



Product Review

OptiMix Wholesale Australian Fixed Interest Trust — Class B

ISSUE DATE 20-04-2022

About this Review

ASSET CLASS REVIEWED	FIXED INTEREST
SECTOR REVIEWED	AUSTRALIAN FIXED INTEREST
TOTAL FUNDS RATED	13

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	OPTIMIX WHOLESALE AUSTRALIAN FIXED INTEREST TRUST - CLASS B
APIR CODE	LEF0104AU
PDS OBJECTIVE	THE TRUST AIMS TO ACHIEVE RETURNS (BEFORE FEES, CHARGES AND TAXES), THAT EXCEED THE BLOOMBERG AUSBOND COMPOSITE (ALL MATURITIES) INDEX OVER PERIODS OF THREE YEARS OR MORE.
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 0.75% P.A. (BEFORE FEES) OVER ROLLING THREE YEARS PERIODS.
STATED RISK OBJECTIVE	A MAXIMUM TRACK ERROR OF UP TO 1.5% P.A. OVER ROLLING THREE-YEAR PERIODS.
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$192.2M (31 JANUARY 2022)
FUND INCEPTION	01-12-2000
MANAGEMENT COSTS	0.53% P.A. (INC. 0.02% P.A. INDIRECT COSTS)
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	\$10.2BN (31 JANUARY 2022)
YEARS MANAGING THIS ASSET CLASS	28

Investment Team

PORTFOLIO MANAGER	OSVALDO ACOSTA
INVESTMENT TEAM SIZE	3
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	PM/ MELBOURNE AND SYDNEY

Investment process

STYLE	MULTI MANAGER
BENCHMARK	BLOOMBERG AUSBOND COMPOSITE (ALL MATURITIES) INDEX
DURATION RISK LIMIT	+/- 1.5 YEARS (BENCHMARK RELATIVE)
MAXIMUM SUB INVESTMENT GRADE	2.5% (AT UNDERLYING MANAGER LEVEL)
GEARING/ECONOMIC LEVERAGE	NOT PERMITTED
CURRENCY EXPOSURE	AUD

Fund rating history

APRIL 2022	RECOMMENDED
MARCH 2021	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.
- 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 in May 2021, the IOOF Investment team has been selectively accessing the MLC investment team insights and resources. This has been very measured and designed to complement the IOOF'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		●	
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
INTEREST RATE RISK			●
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 3 equates to a Risk Label of 'Low to Medium' and an estimated number of negative annual returns over any 20 year period of 1 to less than 2. 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		●	

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: ROBBIE LEW | APPROVED BY: ISRIN KHOR

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 Trust is an actively managed Australian fixed interest Multi-Manager portfolio. Securities are managed by underlying managers selected and blended by the IOOF Investment team. The Trust aims to outperform the Bloomberg AusBond Composite 0+ Yr Index by at least 0.75% p.a. (before fees) over periods of three years or longer.
- 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. 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.
- The Trust offers access to two underlying Australian fixed interest managers. Underlying managers are selected based on a broad range of skills such as duration management, yield curve positioning, sub-sector allocation, and credit selection.
- At the time of the review, the Fund invested with two underlying managers, which were Legg Mason Western Asset Management (50%) and Janus Henderson (50%).
- The Trust's underlying managers invests in a wide range of Australian sovereign, securitised and corporate bonds.
- The Trust aims to produce a source of income and distribute quarterly. While the Trust intends to provide regular income, no pre-defined income target is set, and income may vary from quarter to quarter.
- As per the PDS dated 1 December 2020, the fee disclosure for the Trust is as follows: total management costs of 0.53% p.a. comprising a management fee of 0.51% p.a. and indirect costs of 0.02% p.a. The indirect costs also include the net transaction costs for the 12 month period ended 30 June 2021. Net transaction costs are costs incurred in managing the Trust (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/or when there are applications or redemptions of trust units by investors) that are not covered by the buy/sell spread. The Trust's buy/sell spread is 0.12%/0.04%. These costs are reflected in the unit price of the Trust and

are borne by investors, but they are not paid to the Responsible Entity or the Manager. Please refer to the Trust's PDS for further details

