



# Product Review

## IOOF MultiMix Diversified Fixed Interest Trust

ISSUE DATE 19-04-2023

### About this Review

ASSET CLASS REVIEWED	FIXED INTEREST
SECTOR REVIEWED	DIVERSIFIED FIXED INTEREST
SUB SECTOR REVIEWED	MULTI-MANAGER
TOTAL FUNDS RATED	5

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST
APIR CODE	IOF0096AU
PDS OBJECTIVE	LOW-TO-MEDIUM RISK INCOME-PRODUCING INVESTMENT OVER THE MEDIUM TERM BY INVESTING IN A DIVERSIFIED PORTFOLIO OF FIXED INTEREST INVESTMENTS AND TO ACHIEVE A TOTAL RETURN AFTER FEES IN EXCESS OF THE BENCHMARK OVER ROLLING THREE-YEAR PERIODS.
INTERNAL OBJECTIVE	OUTPERFORM THE BENCHMARK BY 0.75% P.A. (BEFORE FEES) OVER ROLLING THREE YEARS.
STATED RISK OBJECTIVE	TRACKING ERROR OF LESS THAN 2% P.A. OVER ROLLING THREE YEARS.
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$431.7M (JANUARY 2023)
FUND INCEPTION	29-04-2008
ANNUAL FEES AND COSTS (PDS)	0.55% P.A.
RESPONSIBLE ENTITY	IOOF INVESTMENT SERVICES LTD

### About the Fund Manager

FUND MANAGER	IOOF INVESTMENT SERVICES LTD
OWNERSHIP	100% OWNED BY INSIGNIA FINANCIAL LTD. (ASX: IFL)
ASSETS MANAGED IN THIS SECTOR	\$147.3BN (TOTAL MULTI-ASSET TEAM FUM) (DECEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	29

### Investment Team

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

### Investment process

BENCHMARK	50% BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX + 50% BLOOMBERG GLOBAL AGGREGATE TOTAL RETURN INDEX VALUE HEDGED AUD
DURATION RISK LIMIT	+/- 2 YEARS (BENCHMARK RELATIVE)
MAXIMUM SUB-INVESTMENT GRADE	20% (LOOK-THROUGH)
CURRENCY EXPOSURE	FULLY HEDGED (BY UNDERLYING MANAGERS)
GEARING / ECONOMIC LEVERAGE	NOT PERMITTED

### Fund rating history

APRIL 2023	RECOMMENDED
APRIL 2022	RECOMMENDED
APRIL 2021	RECOMMENDED

### What this Rating means

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

### Strengths

- The Trust is managed by an experienced and well-led investment team.
- 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 investment process underpinning underlying manager selection and portfolio construction functions.
- Integration of the broader investment team has been progressing well to further enhance the Manager's investment capabilities.

### Weaknesses

- The Fund has not consistently achieved its stated risk objective of maintaining a tracking error of less than 2% p.a. over rolling three-year periods, although, the overall risk of the Trust is comparable to the Benchmark.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY		●	
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
INTEREST RATE (DURATION) 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.

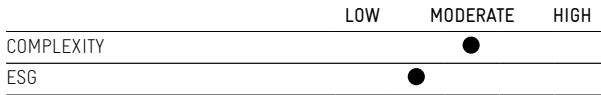
ANALYST: ISRIN KHOR | APPROVED BY: ALEC LEUNG

# IOOF MultiMix Diversified Fixed Interest Trust

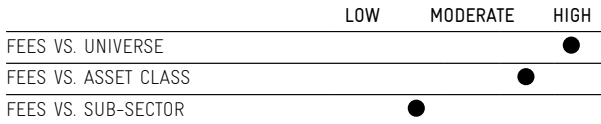
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### Features and benefits



