



IOOF

MULTISERIES

31 March 2019

Underlying investment managers

Over the March quarter the following changes were made to our underlying investment manager line-up:

Diversified fixed interest

New inclusion: Ardea Investment Management

Inclusion of Ardea Investment Management (Ardea)

Ardea Diversified Bond Fund was added to the portfolio as a complementary and diversifying strategy which enhances the defensive characteristics in the portfolio while providing alpha strategies which are less correlated to credit, equity and bonds.

Ardea is a Sydney based boutique institutional fixed income manager formed in 2008 which provides access to a portfolio of Australian fixed interest securities with FUM of over \$A11billion. Ben Alexander is well experienced Chief Investment Officer (20+ years) and supported by a team of nine professionals. The founding principals previously worked together at Credit Suisse Asset Management (CSAM) and have enjoyed a long and collaborative working history.

Ardea is a high quality manager with a unique approach compared to conventional fixed income managers, with an investment philosophy that fixed income markets are inefficient and those inefficiencies are best exploited via 'relative value' investment strategies. This approach delivers reliable and uncorrelated alpha irrespective of market direction.

While chasing returns is common, what differentiates Ardea is the focus on risk-adjusted returns. The portfolio is managed with tight risk control, risk diversification and 'tail risk' mitigating strategies to prioritise capital preservation and limit the volatility of returns.

Australian shares

New inclusions: Yarra Funds Management and Northern Trust

Removal: UBS, Janus Henderson and Platypus

Inclusion of Yarra Funds Management (Yarra) and Removal of UBS

The inclusion of Yarra into the portfolio arose following a strategic review undertaken by UBS to close their Australian equities capability and partner with Yarra to manage all UBS branded Australian equity funds. Consequently, the legacy UBS mandate was transitioned over to the Yarra broad caps strategy.

Yarra is a bottom-up, fundamentally-driven investment manager who utilises a style-neutral-based investment process to construct a portfolio of between 30-55 stocks. While the primary focus is on bottom-up research, the process is supplemented by macro analysis.

The strategy is managed by an experienced (20+ years) portfolio manager, Dion Hershman, who is supported by a team of 10 investment professionals with average industry experience of 14 years.

Yarra's investment philosophy is based on a belief that given the extremely narrow nature of the Australian market, it is important to be opportunistic rather than have a distinct value or growth bias.

Inclusion of Northern Trust (Northern) and Removal of Platypus and Janus Henderson

The rationale for the terminations of Janus Henderson and Platypus and appointment of Northern are as follows:

- **Janus Henderson** – significant drop in funds under management raised concerns around the viability and commitment to the Australian equities strategy, which subsequently occurred on 29 January, 2019 with the announcement by Janus Henderson to close their Australian equities capability.
- **Platypus** – while the investment approach seeks to primarily capture the momentum factor, the limited risk controls particularly at the portfolio level can create unintended risks and dilute the impact of the desired factor exposure.
- **Northern Trust** – the firm utilises a disciplined and risk-controlled quantitatively driven investment process that focuses on efficiently targeting risk exposures to proprietary developed factors of Quality and Momentum, factors that are common to both Janus Henderson and Platypus.

Furthermore, Northern is a global investment firm that manages over US\$13bn in proprietary factor-based strategies. The investment team is led by Mike Hunstad, Head of Quantitative Strategies, who has 20 years of industry experience and is supported by a team of 20 professionals.

Lastly, Environmental, Social and Governance (ESG) is a key priority both in terms of research and portfolio management, with the firm being involved in the management of ESG portfolios for more than 30 years and a signatory to the United Nations Principles for Responsible Investment.

International Shares

New inclusions: Alphinity Investment Management

Removal: State Street Global Advisors

Inclusion of Alphinity Investment Management (Alphinity)

Alphinity is an active, boutique, equities investment manager based in Sydney and majority owned by its staff. Alphinity has dedicated teams managing both Australian and global equity funds. The company was established in 2010 with its founding partners having managed Australian investment funds together on the same basis since the early 2000s, providing extensive industry experience and a strong track record of managing equities portfolios through a variety of market conditions. In 2015, Alphinity expanded to include a highly experienced and dedicated global investment team applying the same philosophy and process to the large set of investment opportunities outside Australia. We believe the global investment team are highly skilled which makes them a very attractive manager.

Alphinity's investment philosophy seeks to identify and invest in attractively valued, quality companies in, or about to enter, an earnings upgrade cycle. Alphinity looks for stocks that can deliver earnings' surprises to drive outperformance. If a company is in an earnings upgrade cycle and attractively valued, there is a strong likelihood it will outperform.

