

# Product Assessment

Report data as at 31 Aug 2021  
Rating issued on 30 Sep 2021

## IOOF MultiSeries 90

### VIEWPOINT

The Fund, managed by IOOF Investment Services Limited (IISL), utilises a multi-manager approach to invest across a range of asset classes and investment strategies with a bias to growth assets. Combining an intuitive top-down, asset allocation framework with well-developed sector structuring skills, IISL has consistently delivered attractive risk-adjusted performance outcomes. Zenith considers the Fund to be an attractive option in the 'Low Cost' segment, highlighting the level of active management and cost.

The team is split across Melbourne and Sydney, comprising 22 investment professionals (as at 31 August 2021) and led by Dan Farmer, Chief Investment Officer (CIO). Zenith considers Farmer to be a high quality and well-credentialed CIO, who has successfully led the growth of IISL's investment resourcing platform. Importantly, he provides a high level of autonomy to the sector portfolio managers to build their respective portfolios, albeit challenges and encourages creative investment structures.

IISL's Strategic Asset Allocation (SAA) process is expected to drive the majority of performance, accounting for 80% of the expected return. However, IISL also recognises that markets can reach extremities in both over-valuation and under-valuation, and at some point, these markets will mean-revert. To capture this effect, IISL employs a dynamic asset allocation (DAA) process, which can result in opportunistic asset allocation changes. IISL expects to derive approximately 10% of the Fund's value-add from the DAA process.

To achieve the Fund's sector exposures, IISL inter-funds into its underlying sector funds which have been specifically created for the IOOF MultiSeries suite of Funds. In Zenith's opinion, this approach is operationally efficient and also affords IISL the flexibility to structure the sector portfolios, specific to the requirements of the aggregate strategy.

More broadly, IISL's sector structuring ability is a key competitive advantage, extending across manager selection and the ability to capture excess returns from targeted factor exposures or portfolio biases. For example, capturing the small cap risk premia in domestic and global equities, allocating to emerging markets in equities and bonds and innovative smart beta and portable alpha solutions, have been used to generate additional asset class outperformance.

The portfolio construction approach is an iterative process that seeks to populate the Fund's asset allocation with those 'best in class managers' identified in the manager research phase. To achieve this, a range of sector funds are discretely constructed, and subsequently combined to form the final portfolio. Farmer is ultimately responsible, albeit the Investment Management Committee (IMC) is required to ratify all appointments and terminations.

Zenith considers IISL's portfolio construction process to be strong, effectively leveraging the strengths of the investment team and its external consultants. The amount of active risk relative to the Fund's cost structure is considered a strong point of differentiation. In a peer relative context, IISL achieves an attractive balance between the level of 'activeness' relative to each unit of cost. In particular, the inclusion of Alternatives, Direct Property and other forms of enhanced strategies are a point of differentiation, contributing to the Fund's strong performance.

### FUND FACTS

- An SAA driven approach utilising a well structured investment process
- Highly experienced investment team, augmented by the collective resources of Mercer
- Leverages a range of active, factor and passive investment strategies
- Responsible Investment Classification of **Integrated**

### APIR Code

IOF0255AU

### Asset / Sub-Asset Class

Multi-Asset  
High Growth

### Investment Style

Multi-Manager

### Investment Objective

IISL aims to outperform the Consumer Price Index (CPI) by 4.0% p.a. over rolling ten-year periods. While the Fund is not managed to a specific risk constraint, the frequency of expected negative returns is expected to be limited to once every 3.5 years.

### Zenith Assigned Benchmark

Diversified Market High Growth Benchmark  
CPI plus 4%

### Net Returns (% p.a.)

	3 yrs	2 yrs	1 yr
Fund	9.82	10.59	21.85
Benchmark	11.36	13.94	28.00

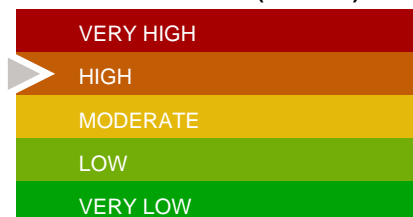
### Income (% p.a.)