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 its design and distribution arrangements for the Fund. Lonsec has sighted 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.
- Australian Fixed Interest Funds typically perform better during periods of declining or stable interest rates and contracting or stable credit spreads. Conversely, they will typically perform worse during periods of increasing interest rates (particularly when interest rates increase sharply) and deteriorating credit spreads.
- Australian Fixed Interest Funds generally have lower default risk and higher credit quality than Alternative Income funds.

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 of MLC in May 2021, the IOOF Investment team have been selectively accessing the MLC investment team insights and resources. This has been very measured and designed to complement IOOF'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.

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.
- 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 Trust is managed by Head of Fixed Interest Assets Osvaldo Acosta. In addition to the Trust, Acosta also has responsibilities for other fixed interest strategies, including the IOOF Diversified Fixed Interest Trust. Lonsec considers Acosta to be suitably qualified and adept at managing the Trust, exhibiting a high degree of awareness concerning liquidity constraints and seeking out opportunities that offer additional alpha without compromising on quality.
- Acosta is well supported by several members of the Investment Team. This includes his primary backup Senior Manager (Fixed Interest Assets & Strategy) Mark Nordio who possesses 26 years of experience.
- Lonsec views key person risk associated with Acosta as low to moderate given the support and back-up structure implemented.

- 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

Research and portfolio construction

- 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 the screening, modelling, and identifying investment 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 investment 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 Trust's management.
- Pleasingly, IOOF has a well-developed list of designated backup 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'.
- IOOF believes that traditional Tactical Asset Allocation (TAA) can be a source of unrewarded risk to investors. Instead, a 'Strategic Tilting' framework is employed, where the Trust may deviate from the aggregate underlying investment manager positions to capture price adjustments associated with mean reversion back towards the long-term average. These opportunities arise when a market has moved to an extreme (over or undervaluation). Lonsec is supportive of this approach, believing it may provide a basis for improving the Trust's risk/return outcome.
- Further complementing the 'Strategic Tilting' framework is the Trust's ability to utilise an "Interest Rate Overlay". The overlay is designed to counter against credit exposure during risk-off events in the market and thus, is purely utilised as a risk management strategy. The overlay is implemented via positions in bank bills and exchange-traded bond futures. Ultimately the overlay aids in protecting

the portfolio against credit spread widening by lengthening the portfolio's duration in stress events; whilst underlying investment managers undertake their own duration positioning independent of the Trust, the Portfolio Manager is able to create a suitable overall duration position based on their own conviction. Lonsec believes that the overlay is a good 'lever' available to the Portfolio Manager to exercise an element of active control over the Trust.

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.

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 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 is of high quality.

- The Product Operational Accounting and the Office of the Responsible Entity undertake operational due diligence on potential investment managers and undertake 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 has added these portfolios into Bloomberg PORT and FactSet.

Performance

- The objective of the Trust is to outperform the Bloomberg AusBond Composite 0+ Yr Index ('the Benchmark') by at least 0.75% p.a. (before fees) over periods of three years or longer.
- To 31 January 2022, the Trust returned, net of fees, over one, three, and five years -3.5% p.a., 2.4% p.a., and 3.0% p.a. respectively. Over these three time periods, the Trust over one year performed in-line with the Benchmark; outperformed over three years, and underperformed over five years. In terms of the Lonsec median peer group, the Trust outperformed over one year, however, underperformed over three and five years. Over these three-time periods, the Trust's volatility (as measured by the annualised standard deviation) over one and three years was above the peer group median metrics; in-line over five years. In terms of maximum drawdowns, the Trust over one year was above the peer group median metrics and below over three and five years.
- The Trust's returns and annualised standard deviation outcomes have resulted in the Sharpe ratio over one, three-, and five-years year to 31 January 2022 being about in-line with the peer group median metrics.