Alphinity's earnings-focused investment philosophy and process leads to discipline and consistency. The interaction between fundamental research and quantitative factors is a key strength and point of differentiation of the Alphinity investment process. These processes are complementary and help to identify companies where earnings growth is underestimated. When fundamental research and validated quantitative factors both point to the same conclusion, the conviction of the investment decision is reinforced.

Alphinity's style is core and the strategy has been able to outperform in all types of market environments, which makes this strategy attractive.

Removal of State Street Global Advisors (SSgA)

SSgA Global Defensive Equities strategy was a quantitative strategy. The MultiSeries International Shares portfolio is dominated by quantitative managers, so the desire was to reduce exposure to quantitative managers and increase exposure to fundamental managers (of which Alphinity is). Furthermore, SSgA Global Defensive Equities strategy tended to underperform whenever there was a rise in bond yields. The monthly negative correlation of the strategy's excess return to percentage changes in the US 10 year government bond yield was quite high. This reinforced our concern around interest rate sensitivity and the prospect of continued underperformance as bond yields head higher.

New inclusions in the trusts: Ardea (Australian fixed interest), Yarra (Australian shares), Northern Trust (Australian shares), Alphinity (international shares)

Removal from the trusts: Janus Henderson (Australian shares), Platypus (Australian shares), UBS (Australian shares), SSgA (international shares)

	Manager	Style	
IOOF MultiSeries 30, 50, 70 and 90	IOOF Investment Management Limited	Short-term money market securities	Cash and short-term securities
	Janus Henderson Investors (Australia) Funds Management Limited	Active Australian fixed interest	Diversified fixed interest
	Ardea Investment Management	Diversified fixed income	
	Metrics Credit Partners Pty Limited	Australian corporate loans	
	Western Asset Management Company	Australian bonds	
	Brandywine Global Investment Management, LLC	Top-down, value-driven	
	Invesco Australia Limited	International core fixed income	
	IOOF Investment Management Limited	Core	Property
	Macquarie Investment Management Limited	True index (Australian and global property securities)	Australian shares
	Acadian Asset Management (Australia) Limited	Small companies	
	The Northern Trust Company of Hong Kong Limited	Quantitative quality and momentum	
	Yarra Funds Management Limited	Style neutral	
	Invesco Australia Limited	Quantitative 130/30	
	IOOF QuantPlus	Enhanced passive	
	State Street Global Advisors, Australia, Limited	Enhanced passive	International shares
	Goldman Sachs International	Multi-factor global equities index	
	Alphinity Investment Management Pty Ltd	Quality with earnings leadership	
	Challenger Limited	MSCI World ex Australia Net in AUD plus 0.4% per annum	
	Neuberger Berman Australia Pty Limited	Emerging markets	Alternatives
	TT International	Emerging and developed markets	
	Invesco Australia Limited	Global targeted return	
	Macquarie Investment Management Limited	True index (global infrastructure)	
	Metrics Credit Partners Pty Limited	Secured Australian private debt and real estate debt	



IOOF

MULTIMIX

31 March 2019

Underlying investment managers

Over the March quarter the following changes were made to our underlying investment manager line-up:

Australian shares

New inclusions: Quest Asset Partners

Removal: Janus Henderson

Inclusion of Quest Asset Partners (Quest) and Removal of Janus Henderson

The rationale for the termination of Janus Henderson and appointment of Quest are as follows:

- **Janus Henderson** – significant drop in funds under management raised concerns around the viability and commitment to the Australian equities strategy, which subsequently occurred on 29 January, 2019 with the announcement by Janus Henderson to close their Australian equities capability;
- **Quest** – demonstrated strong qualitative and quantitative attributes with an emphasis on similar quality growth companies as targeted by Janus Henderson.

Furthermore, the investment team is stable and experienced with the three key portfolio managers possessing over 85 years of aggregate industry experience. Strong alignment of interest with the firm privately and independently owned by the investment professionals. The bulk of the assets managed by the firm are for institutional clients. The strategy has since inception (March 2005) delivered strong relative returns and exhibited solid upside and downside capture, with low to modest correlations with existing managers.

International Shares

New inclusions: Alphinity Investment Management

Removal: State Street Global Advisors

Inclusion of Alphinity Investment Management (Alphinity)

Alphinity is an active, boutique, equities investment manager based in Sydney and majority owned by its staff. Alphinity has dedicated teams managing both Australian and global equity funds. The company was established in 2010 with its founding partners having managed Australian investment funds together on the same basis since the early 2000s, providing extensive industry experience and a strong track record of managing equities portfolios through a variety of market conditions. In 2015, Alphinity expanded to include a highly experienced and dedicated global investment team applying the same philosophy and process to the large set of investment opportunities outside Australia. We believe the global investment team are highly skilled which makes them a very attractive manager.