	Income	Total
FY to 30 Jun 2021	8.57	21.03
FY to 30 Jun 2020	4.87	-0.86
FY to 30 Jun 2019	4.57	9.02

### Fees (% p.a., Incl. GST)

Management Cost: 0.55%  
Performance Fee: N/A

#### ABSOLUTE RISK (SECTOR)



#### RELATIVE RISK (FUND WITHIN SECTOR)



#### INCOME DISTRIBUTIONS PER



#### INVESTMENT TIMEFRAME



## APPLICATIONS OF INVESTMENT

### SECTOR CHARACTERISTICS

The multi-asset sector comprises funds that are permitted to invest across multiple asset classes and investment strategies. Traditionally, asset class exposures have included equities, fixed interest, property and cash. However, in more recent times, Zenith has observed a greater preparedness by sector participants to incorporate alternative assets and strategies within their targeted asset mix. Included amongst these are real assets (ie. direct property & infrastructure), commodities, and private market exposures (ie. equity and credit). Innovation has also been observed in terms of sector structuring and tail risk hedging strategies, with the goal of building more resilient, 'all-weather' portfolios.

Zenith categorises funds in the 'Multi-Asset – High Growth' peer group (greater than 80% exposure to growth/alternative assets and up to 100%) based on our collective assessment of their targeted asset mix and actual portfolio holdings. Funds within this peer group are benchmarked against the Zenith Composite High Growth Benchmark which has a defensive/growth split of 0%/100%. The exact composition of this benchmark is provided below:

**Cash:**

Bloomberg Ausbond Bank Bill Index (0%)

**Australian Fixed Interest:**

Bloomberg Ausbond All Maturities Composite Index (0%)

**International Fixed Interest:**

Barclays Global Aggregate Index Hedged \$A (0%)

**Australian Equities:**

S&P/ASX 300 Accumulation Index (40%)

**International Equities (Unhedged):**

MSCI World ex-Australia Unhedged (18.75%)

**International Equities (Hedged):**

MSCI World ex-Australia Hedged (18.75%)

**Australian Listed Property:**

S&P ASX 300 Property Accumulation Index (3.75%)

**Global Listed Property:**

FTSE EPRA/NAREIT Developed Rental Index TR Hedged \$A (3.75%)

**Alternatives:**

HFRX Global Hedge Fund Index \$A (15%)

To provide greater insight into a Fund's risk/return profile, Zenith decomposes targeted exposures between three broad categories - defensive, growth and alternatives. While we are cognisant that our designation of asset class exposures between these categories may vary from that as defined by the manager, we have sought to adopt a common methodology to ensure consistency in the assessment of like strategies across Zenith's universe of rated funds. Further detail on the Fund's targeted asset mix is provided at 'Risk Management'.

### PORTFOLIO APPLICATIONS

The Fund provides investors with exposure across a range of income, growth and alternative-based assets and strategies. Its targeted asset mix comprises a 10%/90% split between income and growth assets.

The Fund's investment mandate is considered to be broad, with the investment team permitted to undertake active asset allocation positioning while also gaining exposures to

alternative assets and strategies. Zenith considers the Fund suitable as a standalone investment, or as a complement to a broader portfolio that seeks to produce outcomes consistent with an investor's risk/return preferences. The Fund is particularly attractive for those investors seeking to access IISL's asset allocation skills in a cost effective manner.

The Fund has a Standard Risk Measure (SRM) of six, which is reviewed annually by Mercer and published in the Platform Investment Guidelines Product Disclosure Statement (PDS) and was last calculated in June 2021.

The Fund is considered suitable for investors with a high to extreme risk tolerance who are seeking investment returns that are likely to be almost entirely driven by capital growth. Given the risk inherent in a number of asset classes that the Fund targets, Zenith considers an appropriate investment horizon to be seven or more years

## RISKS OF THE INVESTMENT

### SECTOR RISKS

There exist a number of risks that are generally common amongst all multi-asset funds. These include:

**MARKET RISK:** In periods of heightened risk aversion, it is feasible that asset-class correlations merge. Should this occur, the diversification benefits brought through the construction of a portfolio comprising multiple lowly correlated asset classes may be lost, potentially exposing investors to a broader deterioration in market conditions.

**CURRENCY RISK:** Sector participants may be permitted to gain international exposures on an unhedged basis. The decision whether or not to hedge is often deemed active in nature and can expose investors to fluctuations in cross currency rates. This may be either to the benefit or cost of Fund volatility and performance.

**EMERGING MARKET RISK:** Many sector participants gain exposure to emerging and frontier markets which bring with them additional risks. These may include reduced liquidity, a more opaque pricing mechanism, increased sovereign risk and political tensions.

**ALTERNATIVES RISK:** A growing number of Funds have investment mandates that permit a meaningful exposure to alternative assets and strategies. Investors should be aware that the use of alternatives can bring with them additional risks.

**ILLIQUIDITY RISK:** While most sector participants will seek to retain high levels of liquidity, it is feasible that a Fund may retain exposures in assets that are deemed illiquid or subject to irregular pricing policies. It may be difficult for an investment manager to subsequently liquidate such portfolio positions without incurring meaningful transaction or other performance related costs.