### Fee profile



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

### What is this Fund?

- The IOOF MultiMix Diversified Fixed Interest Trust (the 'Trust') is an active, multi-manager, diversified fixed income strategy that provides exposure to a diversified range of underlying Australian and global fixed income managers. The Trust invests across a broad range of underlying strategies, including Australian bonds, global multi-sector bonds, investment-grade credit, high yield, inflation-linked bonds, emerging market debt, and cash. The Trust aims to outperform the composite benchmark (50% Bloomberg AusBond Composite 0+ Yr Index and 50% Bloomberg Global Aggregate Total Return Index Value Hedged AUD) by 0.75% p.a. (before fees), with a Tracking Error of less than 2% p.a. over a rolling three-year period.
- The Trust is managed by IOOF Investment Services Ltd ('IOOF' or the 'Manager'). 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.
- 'Strategic Tilting' may be applied to reflect medium-term views over and above the aggregate underlying manager positions. The aim is to capture the price adjustment associated with mean reversion back towards the long-term average.
- Derivatives may be used to obtain or reduce exposure to securities and markets, implement investment strategies, and manage risk. Foreign currency exposures are largely hedged back to Australian dollars.
- The Trust's PDS dated 30 June 2022 disclosed Annual Fees and Costs ('AFC') totalling 0.55% p.a. This value comprises (1) Management Fees and Costs of 0.50% p.a., (2) Performance Fees of 0.05% p.a., and (3) Net Transaction Costs of 0.00% p.a. In-line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary from these estimates.
- The Trust charges buy/sell spreads set at 0.05% / 0.08%. These spreads can be subject to change, most

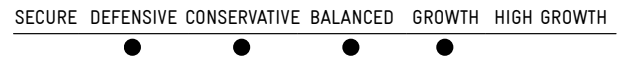
notably during periods of market volatility, and can be sourced from the Manager's website.

### 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 Trust. 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.
- Diversified Fixed Interest funds will typically form part of the defensive component of a diversified investment portfolio.
- Diversified 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.
- Diversified Fixed Interest funds generally have higher default risk and lower credit quality than Australian Fixed Interest 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

- Effective July 2022, Dan Farmer was appointed as the Chief Investment Officer ('CIO') for the combined heritage IOOF, MLC and OnePath multi-manager businesses. The investment team is structured with responsibilities broadly segmented by Portfolio Construction, Portfolio Enablement and Special Capabilities functions. A number of team member responsibilities will be transitioned in a measured way over time.
- In June 2022, James Tayler was appointed as Head of Responsible Investment.
- In August 2022, Myooran Mahalingam resigned from the Manager and Liam Wilson took over as Portfolio Manager for the MLC Global Equities portfolios, in addition to already being the PM for IOOF and OptiMix Global Equities portfolios.
- There have been additional investment team changes effective 12 September 2022 which include:
  - Paul Crisci departed the Manager and Peter Sumner was appointed as Portfolio Manager for the Australian Equities and A-REIT portfolios;
  - Simon Elimelakh, Head of Investment Portfolio Analytics, transitioned to a contracting role. Furthermore, the analysts previously reporting through to Elimelakh now report to Daniel Ackland, Investment Analytics Manager;

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- David Djukanovic, Head of Exposure Management and Trading, leads a team of five including Head of Derivatives, Clifford Bayne, who reports directly to Djukanovic.
- Since Lonsec's previous review, IOOF has made some changes to the underlying investment manager line-up of the portfolio in keeping with expected manager turnover levels. For more information, please refer to the Manager's website.
- In January 2023, Insignia Financial entered into a binding share sale agreement to divest its remaining 45% equity stake in JANA to JANA's management team. JANA would become a wholly management-owned business following the transaction. The completion of this transaction is expected to occur in early 2023. Lonsec notes, no changes in terms of JANA asset consulting services provided to the investment team.

### Lonsec Opinion of this Fund

#### People and resources

- Insignia Financial Limited ('Insignia Financial', ASX code: IFL) is a leading provider of wealth management services including superannuation, platform administration and investment management, with over \$285.1bn assets under management and administration as 31 December 2022. Following the completion of the acquisition of MLC Wealth ('MLC') from National Australian Bank (ASX Code: NAB) in May 2021, Lonsec believes there are meaningful synergies realised from the breadth of resources, investment and risk management tools and significant collective industry experience of the combined businesses. The investment team members continue to collaborate effectively to manage their respective products.
- Effective 4 July 2022, Dan Farmer was appointed as the Chief Investment Officer ('CIO') for the combined heritage IOOF, OnePath and MLC multi-manager businesses. Lonsec believes that Farmer possesses the appropriate experience and skillset to lead the team and has skilfully navigated the significant changes arising from the MLC/Insignia Financial Ltd merger. Farmer previously was CIO of the IOOF investment management division and prior to this role, he was the Portfolio Manager for the Australian equities portfolios. Prior to joining the Insignia Financial, Farmer was Senior Executive Investments at Telstra Super. Furthermore, succession planning efforts also saw the appointment of Stanley Yeo as Deputy CIO and Head of Equities in 2021. Moreover and subsequent to the investment team restructure occurring in 2022, Yeo was appointed to Head of Strategy and Equities.
- The Trust is managed by Head of Fixed Interest Assets, Osvaldo Acosta. In addition to the Trust, Acosta also has responsibilities for Cash strategies, including the IOOF MultiMix Cash Enhanced Trust and IOOF Cash Management 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 his primary backup, Senior Manager

(Fixed Interest Assets & Strategy), Mark Nordio who possesses 29 years of experience.