Overall

- Lonsec has upgraded the Trust to a 'Recommended' rating at 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 team provides further depth of expertise within investment management and risk management.
- Considering the integration of MLC is expected to be a multi-year journey, Lonsec will be closely monitoring the degree of collaboration and realised synergies.

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 of 31 December 2021, Insignia Financial had \$325.8bn in Funds Under Management and Administration.

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

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DANIEL FARMER	CIO	26 / 12
OSVALDO ACOSTA	HEAD OF FIXED INTEREST ASSETS	21 / 5
MARK NORDIO#	SENIOR MANAGER - FIXED INTEREST AND STRATEGY	26 / 2

Primary back-up

The Investment Team is structured along specialist lines. Osvaldo Acosta is Head of Fixed Interest Assets and joined IOOF in December 2016. Acosta possesses 21 years of experience within fixed income and capital markets across a number of roles. Most recently he worked at Western Asset Management where he was part of the team responsible for portfolio management, trading, and implementation of interest rate strategies across a variety of fixed income portfolios. Prior to that he oversaw multi-manager style portfolios at Australian Unity Investments and was a Treasury Manager at Westfield Group. Acosta's primary backup is Senior Manager (Fixed Interest Assets & Strategy) Mark Nordio who possesses 26 years of experience. Nordio joined from Commlnure in August 2019 where he was a Senior Analyst for their Multi-Manager Fixed Income Strategies. Nordio previously worked at, Barclays Global Investors, Blackrock, and Antares Fixed Income.

The Portfolio Manager 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 IOOF's 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

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.

Research Approach

Overview

RESEARCH PHILOSOPHY	BLENDED QUALITATIVE AND QUANTITATIVE RESEARCH
TARGET MANAGER	HIGH QUALITY BETA AND ALPHA MANAGERS, BOTH ESTABLISHED AND BOUTIQUE.
NO. OF MANAGERS IN UNIVERSE	UNLIMITED
NO. OF MANAGERS ACTIVELY RESEARCHED	ALL MANAGERS RESEARCHED BY MERCER
RESEARCH INPUTS	VARIOUS - MANAGER MEETINGS, ASSET CONSULTANT, ETC.

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 fulfill particular roles within the available tracking error budget. As such, managers who would be unlikely to fulfill 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 a 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 tool for filtering 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

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

Portfolio Construction

Overview

BENCHMARK	BLOOMBERG AUSBOND COMPOSITE (ALL MATURITIES) INDEX
RETURN OBJECTIVE (INTERNAL)	BENCHMARK PLUS 0.75% P.A. (BEFORE FEES) OVER ROLLING THREE YEARS
INVESTMENT STYLE	MULTI-MANAGER
CREDIT MANAGEMENT	UNDERLYING MANAGERS
DURATION MANAGEMENT	UNDERLYING MANAGERS
CURRENCY MANAGEMENT	UNDERLYING MANAGERS
TYPICAL NUMBER OF MANAGERS	2

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 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. The qualitative analysis includes a comparative 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’s proposal in a total portfolio context.

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

Legg Mason Western Asset Management 50%

- **Investment Style** – Fundamental Value
- **Strategic Weight** – 50%

Western Asset, a wholly-owned subsidiary of Legg Mason. Legg Mason is one of the world’s largest asset managers. The Manager invests across global equity, fixed income, property, and alternative investment markets. Legg Mason was founded in 1899 and is listed on the NYSE (code: LM).

The 5 member investment team managing the mandate has an average of over 20 years of experience. The portfolio manager of the mandate is Anthony Kirkham who has 28 years of industry experience.

The objective of the mandate is to outperform the AusBond Composite Index by 0.75% p.a. The portfolio manager uses a combined top-down and bottom-up approach to investing undertaking macroeconomic analysis and credit research based on fundamental analysis and assessment of relative value.