**REGULATORY RISK:** The ASIC Regulatory Guide 97 'Disclosing Fees and Costs in Product Disclosure Statements and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors.

In November 2019, ASIC released its final recommendations,

with proposed changes to be phased in from 30 September 2020, with all Funds required to be compliant by 30 September 2022.

In its current form, RG97 will not impact the actual costs (or after fee returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower-cost alternatives, potentially leading to fund outflows.

## FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

**KEY PERSON RISK:** Zenith considers Farmer's and Yeo's ongoing involvement in the investment process to be critical. Collectively, Zenith believes their respective skills and experience are important to the outperformance potential of the Fund. Either of their departures would result in a reassessment of our rating.

**PERFORMANCE RISK:** The Fund's investment mandate is relatively wide, providing IISL with ample scope to implement its targeted portfolio. This may result in Fund performance deviating from that of its SAA and competitors, which may be either to the benefit or cost of investors.

**INTEGRATION RISK:** Following the recent integration with MLC, there is a risk of increased staff turnover and disruption with the potential streamlining of product offerings and operational functions. Such outcomes could ultimately be to the detriment of Fund performance.

**ILLIQUIDITY RISK:** The Fund maintains exposures to a range of relatively illiquid assets in both the Alternatives and Direct Property sectors. In a stressed market environment, there is a risk that the mark-to-market value of the assets may not reflect their intrinsic value or that they could be liquidated in a timely manner. This could be to the detriment of performance.

## QUALITATIVE DUE DILIGENCE

### ORGANISATION

IOOF Holdings Limited (IOOF) is a diversified financial services business, including the following divisions: Financial Advice and Distribution; Platform Management and Administration; and Investment Management; and Trustee Services. Each division includes a range of separately-branded businesses that largely operate as autonomous entities. IOOF is currently listed on the Australian Securities Exchange (ASX: IFL) and is a constituent of the S&P/ASX Top 200 Index.

Over the past few years, IOOF has completed a number of key acquisitions, including ANZ's OnePath Pensions and Investments (ANZ P&I) in February 2020 and NAB's Wealth Management business (MLC) in June 2021, including its advice, platforms and asset management capabilities. Post the acquisitions, IOOF's scale has increased significantly, with combined funds under management and administration (FUMA) across the consolidated entity of \$A 453 billion (excluding Funds Under Advice).

In terms of ANZ P&I, the business has largely been integrated with the respective investment teams combined, processes harmonised and key products and 'go forward' strategies identified.

The MLC integration is expected to be a multi-year process, noting the heterogeneous approaches and differences in scale and complexity between the two businesses. In the first instance, the role of Chief Asset Management Officer has been appointed to oversee the Investment Management division, while the incumbent Chief Investment Officers for each team remain in place.

Despite the timeline for integration remaining open-ended, each of the teams are collaborating and participating in joint reviews, sharing information, leveraging service providers and maximising synergies where practical.

In Zenith's opinion, the successful implementation of IOOF's acquisition strategy has created one of the largest and most well-resourced investment platforms across the Multi-Asset universe. While the ANZ integration was seamless, MLC is expected to be a more complex challenge noting the divergent investment philosophies and processes.

Going forward, Zenith will continue to monitor the progress of the integration, with a focus on investment personnel stability, continuity of the IOOF investment processes and ensuring the portfolio management team remain focused on managing the underlying portfolios.

As at 30 June 2021, IOOF's multi-manager business managed approximately \$A 48 billion across a range of diversified and single sector funds. This includes \$A 177 million in this Fund (as at 31 August 2021).

## INVESTMENT PERSONNEL

Name	Title	Tenure
Dan Farmer	Chief Investment Officer	11 Yr(s)
Stanley Yeo	Deputy CIO / Head of Equities	11 Yr(s)
Manish Utreja	Head of Alternatives and Portfolio Manager, Smart Choice	11 Yr(s)
Paul Crisci	Portfolio Manager - Australian Equities	4 Yr(s)
Osvaldo Acosta	Head of Fixed Interest Assets	4 Yr(s)
Simon Gross	Head of Property	17 Yr(s)
Liam Wilson	Portfolio Manager	1 Yr(s)
Kerry Duce	Head of Asset Allocation	6 Yr(s)

The team is split across Melbourne and Sydney, comprising 22 investment professionals (as at 31 August 2021) and led by Dan Farmer, Chief Investment Officer (CIO). In terms of responsibilities, the team is divided along asset class lines, with support from specialist Asset Allocation, Implementation and Performance Analysis and Governance teams.