- The team is well-resourced consisting of 46 people in total, including Farmer and Yeo. The investment team has been recently restructured with responsibilities broadly segmented by Portfolio Construction, Portfolio Enablement and Special Capabilities functions. A number of team members' responsibilities will be transitioned in a measured way over time. While the senior team member departures are disappointing, Lonsec believes the reporting lines, roles and responsibilities remain clearly defined under the current structure with team integration progressing well.
- Lonsec views key person risk associated with Acosta as low to moderate given the support and backup structure implemented.
- Lonsec considers the alignment of interest to investors to be moderate. 60% of the remuneration of the investment teams is directly linked to the performance of the multi-manager range of funds, which is heavily weighted to three and five year returns and can be taken as cash, salary sacrifice to superannuation or a combination of the above. The bonuses have a deferral component which promotes further alignment across the team.

#### Research and portfolio construction

- Overall, Lonsec considers the manager research process to be detailed and transparent. The Manager'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.
- The Manager'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 styles of managers for given asset classes. The Manager relies on the services of an external asset consultant, Mercer, when formulating individual strategies, and ad-hoc advice in strategic asset allocation and strategic tilting. Lonsec views Mercer as well-equipped to provide guidance and advice to the team. 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. While Lonsec has a positive view of the depth and breadth of Mercer's domestic and global manager coverage, Lonsec is seeking stability at Mercer following an increased turnover within Mercer's Manager Research Boutique (MRB) over recent years.
- Furthermore, Lonsec notes the investment team also has access to the asset consulting services of JANA. As the broader team integration continues to progress, Lonsec will be better able to assess JANA's input in the Manager's investment process. Lonsec will continue to monitor the team's relationship with JANA in future reviews following the binding share sale agreement to divest Insignia Financial's remaining 45% equity stake in JANA to JANA's management team.

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- 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'.
- 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.
- Further complementing the 'Strategic Tilting' framework is the Trust's ability to utilise an "Interest Rate Overlay", which is designed as a risk management strategy to protect the portfolio against credit spread widening during risk-off events in the market. The overlay is implemented via positions in bank bills and exchange-traded bond futures to adjust to an appropriate overall duration of the portfolio best suited for the environment. Lonsec believes that the overlay is a good 'lever' available to the Portfolio Manager to exercise an element of active control over the Trust' duration.

### ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Trust is 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 Trust's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as behind peers. The Manager has an articulated commitment to the integration of ESG within their investment process with a public positioning and policy framework. The Responsible Investment Position Statement together with proxy voting policy is freely available on the firm's website. The Responsible Investment Position Statement also provides details on engagement practices, however, is considered rather high-level compared to peers. The level of details with respect to the proxy voting policy and voting outcomes is lagging peers. The policy and reporting on voting outcomes lack depth compared to peers.
- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Stewardship" Managers will usually focus their ESG strategy on Engagement and Voting as the key tool in managing their ESG risks. While stewardship approaches are common across most Managers, they can form the key ESG strategy employed by some Managers. Due to the qualitative nature of this style Lonsec highlights the need for Managers to provide clear and detailed reporting on both engagement and

voting activities and recommends investors review the Trust's stewardship reporting where available.

- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection of underlying strategies or managers. It does not review the ESG integration at the level of each of the underlying funds or strategies.
- While the Manager does have some minimum standards for Manager selection and monitoring they are seen by Lonsec as being very light touch.
- There are no signs that company engagement on ESG issues is a component of the Manager's current investment approach for this Fund.
- ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging.
- In June 2022, James Tayler was appointed as Head of Responsible Investment. Lonsec expects Tayler's appointment to expand the scope of the Manager's ESG integration through time.

