Lonsec

Recommended

Product Review
IOOF MultiSeries 70

ISSUE DATE 17-04-2023

ANALYST: ISRIN KHOR | APPROVED BY: ALEC LEUNG

About this Review

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

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	IOOF MULTISERIES 70
APIR CODE	IOF0090AU
PDS OBJECTIVE	TO PROVIDE CAPITAL GROWTH OVER THE MEDIUM TO LONG TERM BY INVESTING IN A DIVERSIFIED PORTFOLIO OF GROWTH ASSETS WITH SOME DEFENSIVE ASSET EXPOSURE; AND TO ACHIEVE TOTAL RETURNS AFTER FEES IN EXCESS OF THE BENCHMARK OVER A ROLLING FIVE-YEAR PERIOD.
INTERNAL OBJECTIVE	TO OUTPERFORM CPI+3.5% P.A. OVER ROLLING SEVEN YEAR PERIODS AFTER FEES, AND TO OUTPERFORM THE COMPOSITE BENCHMARK BY 1.0-1.5% P.A. AFTER FEES OVER ROLLING FIVE YEAR PERIODS.
STATED RISK OBJECTIVE	TRACKING ERROR OF 0.5-1.0% P.A. OVER FIVE YEAR PERIODS.
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	$2.4BN (31 JANUARY 2023)
FUND INCEPTION	01-07-2007
ANNUAL FEES AND COSTS (PDS)	0.57% 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
ASSETS MANAGED IN THIS SECTOR	$147.3BN (31 DECEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	29

Investment Team

PORTFOLIO MANAGER	DAN FARMER (CIO), STANLEY YEO (DEPUTY CIO)
INVESTMENT TEAM SIZE	46
INVESTMENT TEAM TURNOVER	LOW-MOD
STRUCTURE / LOCATION	PM / MELBOURNE AND SYDNEY
ASSET CONSULTANT	MERCER

Investment process

ASSET ALLOCATION	STRATEGIC, DYNAMIC
SECTOR EXPOSURE	ACTIVE, ENHANCED PASSIVE, PASSIVE
GROWTH / DEFENSIVE SPLIT %	70 / 30
USE OF ALTERNATIVES	YES

Fund rating history

APRIL 2023	RECOMMENDED
MARCH 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

- 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 RISK			●		
LEVERAGE RISK	●				
SECURITY CONCENTRATION RISK	●				
SECURITY LIQUIDITY RISK	●				
REDEMPTION 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 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY			●		
ESG		●			

IOOF MultiSeries 70

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 IOOF MultiSeries 70 ('the Trust') is a 70%/30% growth / defensive multi-manager offering that has exposure to a broad range of asset classes (including equities, fixed interest, property and alternatives) and employs specialist investment managers to implement active and passive strategies. The Trust targets a return in excess of CPI+3.5% p.a. after fees over seven years and to outperform the composite benchmark by 1%-1.5% p.a. after fees over rolling five year periods.
- The Trust is managed by IOOF Investment Services Ltd ('IOOF' or 'the Manager'). IOOF adopts a Multi-Manager investment approach. IOOF's investment philosophy is guided by a number of key principles which have foundations in academic research. Firstly, active investment managers can outperform sector benchmarks over the long term. Secondly, in-depth research and analysis can provide superior insight and provide potential for outperformance. In addition, the Strategic Asset Allocation (SAA) decision is the single largest contributor to a portfolio's success, actively (or tactically) moving from the SAA in the short term can be a source of unrewarded risk, and investment style can have a significant impact on performance.
- The Manager seeks to generate returns through SAA, medium term Strategic Tilting and active manager selection. The Trust is constructed to be style neutral.
- The Trust's PDS dated 30 June 2022 disclosed the Annual Fees and Cost ('AFC') totaling 0.57% p.a.. This value comprises (1) Management Fees and Costs of 0.50% p.a., (2) Performance Fee of 0.00% p.a., and (3) Net Transaction Costs of 0.07% 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 to these estimates.
- The Trust charges buy/sell spread set at 0.05%/0.06%. 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 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
- 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 shares and property 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

- 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 has 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.
  - David Djukanovic, Head of Exposure Management and Trading, leads a team of five including Head of Derivatives, Clifford Bayne, who reports directly to Djukanovic.
- There have been changes to the Strategic Asset Allocation including:
  - Increased exposure to Australian equities, International equities, Developed Markets (hedged) and Alternative Defensive;
  - Reduced exposure to International equities, Developed Markets (unhedged), Diversified Fixed Interest and Alternative Growth;
  - The Manager increased the Trust's strategic hedge ratio of the total International equities allocation to 35%.
- Enhancements to the SAA framework incorporating non-normal distributions, upside and tail risk modelling and associated climate change impacts.
- 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 skillfully 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 team is well-resourced consisting of 46 people in total, other than 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. There have been several recent senior personnel changes including the departures of Myooran Mahalingam, Portfolio Manager – Global Equities in August 2022 and Paul Crisci, Portfolio Manager- Australian Equities in September 2022. Subsequent to these departures, Liam Wilson was confirmed as Global Equities Portfolio Manager and Peter Sumner was confirmed as Australian Equities and AREITs Portfolio Manager. 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 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.