Following the integration of ANZ P&I, the team has expanded over the past couple of years, with the merger allowing IISL to

expand its resourcing, particularly in the areas where ANZ P&I had complementary strengths.

Farmer assumed the CIO role in July 2017, having joined the firm in 2010, initially to manage IISL's Australian equities portfolio. Prior to IISL, he was a Portfolio Manager at Telstra Super, where he was responsible for overseeing a \$A 3 billion Australian equities portfolio, and also internally managing a \$A 450 million pool of domestic equities.

Zenith considers Farmer to be a high quality and well-credentialed CIO, who has successfully led the growth of IISL's investment resourcing platform. Importantly, he provides a high level of autonomy to the sector portfolio managers to build their respective portfolios, albeit challenges and encourages creative investment structures.

Farmer is well supported by Stanley Yeo, Deputy Chief Investment Officer and Head of Equities, who oversees investment strategy and asset allocation for IISL's suite of multi-manager funds, including leading the equities team. Yeo joined IISL in 2010, from Russell Investments where he was a Senior Consultant. Zenith maintains a high opinion of Yeo, noting his overall contribution at both a strategy level and leading the firm's global equity manager selection.

Paul Crisci joined IISL in August 2017 to manage the Australian equities portfolio. Crisci is a highly experienced investment professional, having spent the previous 17 years at Funds SA. Osvaldo Acosta is responsible for IISL's fixed interest and cash portfolios. Acosta joined in late 2016 having held previous roles at Western Asset Management and Australian Unity.

In terms of Alternatives, Manish Utreja, Portfolio Manager and Head of Alternatives transitioned from the ANZ P&I business, having originally joined ANZ P&I in July 2010. In addition to this role, he is responsible for a suite of low cost strategies and a member of the Investment Management Committee (IMC).

Kerry Duce, Head of Asset Allocation leads a specialist capability, focused on developing the firm's Strategic Asset Allocation (SAA) process and Dynamic Asset Allocation (DAA) approaches. Duce originally joined ANZ P&I in 2015 and has been instrumental in developing the firm's DAA process with a more granular set of market aware indicators encompassing valuation, earnings, momentum and sentiment.

Oversight of the process is provided by a seven-person Investment Management Committee (IMC) which performs a number of roles, including the determination of investment objectives, ongoing monitoring of portfolio strategies, and final sign-off for manager appointments and terminations. The composition of the IMC includes IISL executives (i.e. Farmer, Yeo and Utreja) and three independent directors and meets on a bi-monthly basis.

Zenith is supportive of the role of the IMC, highlighting its contribution to the governance framework and broader support of the investment team. Over time, the composition of the IMC has improved, both in terms of skills and experience and the level of independence from IISL.

IISL's remuneration structure is comprised of a base salary and annual bonus, which is subject to a performance criteria and a discretionary or qualitative component. In terms of the Portfolio

Managers, they have the ability to earn up to 100% of their salary, which is split between the performance of their respective portfolios (70%) and a qualitative component which is at the discretion of the CIO. The performance hurdles relates to the rolling one and three-year performance of the Funds, relative to the peer group and benchmark. Zenith highlights that bonuses are paid out in cash or in IOOF shares, with a vesting period of up to three years depending on seniority.

Zenith considers the depth and quality of IISL's portfolio management team to be a key strength, highlighting the level of bottom-up, asset class expertise. Farmer and Yeo continue to drive the strategic direction of the investment process, particularly with respect to building robust sector portfolios.

## INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

IISL aims to outperform the Consumer Price Index (CPI) by 4% p.a. over rolling ten-year periods. While the Fund is not managed to a specific risk constraint, the expected frequency of negative returns is limited to once every three and a half years.

The investment philosophy underpinning the suite of MultiSeries Funds is to combine active asset allocation with an efficient blend of active and passive management strategies, delivered in a cost effective manner. To achieve this, IISL intelligently uses a range of active, factor-based and passive strategies, with a bias to active strategies. In a 'Low Cost' context, the Fund provides access to a diverse range of asset classes including Alternatives, Direct Property, Private Debt and Emerging Markets.

Zenith highlights that in a peer relative context, the Fund achieves an attractive balance between the level of 'activeness' relative to a unit of cost. In particular, the inclusion of Alternatives, Direct Property and other forms of enhanced strategies are a point of differentiation, contributing to the Fund's strong performance.

IISL's Strategic Asset Allocation (SAA) process is expected to drive the majority of performance, accounting for 80% of the expected return. However, IISL also recognises that markets can reach extremities in both over-valuation and under-valuation, and at some point, these markets will mean-revert. To capture this effect, IISL employs a dynamic asset allocation (DAA) process, which can result in opportunistic asset allocation changes. IISL expects to derive approximately 10% of the Fund's value-add from the DAA process.