Alphinity's investment philosophy seeks to identify and invest in attractively valued, quality companies in, or about to enter, an earnings upgrade cycle. Alphinity looks for stocks that can deliver earnings' surprises to drive outperformance. If a company is in an earnings upgrade cycle and attractively valued, there is a strong likelihood it will outperform.

Alphinity's earnings-focused investment philosophy and process leads to discipline and consistency. The interaction between fundamental research and quantitative factors is a key strength and point of differentiation of the Alphinity investment process. These processes are complementary and help to identify companies where earnings growth is underestimated. When fundamental research and validated quantitative factors both point to the same conclusion, the conviction of the investment decision is reinforced.

Alphinity's style is core and the strategy has been able to outperform in all types of market environments, which makes this strategy attractive.

Removal of State Street Global Advisors (SSgA)

SSgA Global Defensive Equities strategy was a quantitative strategy. Our portfolio has another quantitative manager, so the desire was to reduce exposure to quantitative managers, so that similar quantitative factors do not dominate the portfolio. Furthermore, SSgA Global Defensive Equities strategy tended to underperform whenever there was a rise in bond yields. The monthly negative correlation of the strategy's excess return to percentage changes in the US 10 year government bond yield was quite high. This reinforced our concern around interest rate sensitivity and the prospect of continued underperformance as bond yields head higher.

New inclusions in the trusts: Quest (Australian shares), Alphinity (international shares)

Removal from the trusts: Janus Henderson (Australian shares), SSgA (international shares)

		Manager	Style		
IOOF MultiMix Growth Trust	IOOF MultiMix Cash Enhanced Trust	Janus Henderson Investors (Australia) Funds Management Limited	Active	Cash and short-term securities	
		IOOF Investment Management Limited	Short-term money market securities		
	IOOF MultiMix Diversified Fixed Interest Trust	IOOF MultiMix Diversified Fixed Interest Trust	Janus Henderson Investors (Australia) Funds Management Limited	Active Australian fixed interest	Diversified fixed interest
			IOOF Investment Management Limited	Income focus	
			Metrics Credit Partners Pty Limited	Australian corporate loans	
			Brandywine Global Investment Management, LLC	Top-down, value-driven	
			Macquarie Investment Management Limited	Active short-duration credit	
			PIMCO Australia Pty Ltd	Global bonds	
			T. Rowe Price	International core fixed income	
			Bentham Asset Management Pty Ltd	Syndicated loans	
Western Asset Management Company			US bank loans, Australian bonds and Global Total Return		
IOOF MultiMix Property Trust			IOOF MultiMix Property Trust	Fidante Partners Limited	
	IOOF Investment Management Limited	Core			
	Legg Mason Martin Currie Australia Limited	Small cap			
	Pendal Institutional Limited	Active, value-driven, risk-controlled			
	Cohen & Steers Capital Management, Inc.	Active, core, bottom-up			
	Resolution Capital Limited	High conviction, benchmark-unaware			
IOOF MultiMix Australian Shares Trust	IOOF MultiMix Australian Shares Trust	AllianceBernstein Investment Management Australia Limited	Managed volatility	Australian Shares	
		Acorn Capital Limited	Micro-caps, active long only		
		Quest Asset Partners Pty Limited	Fundamental quality and growth		
		Vinva Investment Management Limited	Quantitative		
		Legg Mason Martin Currie Australia Limited	Dynamic value		
		OC Funds Management Limited	Small cap and micro-cap		
		DNR Capital	Growth/quality		
		Boutique Manager Portfolio	Diversified Australian shares		
IOOF MultiMix International Shares Trust	IOOF MultiMix International Shares Trust	Defensive Equities Trust	Defensive equities	International Shares	
		EAM Global Investors LLC	Emerging markets small caps		
		Alphinity Investment Management Pty Ltd	Quality with earnings leadership		
		Wellington International Management Company Pte Ltd	Growth		
		Antipodes Partners	Pragmatic value, absolute return		
		LSV Asset Management	Quantitative value		
		TT International	Growth at reasonable price and concentrated quality		
		Thomson Horstmann & Bryant, Inc.	Micro-caps		
		We have a large number of underlying managers for our exposure to alternative assets. These managers are not listed separately due to the size of the list and the fact that the allocation to each manager is small.		Alternatives	

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