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 (asset classes and strategies), well-developed insights and more timely adoption of market innovations and emerging trends.
- The enhancements to the SAA framework incorporate non-normal distributions, upside and tail risk modelling and associated climate change impacts are viewed positively by Lonsec.

Research approach

- 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 is 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.
- 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 to JANA to JANA's management team.
- 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

- 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.

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. While there have been early signs of performance improvement emanating from these changes, Lonsec will continue to monitor the performance over the medium and longer term.
- 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.

Fees

- The Trust 's fee comprises of management fee of 0.50% p.a., an estimated performance fee of 0.00% p.a., and net transaction costs of 0.07% p.a. Lonsec considers the total fee load for the Trust (AFC of 0.57% p.a.) as high relative to peers.

Products

- The Trust is a relatively vanilla multi-manager strategy that invests across a range of growth and defensive asset classes. Hence Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high quality 'tier 1' service providers.
- The Trust is a registered managed investment scheme (MIS) for which IOOF Investment Services Ltd (the 'RE'), 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.

Performance

- The Trust targets a return in excess of CPI+3.5% p.a. after fees over seven years and to outperform the composite benchmark by 1%-1.5% p.a. after fees over rolling five year periods.
- Over the five years to 28 February 2023, the IOOF MultiSeries 70 Trust returned 6.1% p.a. net of fees, and performing above the peer median. On a three year basis, the Trust returned 4.7% p.a. net of fees, performing above the peer median.
- The Trust has recorded volatility and drawdowns lower than the peer median over the same periods. This has led to a risk-adjusted return (as measured by the Sharpe ratio) being above the peer median over the three- and five-years 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 and lead Portfolio Managers Dan Farmer and Stanley Yeo are 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.
- Lonsec notes the Trust's overall fee load is considered high.

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 at 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.

IOOF MultiSeries 70

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
DANIEL FARMER	CIO	27 / 13
STANLEY YEO	HEAD OF EQUITIES AND DEPUTY CIO	23 / 13
GARETH ABLEY	HEAD OF ALTERNATIVES	25 / 21
JEHAN SUKHLA	PORTFOLIO MANAGER ALTERNATIVES	22 / 20
JAMES TAYLER	HEAD OF RESPONSIBLE INVESTMENT	29 / 1
SIMON GROSS	HEAD OF PROPERTY	43 / 19
MARK D'ARCY-BEAN	ASSET MANAGER	37 / 5
OSVALDO ACOSTA	HEAD OF FIXED INTEREST ASSETS	22 / 6
MARK NORDIO	SENIOR MANAGER – FIXED INTEREST ASSETS AND STRATEGY	29 / 4
PETER SUMNER	PORTFOLIO MANAGER (AUSTRALIAN EQUITIES)	34 / 34
LIAM WILSON	PORTFOLIO MANAGER (GLOBAL EQUITIES)	20 / 17
SIDNEY CHONG	ASSET ALLOCATION MANAGER	33 / 6
DANIEL ACKLAND	INVESTMENT ANALYTICS MANAGER	15 / 10
RHODRI PAYNE	HEAD OF MULTI-ASSET TRANSFORMATION	15 / 15
DAVID DJUKANOVIC	HEAD OF EXPOSURE MANAGEMENT AND TRADING	19 / 16

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.

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 of Anthony Hodges (Chairman and External Member), Denise Allen and Mary-Anne Nunan (External Members). Daniel Farmer (CIO), and Stanley Yeo (Deputy CIO). Osvaldo Acosta has been appointed as Secretary.

Back-office functions are performed by Insignia Financial's Investment Operations Team. Compliance monitoring, custody, unit pricing, registry and financial reporting functions are outsourced to various parties including Insignia Financial and J.P. 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.

Asset Allocation

Strategic asset allocation

IOOF 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.

IOOF 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 IOOF'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.

IOOF MultiSeries 70

The following table summarises the asset allocations as at 31 January 2023 and the bands in which TAA can be implemented.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	24%	10%	35%	24.6%
GLOBAL EQUITIES	30%	20%	40%	29.7%
AUSTRALIAN PROPERTY	8.0%	0%	20%	8.0%
GLOBAL PROPERTY	2%	0%	20%	2.0%
AUSTRALIAN FIXED INTEREST	9%	5%	30%	7.7%
GLOBAL FIXED INTEREST	9.0%	5%	30%	9.2%
ALTERNATIVES – DEFENSIVE	8.0%	0%	20%	7.4%
ALTERNATIVES – GROWTH	6.0%	0%	20%	6.3%
CASH & SHORT-TERM SECURITIES	4%	0%	15%	5.1%

Tactical/Dynamic asset allocation

IOOF believes that traditional TAA (comprising a small number of asset class decisions) can be a source of unrewarded risk to investors. As such, IOOF 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

Overview

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

Portfolio Construction

Overview

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. 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 Fund provides access to a range of underlying managers across several asset classes. A list of underlying managers is available via the Manager's website.