In contrast to many peers, IISL allocates to a number of illiquid asset classes. This includes allocations to private equity in the alternatives sleeve, private debt within fixed income, and also internally-managed direct property holdings. Notwithstanding the additional risk in holding illiquid assets, Zenith view these allocations as a point of difference for the Fund.

## SAA

The SAA setting process is performed on an annual basis, using a two-stage approach. The first stage involves a review of the Fund's existing SAA relative to its investment objectives, including a re-validation of the long-term asset class assumptions underpinning the current allocation. Mercer Australia (Mercer), IISL's external consultant provides a set of return forecasts as well as output from its Capital Markets

Simulator (CMS).

The CMS produces a set of scenarios under a 'Steady State' (i.e. reflecting long-term expectations for markets assuming fair value), and under a 'Market Aware' state where the current pricing of markets are expected to revert to the long-term level over a 10 to 15 year timeframe. In terms of this Fund, the Market Aware simulations are expected to be more influential on the SAA setting process.

Further, Mercer uses an economic capital markets simulator as part of its approach to estimating volatilities for underlying asset classes. The simulator encompasses traditional equity risk premias (i.e. size and developed markets versus emerging markets) to forecast volatilities as opposed to using more traditional approaches such as using actual asset class returns to calculate volatilities and correlations.

Zenith highlights that while Mercer remains a strategic input to the process, the growth of IISL's internal asset allocation capabilities has supported the development of its research agenda and the prioritisation of a number of process enhancements.

These include developing the optimisation framework to be agnostic across entities (i.e. super, pension versus non-taxed), incorporating DAA and underlying manager alpha assumptions into the process (currently a work in progress) and building a framework to incorporate climate change goals, such as the objectives of the Paris Agreement.

A SAA sub-group is responsible for synthesising Mercer recommendations and project managing any changes where applicable. Furthermore, the capital markets assumptions are debated by the sub-group, with the resultant allocations presented to the IMC for review and sign-off.

The optimisation process applies to the Fund's core assets (including equities (domestic and international), bonds (domestic and international, nominal and inflation linked), property and cash), and produces an outline of the Fund's asset class exposures.

The second stage of the SAA process involves adjusting the asset mix derived in Stage One, via the introduction of asset classes and/or active tilts that improve the portfolio's expected risk/return profile. These can include introducing specific factor exposures, such as a quality tilts or small caps in equities, or high yield credit strategies in fixed income.

Furthermore, less liquid strategies are also considered, such as Alternatives, Infrastructure, Private Equity, Direct Property and Commodities. This process is more qualitative in nature and seeks to overlay the team's views on the final portfolio composition.

### **Dynamic Asset Allocation (DAA)**

On a monthly basis (or more frequently if required), an Asset Allocation Group (AAG), comprising the CIO and Portfolio Managers, meet to discuss views on the Fund's asset allocation, market valuation, fundamentals and market sentiment. Mercer's DAA service is used as an input, along with insights gained from the underlying fund managers and other external sources such as BCA Research. Based on the output of this meeting, DAA positions can be enacted with the purpose of capturing price adjustments where mispriced

markets are expected to mean revert.

Under the auspices of Duce and Sidney Chong, Asset Allocation Manager, IISL implements a DAA process, via a suite of market aware indicators. The signals are designed to identify potential mispricings over a six to 18 month timeframe, combining a range of valuation, sentiment and technical and macroeconomic / earnings factors. Signal output is distilled into a set of asset class scorecards, resulting in an overall conviction score and also creating a level playing field for the AAG to make relative value assessments.

In our opinion, the indicators have improved the precision of the DAA process, creating a repeatable framework for basing active asset allocation decisions. Moreover, each cohort of signals seeks to identify opportunities over different timeframes, which introduces additional strategy diversification. Going forward, Zenith continues to monitor the development of the signal process and the linkage with the Fund's DAA positioning.

In sum, Zenith considers IISL's asset allocation process to be well-structured and applied in a consistent manner. The process successfully leverages IISL's top-down capabilities which is supplemented by Mercer's asset allocation engine.

### **SECURITY SELECTION**

Employing a multi-manager approach, identifying and selecting high-quality managers is a core component of the investment process. IISL undertakes an annual review of the underlying sector trusts, to ensure that the manager line-up is appropriate and new candidates are considered. Each sector portfolio manager is responsible for undertaking manager research for their sector, with oversight and leadership from the CIO.