Janus Henderson Investors

- **Investment Style** – Core
- **Strategic Weight** – 50%

Janus Henderson is a global asset management business, with a local investment team focussing on fixed income. Janus Henderson’s regional offices operate via a boutique model, effectively allowing differences in investment processes across offices.

The seven-member Australian Fixed Interest team manage the unit trust. Portfolio Manager, Jay Sivapalan (Head of Australian Fixed Interest) has approximately 22 years of industry experience. The objective of the mandate is to outperform the AusBond Composite Index by 0.75% p.a. The investment team uses both top-down and bottom-up approaches in managing the portfolio, with duration positioning aided by the team’s “Fair Value Swap Curve” model while the portfolio’s credit positioning is driven by top-down factors alongside bottom-up output from the team’s Credit Committee

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
DURATION RISK LIMIT	+/- 1.5 YEARS (BENCHMARK RELATIVE)
MINIMUM ISSUE CREDIT RATING	BB+
MAX. LOOK THROUGH SUB-INVESTMENT GRADE EXPOSURE	2.5%
GEARING	NO
MAX PORTFOLIO WEIGHT TO ONE OBLIGOR	10%

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 exposure 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 processes. 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 rebalanced 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 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 'arm's 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.

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.

Interest rate risk

The movement in interest rates and bond yields directly impacts the market value of a fixed interest fund's holdings. Market prices of fixed rate securities are typically inversely related with the movement of interest rates or bond yields, e.g. rising bond yields reduce market value of securities. Duration is a measure of the interest rate risk in a fund.

Credit risk

Investing in non-sovereign debt securities, such as corporate bonds, typically carries with it an increased level of credit risk. Credit risk generally refers to the extent of a borrower's willingness and ability to repay their debt. Higher credit risk generally infers a greater risk of capital loss. Credit investments are typically split between investment grade (AAA to BBB-) and sub-investment grade (BB+ to D). Up to 20% of the Trust may be held in sub-investment grade debt on a look-through basis.

Derivative risk

The Trust may use derivatives extensively to hedge the risk associated with physical securities. The value of a derivative is derived from the value of an underlying asset. This involves basis risk as the derivative may not move in line perfectly with the physical security. Other risks associated with derivatives include counterparty risk and the potential for leverage risk.

Counterparty risk

Counterparty Risk is a special case of credit risk, where a fund is indirectly exposed to the credit risk

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of a counterparty for the completion of a trade or investment, e.g. over-the-counter derivatives such as interest rate swaps.

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: ISRIN KHOR

OptiMix Wholesale Australian Fixed Interest Trust — Class B

ISSUE DATE 20-04-2022

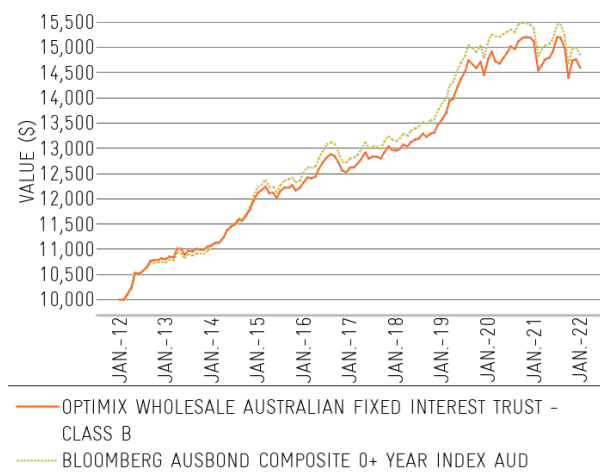
Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2022)