Risk Management

Risk limits

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 bet 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 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 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 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 J.P. 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, 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 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.

IOOF MultiSeries 70

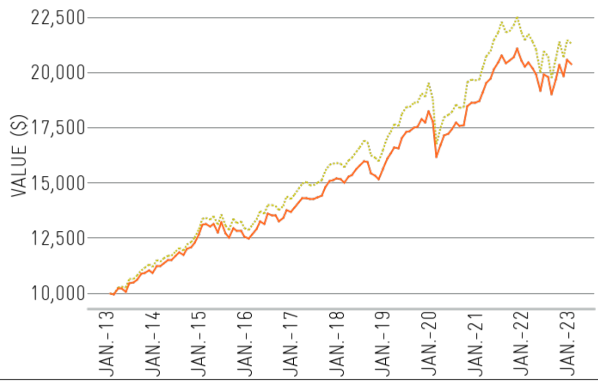
Quantitative Performance Analysis - annualised after-fee % returns (at 28-2-2023)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	0.61	-1.95	4.71	4.45	6.12	5.62	7.38	7.38
STANDARD DEVIATION (% PA)	10.22	13.23	9.31	11.97	8.06	10.37	7.07	8.51
EXCESS RETURN (% PA)	1.45	-1.12	0.44	0.18	0.03	-0.47	-0.47	-0.47
OUTPERFORMANCE RATIO (% PA)	50.00	41.67	50.00	47.22	46.67	46.67	42.50	49.17
WORST DRAWDOWN (%)	-7.12	-10.58	-9.94	-13.92	-11.37	-15.12	-11.37	-15.12
TIME TO RECOVERY (MTHS)	4	NR	NR	NR	8	8	8	8
SHARPE RATIO	-0.11	-0.29	0.43	0.30	0.63	0.43	0.81	0.67
INFORMATION RATIO	0.69	-0.74	0.21	0.10	0.02	-0.37	-0.33	-0.27
TRACKING ERROR (% PA)	2.11	2.08	2.10	1.81	1.80	1.75	1.43	1.43

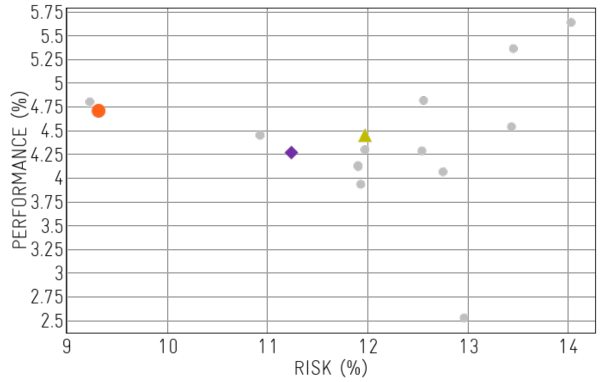
PRODUCT: IOOF MULTISERIES 70
LONSEC PEER GROUP: MULTI-ASSET - 61-80% GROWTH ASSETS - LOW-COST DIVERSIFIED
PRODUCT BENCHMARK: LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over 10 years



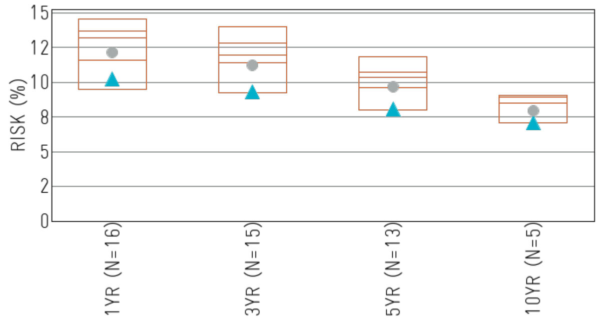
IOOF MULTISERIES 70
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

Risk-return chart over three years



IOOF MULTISERIES 70
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX
PEER MEDIAN
PEERS

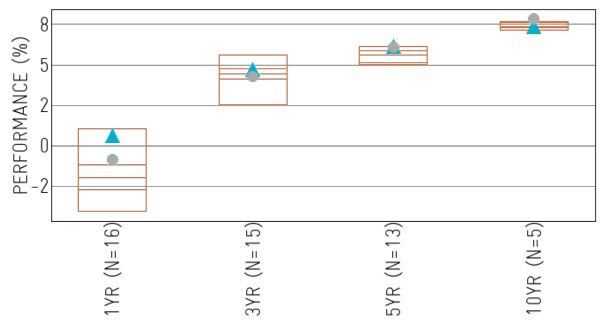
Quartile chart — risk



IOOF MULTISERIES 70
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

N: NUMBER OF ACTIVE FUNDS

Quartile chart — performance



IOOF MULTISERIES 70
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

N: NUMBER OF ACTIVE FUNDS

ANALYST: ISRIN KHOR | APPROVED BY: ALEC LEUNG

IOOF MultiSeries 70

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

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

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

ISSUE DATE 17-04-2023

ANALYST: ISRIN KHOR | APPROVED BY: ALEC LEUNG