The initial manager universe is filtered based on the portfolio's underlying requirements, an independent rating from Mercer, and the manager having a sufficient level of capacity to meet IISL's growth requirements. If a manager does not have an external rating, it may be considered if it is assessed to have a competitive advantage.

To select managers, IISL employs a traditional set of criteria, which includes an assessment of the organisation, the quality of the investment team, the coherence of the investment process and the performance of the Fund/strategy relative to its objectives and peer group. The review also includes fee discovery, and a manager's willingness to enter into an Investment Management Agreement (IMA) and Service Level Agreement (SLA) on terms that meet IISL's requirements.

Zenith highlights that IISL's sector structuring ability is a key competitive advantage, extending across manager selection and the ability to capture excess returns from targeted factor exposures or portfolio biases. For example, capturing the small cap risk premia in domestic and global equities, allocating to emerging markets in equities and bonds and innovative smart beta and portable alpha solutions, have been used to generate additional asset class alpha.

If a manager passes through the due diligence phase, the portfolio manager will prepare a detailed due diligence report that addresses the above-mentioned criteria. The report is peer reviewed by the CIO and broader team, with a potential for further research and analysis to be undertaken. IISL's Investment Operations team also reviews the report to ensure

compatibility with the reporting and pricing framework. Once complete, the report is finalised and proposed to the IMC for approval.

Zenith notes that IISL's manager selection process is detailed and applied in a disciplined manner, with its proprietary insights supplemented by the global resources of Mercer. The team's ability to capture excess returns at the asset class level, that perform independently of broader asset class movements, has contributed to attractive risk-adjusted returns over the medium-term.

## PORTFOLIO CONSTRUCTION

The portfolio construction approach is an iterative process that seeks to populate the Fund's asset allocation with those 'best in class managers' identified in the manager research phase. To achieve this, a range of sector funds are discretely constructed, and subsequently combined to form the final portfolio. Farmer is ultimately responsible, albeit the IMC is required to ratify all appointments and terminations.

Each sector portfolio manager is afforded flexibility to structure their underlying portfolio in a manner consistent with their respective investment philosophy and beliefs, under the direction of Farmer and subject to the IMC approval process. This approach promotes a high level of process diversification, albeit it has the potential to result in sector structuring differences across asset classes. Zenith is supportive of the approach, noting that each asset class offers idiosyncratic active return opportunities.

At the asset class level, actively managed and factor-based strategies are combined to build underlying sector portfolios, with the latter capturing equity premias such as value, momentum and quality. Zenith highlights that the use of factor-based strategies in a 'low cost' format is an effective mechanism to capture incremental returns and manage volatility outcomes.

In certain asset classes, such as fixed income, the sector portfolio manager is permitted to express directly held positions, managed alongside the portfolio's externally-managed strategies (detailed below). These positions are subject to pre-approved risk limits and used to reflect the broader views of the team and/or align with the output of the DAA process.

In terms of position sizing, each sector portfolio manager has the flexibility to determine the optimal manager configuration for their respective portfolio, subject to oversight from Farmer and the approval of the IMC (for new manager appointments). With respect to existing managers, the sector portfolio managers can adjust manager weightings by +/- 50% with approval from the CIO, which is then required to be noted at the next IMC meeting.

The Fund's currency exposure is fully hedged in the fixed income sector, while the Fund has a strategic hedge ratio of 25% for global equities (developed only). Active currency positions can be enacted based on the output of the DAA process, which can see the actual hedging level range from 0% to 100%.

IISL has a duration hedging overlay process in place where the portfolio manager has the flexibility to hedge up to 20% of the fixed income portfolio's interest rate exposure (including the

floating rate component) via a range of instruments e.g. interest rate futures, swaps etc. This decision is at the discretion of the portfolio manager, with sign-off required from the CIO. While Zenith is supportive of process innovation, we believe rates and curve positioning is outside of the core competency of the team.

The Fund's rebalancing range is set at +/- 3% at an operational level and is managed by IISL's Investment Operations Division, in consultation with the investment team. On a daily basis, each portfolio's asset allocation is compared to its target asset allocation, and if the allocations falls outside of the rebalancing range, the Portfolio Manager is notified. The Portfolio Manager will then decide if remedial action is required, which includes identifying the most efficient rebalancing mechanism (i.e. via cashflows or physical redemptions).

In sum, Zenith considers IISL's portfolio construction process to be strong, effectively leveraging the strengths of the investment team and its external consultants. The amount of active risk relative to the Fund's cost structure is considered a strong point of differentiation. We believe there is scope to enhance the types of downside protection employed (e.g. such as equity protection strategies, safehaven currencies), to mitigate potentially lower diversification benefits from fixed income.