### 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.

### Fees

- The Trust's fee comprises a management fee of 0.50% p.a., an estimated performance fee of 0.05% p.a., and net transaction costs of 0.00% p.a. Lonsec considers the total fee load for the Trust (AFC of 0.55% p.a.) to be low-moderate compared to peers.

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# IOOF MultiMix Diversified Fixed Interest Trust

## Product

- The Trust is a relatively vanilla global fixed income multi-manager strategy. Hence, Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high-quality 'tier 1' service providers.
- The Fund is a registered managed investment scheme ('MIS') for which IOOF Investment Services Ltd ('IOOF'), the Responsible Entity ('RE'), is a related entity. The RE is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. Lonsec notes the RE has built experience in operating and managing a number of schemes over an extended period of time and is expected to have a governance framework in place to deal with any perceived conflicts of interest.
- The Trust has been in outflow over the short-to-medium term which heightens the potential for wind-up risk if this trend was to materially accelerate. That said, Lonsec acknowledges that the Trust is already large scale with the Manager remaining fully committed to this product.

## Performance

- The Trust's internal return objective is to outperform the composite benchmark by 0.75% p.a. (before fees) over three-year periods.
- As at 28 February 2023, the Trust delivered a total return (net of fees) of -2.1% and 1.1% p.a. over three and five years respectively. The Trust outperformed the peer median and the benchmark over both periods and met its investment objective.
- Similarly, during these periods, the Trust's volatility (as measured by the annualised standard deviation) was in line with the peer median metrics. The maximum drawdown was smaller than the peer median over both periods.
- As at 28 February 2023, the Trust's returns and annualised standard deviation have resulted in a Sharpe Ratio that is higher than the peer median metrics over the three and five-year periods to 28 February 2023.

## Overall

- Lonsec has maintained the Trust's '**Recommended**' rating at its recent review. The rating reflects the high regard and conviction for the experience and calibre of the broader investment team. Further, lead Portfolio Manager, Osvaldo Acosta is considered sufficiently skilled and experienced to manage the Trust effectively. The rating is also underpinned by Lonsec's positive view of the Trust's robust and repeatable investment process. The increased resourcing from the combined heritage IOOF, OnePath and MLC businesses, provides further depth of expertise within investment management, asset allocation and risk management.

## 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'). As of 31 December 2022, Insignia Financial had \$285.1bn in Funds Under Management and Administration.

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

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DANIEL FARMER	CIO	27 / 13
OSVALDO ACOSTA*	HEAD OF FIXED INTEREST ASSETS	22 / 6
MARK NORDIO#	SENIOR MANAGER - FIXED INTEREST AND STRATEGY	29 / 4

\* Lead portfolio manager# 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 22 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 29 years of experience. Nordio joined from CommInsure 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.

In total, the investment team consists of 46 personnel across several specialised asset classes and functions. The senior members of the investment team comprise an average of 25 years of industry experience. The Team is led by CIO, Dan Farmer and includes 10 Heads of Asset Classes and Implementation, with additional support from approximately 35 Portfolio Managers and supporting analysts.

The Portfolio Manager conducts qualitative and quantitative research and provides overall data support and recommendations to the five-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 (Executive Member and CIO), Stanley Yeo (Executive Member and Head of Strategy and Equities). Osvaldo Acosta

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(Head of Fixed Interest Assets) 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 JP Morgan; 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. Remuneration of the investment teams is directly linked to the performance of the multi-manager range of funds. Typically, 60% of a team member's variable remuneration is linked to the performance of the funds with 20% linked to broader product development initiatives and the remaining 20% related to behaviours and risk metrics. Variable remuneration is heavily weighted to longer term performance, with 85% based on three and five year returns, and can be taken as cash, salary sacrifice to superannuation or a combination of the above.

## Asset Consultant

IOOF appointed Mercer as its primary external asset consultant in July 2017 and MLC has a long standing relationship with JANA (JANA was previously a fully owned subsidiary of NAB. Insignia Financial Ltd sold its remaining minority share to JANA in January 2023). Post IOOF's acquisition of MLC, the broader Insignia Financial multi manager business benefit from consultancy and research services provided by both Mercer and JANA.

These services include manager research and consultancy services when performing due diligence on prospective and currently appointed underlying managers, designing neutral benchmarks, stress testing, strategic tilting advice and performing various other risk management functions. In addition to Mercer and JANA, Neuberger Berman assists in Alternative's research. Neuberger Berman is an 80-year old private employee-owned investment manager. The firm manages equities, fixed income, private equity and hedge fund portfolios for institutions and advisors. With offices in 36 cities worldwide, Neuberger Berman's team employs more than 2,400 professionals and manages more than US\$402bn in assets under management as at December 2021.

