universe of funds that have been filtered by various criteria including the team'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

The Manager 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 the Manager to minimize the universe of products to a manageable size rather than considering all available managers in each asset class. For example, the team'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.

The Manager 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, the Manager 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 the Manager, through existing networks and contacts with other industry participants, such as managers, consultants or superannuation plan operators. The 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 research by the 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. The Manager undertakes a mix of both qualitative and quantitative research. From a qualitative perspective, the Manager 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

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style based analytics and various types of portfolio holdings based attribution, and risk factor analytics.

Portfolio Construction

Overview

The Manager'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 budget is then apportioned between allowable asset classes based on the team'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 the team'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 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 January 2022. Consistent with the Manager'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
- Alphinity

- Brown Advisory Limited
- Vontobel
- Royal London
- Vaughan Nelson
- Neuberger Emerging
- TT Emerging
- Berkeley Street
- William Blair
- Arrowstreet

Global Property

- Invesco

Direct Property

- IOOF Investment Services Ltd
- Heitman

Infrastructure

- Maple Brown Abbott

Alternatives

- Berkshire
- BSP
- ICG
- Nassau
- HarbourVest
- Janus Henderson
- PEM
- Bentham
- Tanarra
- Metrics

Cash and short-term securities

- IOOF Investment Services Ltd

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

Risk Management

Risk limits

At the broad level, risk within the Trust is controlled through diversification across assets and across managers with complementary management approaches and styles. Ongoing daily monitoring at the portfolio level is managed by the lead Portfolio Manager through the use of FactSet and MercerInsight with oversight from the risk monitoring team.

OptiMix Wholesale Balanced Trust — Class A

ISSUE DATE 04-05-2022

Risk monitoring

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

Implementation

Portfolio allocations are monitored daily and rebalanced 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, with the exception of the

global equities asset class where currency hedging is undertaken via an 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 including Liquidity Risk, Counterparty Risk, Legal and Regulatory Risk.

ANALYST: ROBBIE LEW | APPROVED BY: DARRELL CLARK

OptiMix Wholesale Balanced Trust — Class A

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

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	11.51	10.01	8.32	8.52	7.05	7.39	7.87	8.62
STANDARD DEVIATION (% PA)	5.33	5.84	9.68	10.06	8.17	8.47	6.99	7.59
EXCESS RETURN (% PA)	0.40	-1.10	-1.46	-1.27	-1.83	-1.49	-2.04	-1.29
OUTPERFORMANCE RATIO (% PA)	58.33	41.67	38.89	44.44	33.33	40.00	30.00	42.50
WORST DRAWDOWN (%)	-2.54	-3.35	-15.38	-15.05	-15.38	-15.05	-15.38	-15.21
TIME TO RECOVERY (MTHS)	NR	NR	11	8	11	8	11	8
SHARPE RATIO	2.15	1.62	0.80	0.80	0.73	0.76	0.85	0.90
INFORMATION RATIO	0.23	-0.50	-0.89	-0.57	-1.22	-0.82	-1.48	-0.76
TRACKING ERROR (% PA)	1.75	2.06	1.64	2.11	1.50	1.86	1.38	1.70

PRODUCT: OPTIMIX WHOLESALE BALANCED TRUST – CLASS A

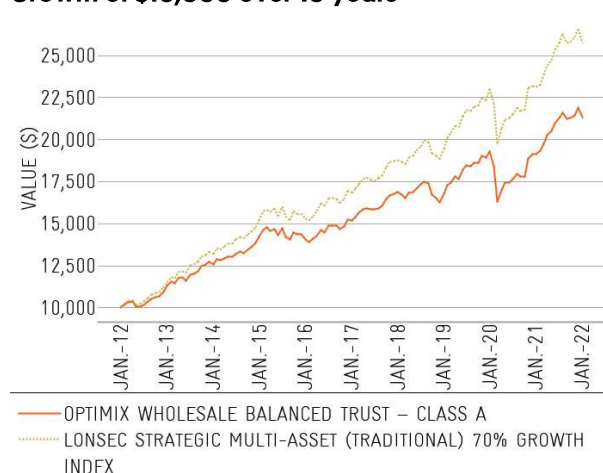
LONSEC PEER GROUP: MULTI-ASSET – 61-80% GROWTH ASSETS – MULTI-MANAGER

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

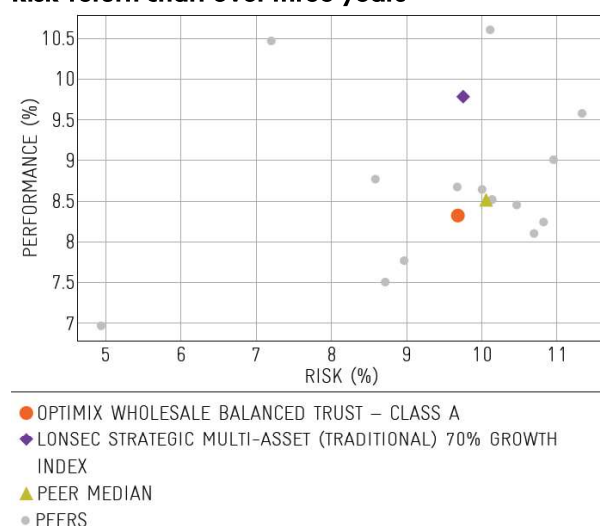
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

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

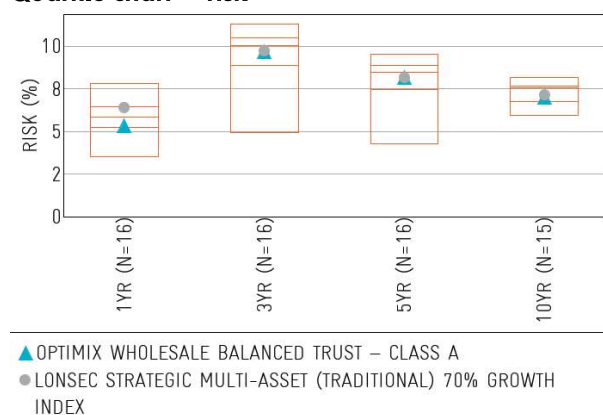
Growth of \$10,000 over 10 years



Risk-return chart over three years

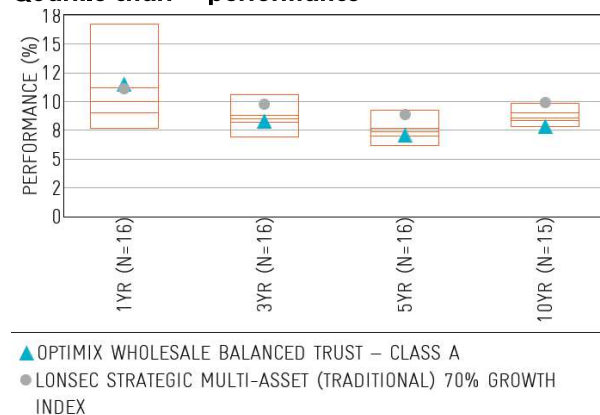


Quartile chart — risk



N: NUMBER OF ACTIVE FUNDS

Quartile chart — performance



N: NUMBER OF ACTIVE FUNDS

OptiMix Wholesale Balanced Trust — Class A

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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