## RISK MANAGEMENT

Portfolio Constraints	Description
<b>Income Assets</b>	
Cash and Short-Term Securities	0 to 15 Target SAA = 1%
Diversified Fixed Interest (%)	0% to 20% Target SAA = 9%
Total Income Assets (%)	Target SAA = 10%
<b>Growth Assets</b>	
Australian Equities (%)	15% to 40% Target SAA = 29%
International Equities (%)	25% to 50% Target SAA = 37%
Property (%)	0% to 25% Target SAA = 5%
Alternatives inc Direct Property (%)	0% to 50% Target SAA = 19%
Total Growth Assets (%)	Target SAA = 90%
Responsible Investment Constraints	Tobacco

Risk management is ingrained in IISL's investment process at multiple levels. While the experience of the portfolio management team provides the first layer of risk management, IISL also leverages the risk management output of Mercer, who conducts extensive risk management analysis as part of its due diligence process.

The primary risk tools used by IISL include: Bloomberg Port and Factset. The investment team generates a number of risk metrics, including traditional volatility measures, risk-adjusted metrics (i.e. Sharpe ratio, Treynor ratio, Information ratio etc) and other portfolio level risk measures. The above-mentioned

risk-analytics is formally reported to the IMC on a bi-monthly basis, who will also monitor the information on a more frequent basis.

Zenith highlights that IISL's risk management architecture is well-developed, particularly with respect to aggregating and assessing risk on a portfolio-wide basis. Through Bloomberg Port and Factset, IISL has the functionality to measure cross-asset class risk, including holdings-based information across the majority of the portfolio, including fixed income.

Stress testing is performed in conjunction with Mercer using both historical and forward looking analysis. In a historical context, the portfolio is stress tested against major market events to assess how the existing portfolio would perform through these regimes. The forward-looking scenarios utilise Mercer's Capital Markets Simulator which is a tool that supports a range of customised stress tests. In terms of the portfolio's private asset holdings, these are also subject to detailed liquidity scenario testing.

Zenith considers IISL's risk management framework to be sound, noting the continued advancements in its ability to manage portfolio-wide risk.

**Responsible Investment**

IISL has yet to become a United Nations Principles of Investment (UN PRI) signatory. Notwithstanding this, it maintains an established Responsible Investment Policy (RIP) that has been ratified by the IISL Responsible Entity and was last updated in April 2021. The CIO who leads the Investment Division is ultimately responsible for adherence with the policy.

Using a multi-manager investment approach, IISL's environmental, social and governance (ESG) policies are largely implemented via its appointed investment managers. Prior to appointing a manager, IISL performs a detailed review of their ESG approach and philosophy, focusing on the level of integration with the broader process. This is formalised with a specific ESG clause that is included in all Investment Management Agreements (IMAs) requiring managers to apply due care and diligence in considering ESG matters. Furthermore, all investment mandates include a hard tobacco manufacturer exclusion.

In terms of adherence to its policies, IISL performs ongoing monitoring in collaboration with Mercer who formally rate each manager's ESG processes. While still in its early stages, IISL continues to work with its underlying managers regarding the provision of ESG reporting.

In addition to the team's surveillance, MSCI ESG quality scores are measured on a periodic basis and used to cross-reference the qualitative input from managers, whilst also providing a lead indicator on potential ESG deterioration. Furthermore, a Carbon Foot Print estimate (e.g. Weighted Average Carbon Intensity tons CO2e / \$M sales) is reported on a quarterly basis and used as part of IIS's ongoing monitoring.

As noted above IISL exclude tobacco from equity, fixed income and alternative portfolios.

In Zenith's opinion, IOOF's ESG approach is well-developed, effectively leveraging the firm's resources and further augmented by Mercer's ESG capabilities.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

Zenith has assigned the Fund a Responsible Investment Classification of Integrated.

**INVESTMENT FEES**

The Sector average (in the table below) is based on the average management cost of all flagship Multi-Asset - High Growth funds surveyed by Zenith.

The Fund's management cost is 0.55% p.a. No performance fee is payable at all levels of the Fund i.e. including underlying managers. Zenith highlights that the fee level is highly competitive with the peer group.

There also exists a buy/sell spread of 0.07% representing the costs incurred by the Fund when transacting its portfolio. This spread is payable by investors when both entering and exiting the Fund.