## 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 CONSULTANTS 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 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.

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## Portfolio Construction

### Overview

BENCHMARK	50% BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX + 50% BLOOMBERG GLOBAL AGGREGATE TOTAL RETURN INDEX VALUE HEDGED AUD
RETURN OBJECTIVE (INTERNAL)	BENCHMARK PLUS 0.75% P.A. (BEFORE FEES) OVER ROLLING THREE YEARS.
RISK OBJECTIVE (INTERNAL)	<2% P.A. OF TRACKING ERROR OVER THREE YEARS
INVESTMENT STYLE	MULTI-MANAGER
CREDIT MANAGEMENT	IOOF (VIA STRATEGIC TILTING) AND UNDERLYING MANAGERS
DURATION MANAGEMENT	IOOF (VIA STRATEGIC TILTING), UNDERLYING MANAGERS AND INTEREST RATE OVERLAY
CURRENCY MANAGEMENT	FULLY HEDGED (UNDERTAKEN BY UNDERLYING MANAGERS)
TYPICAL NO. OF UNDERLYING MANAGERS	UP TO 15

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 2022. Consistent with IOOF's aim of broad style neutrality, there is a selection of managers with varying investment styles.

- Ardea Investment Management (Diversified Bond Fund)
- Brandywine (Global Bonds)
- Janus Henderson (Australian Bonds)
- IOOF (Short Duration Credit, Cash)
- PGIM (Global Bonds)
- Western Asset Management (Australian Bonds, Global Credit)
- Wellington Management Australia (Global Credit)
- Metrics Credit Partners (Australian Credit)
- Antares Fixed Income (Australian Credit)
- Bentham Asset Management (US Bank Loans, Asset-Backed Securities)
- Stone Harbor EM Debt (Fixed Interest)

### Interest Rate Overlay

The Trust may occasionally seek to implement an anchor against its credit bias via the use of interest rate derivatives; this ultimately allows the Portfolio Manager to alter portfolio duration in times of market stress where spreads generally widen. This is used as a pure risk management tool and is not designed to generate alpha. The overlay is limited to 20% (of the Trust's market value) net notional exposure and is prohibited from gearing the Trust.

## Risk Management

### Risk limits

SEPARATE RISK MONITORING TEAM	YES
DURATION RISK LIMIT	+/- 2 YEARS (BENCHMARK RELATIVE)
MAX. SUB-INVESTMENT GRADE	20% (LOOK-THROUGH)
MIN. CREDIT QUALITY AT PURCHASE	NONE
CURRENCY EXPOSURE	FULLY HEDGED

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.

ANALYST: ISRIN KHOR | APPROVED BY: ALEC LEUNG

## IOOF MultiMix Diversified Fixed Interest Trust

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 JP Morgan.

### Currency management

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

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

## Risks

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

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

### Currency risk

The Trust may have exposure to assets that are denominated in non-Australian currencies. A rise in the relative value of the Australian dollar vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. Currency hedging is performed by the underlying managers.

### 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.



# IOOF MultiMix Diversified Fixed Interest Trust

## Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2023)

### Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-6.73	-6.77	-2.11	-3.35	1.06	0.30	2.69	2.23
STANDARD DEVIATION (% PA)	5.97	5.98	5.01	5.01	4.21	4.21	3.36	3.36
EXCESS RETURN (% PA)	1.15	1.11	1.62	0.38	0.63	-0.12	0.31	-0.15
OUTPERFORMANCE RATIO (% PA)	58.33	58.33	66.67	63.89	56.67	56.67	52.50	52.50
WORST DRAWDOWN (%)	-8.43	-8.45	-12.15	-13.20	-12.15	-13.20	-12.15	-13.20
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	NR	NR	NR
SHARPE RATIO	-1.42	-1.42	-0.55	-0.79	0.00	-0.16	0.30	0.16
INFORMATION RATIO	0.56	0.51	0.58	0.22	0.27	-0.07	0.16	-0.12
TRACKING ERROR (% PA)	2.08	2.07	2.82	2.08	2.32	1.68	1.93	1.31