Performance metrics

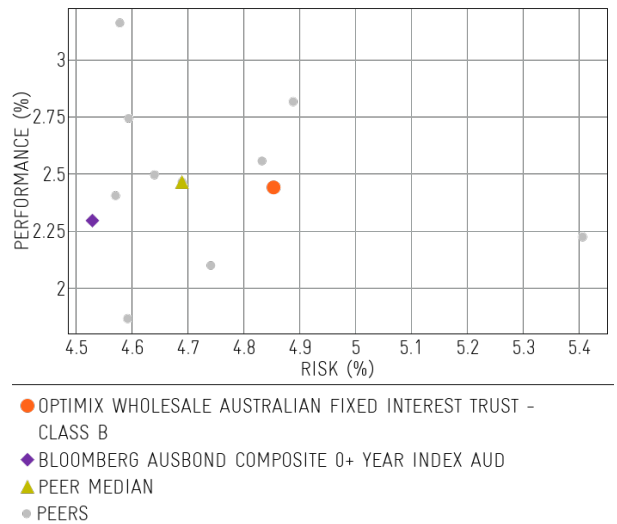
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-3.50	-3.57	2.44	2.47	2.96	3.15	3.85	4.23
STANDARD DEVIATION (% PA)	6.80	6.50	4.85	4.69	3.92	3.86	3.31	3.31
EXCESS RETURN (% PA)	-0.04	-0.11	0.15	0.17	-0.06	0.13	-0.18	0.20
OUTPERFORMANCE RATIO (% PA)	58.33	58.33	58.33	61.11	48.33	58.33	51.67	58.33
WORST DRAWDOWN (%)	-5.21	-5.04	-5.21	-5.31	-5.21	-5.35	-5.21	-5.35
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	NR	NR	NR
SHARPE RATIO	-0.52	-0.55	0.39	0.40	0.48	0.53	0.59	0.69
INFORMATION RATIO	-0.07	-0.18	0.17	0.31	-0.09	0.24	-0.28	0.28
TRACKING ERROR (% PA)	0.56	0.44	0.84	0.63	0.67	0.51	0.65	0.55

PRODUCT: OPTIMIX WHOLESALE AUSTRALIAN FIXED INTEREST TRUST - CLASS B
 LONSEC PEER GROUP: FIXED INTEREST - AUSTRALIAN FIXED INTEREST
 PRODUCT BENCHMARK: BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX AUD
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

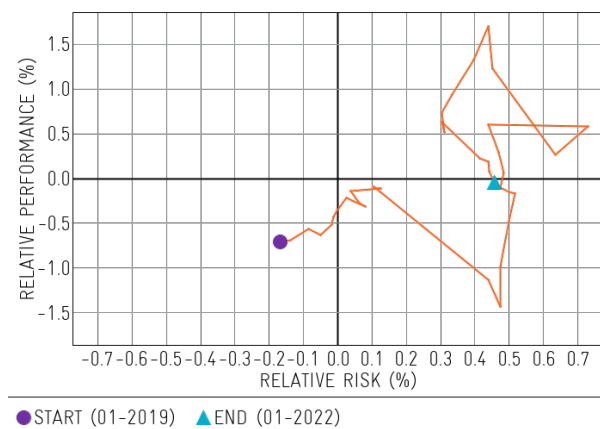
Growth of \$10,000 over 10 years



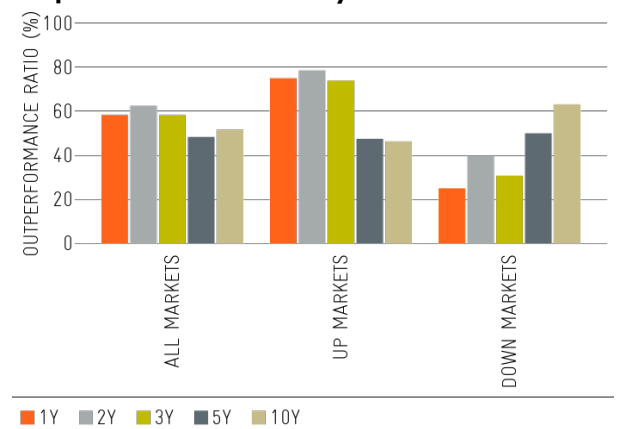
Risk-return chart over three years



Snail trail



Outperformance consistency



ANALYST: ROBBIE LEW | APPROVED BY: ISRIN KHOR

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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