PRODUCT: IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST

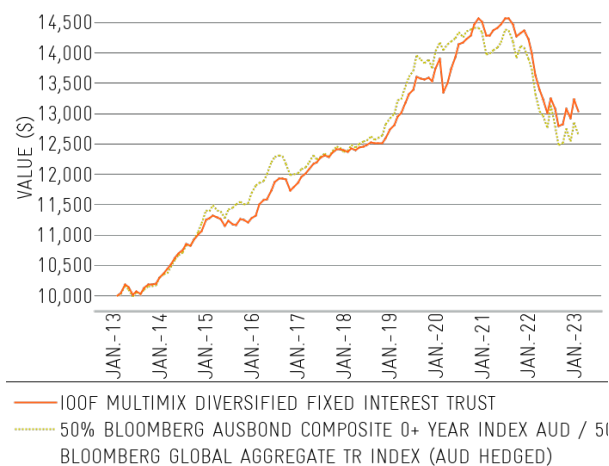
LONSEC PEER GROUP: FIXED INTEREST - DIVERSIFIED FIXED INTEREST - MULTI-MANAGER

PRODUCT BENCHMARK: 50% BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX AUD / 50% BLOOMBERG GLOBAL AGGREGATE TR INDEX (AUD HEDGED)

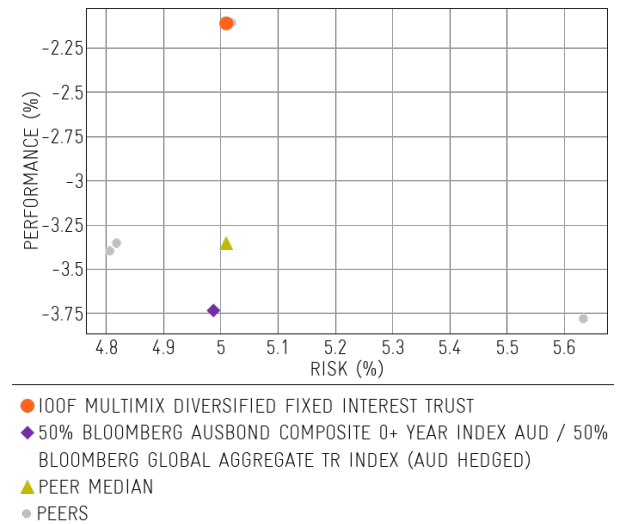
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

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

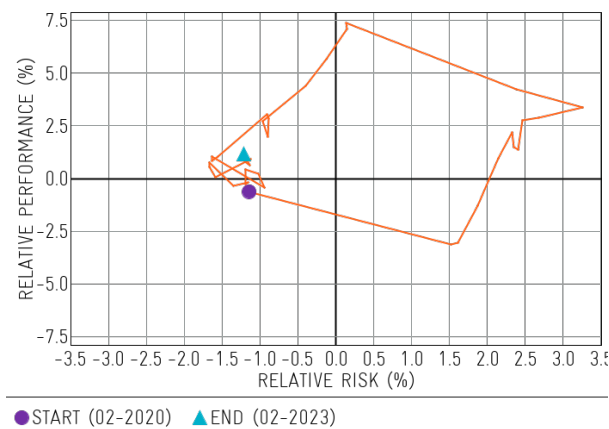
### Growth of \$10,000 over 10 years



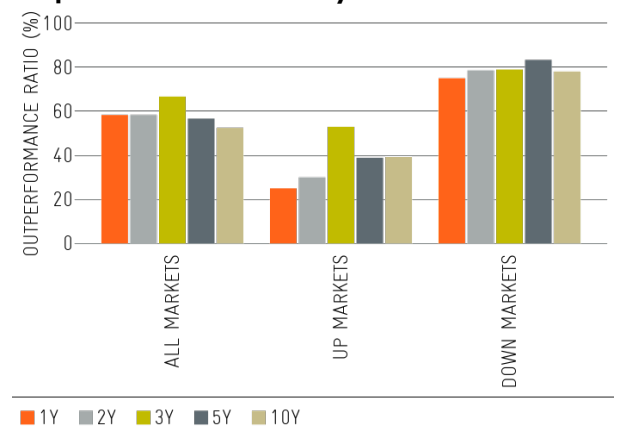
### Risk-return chart over three years



### Snail trail



### Outperformance consistency



# IOOF MultiMix Diversified Fixed Interest Trust

## Glossary

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

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