*(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform)*

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	0.55% p.a.	0.88% p.a.
Description		
Performance Fee	N/A	
Buy Spread		Sell Spread
Buy / Sell Spread	0.07%	0.07%

**PERFORMANCE ANALYSIS**

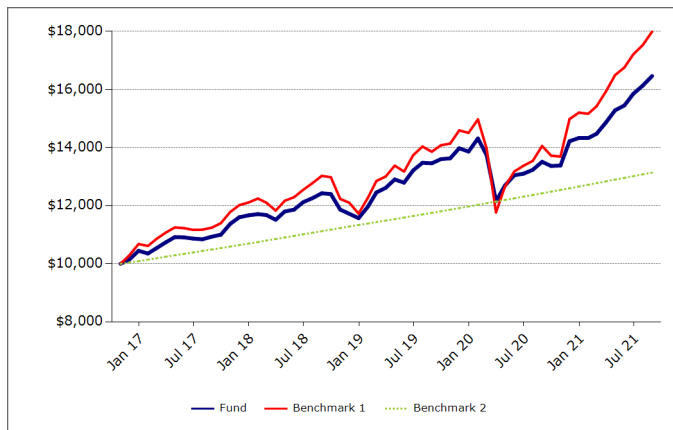
Report data: 31 Aug 2021, product inception: Nov 2016

**Monthly Performance History (% , net of fees)**

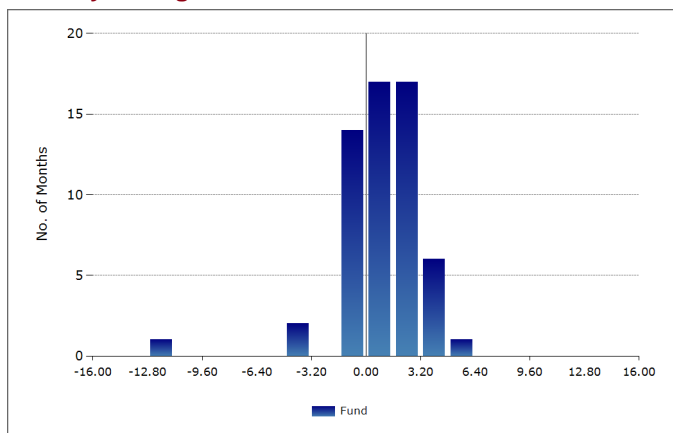
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BM1 YTD	BM2 YTD
<b>2021</b>	-0.01	1.03	2.70	2.79	1.11	2.62	1.75	2.04					14.88	18.34	3.79
<b>2020</b>	3.26	-4.03	-11.50	4.44	2.76	0.40	1.02	2.09	-1.07	0.12	6.26	0.78	3.37	4.81	5.74
<b>2019</b>	3.43	4.07	1.28	2.30	-0.86	3.29	1.99	-0.12	1.05	0.22	2.54	-0.82	19.80	23.70	5.60
<b>2018</b>	0.36	-0.28	-1.39	2.47	0.55	2.15	1.15	1.37	-0.23	-4.31	-1.21	-1.29	-0.84	-3.17	6.00
<b>2017</b>	-0.90	1.76	1.91	1.69	-0.08	-0.39	-0.21	0.82	0.62	3.38	2.01	0.58	11.69	13.40	6.00

Benchmark 1: Diversified Market High Growth Benchmark, Benchmark 2: CPI plus 4%

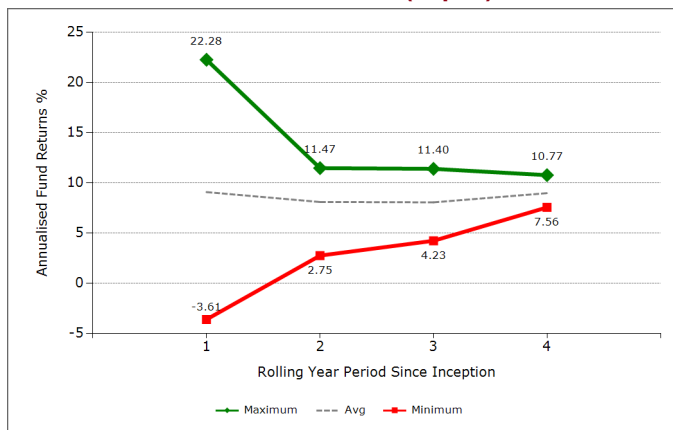
**Growth of \$10,000**



**Monthly Histogram**



**Minimum and Maximum Returns (% p.a.)**



**ABSOLUTE PERFORMANCE ANALYSIS**

Return	Incpt.	3 yr	2 yr	1 yr
Fund (% p.a.)	10.86	9.82	10.59	21.85
Benchmark 1 (% p.a.)	12.92	11.36	13.94	28.00
Benchmark 2 (% p.a.)	5.81	5.71	5.74	5.74
Ranking within Sector	Incpt.	3 yr	2 yr	1 yr
Fund Ranking	27 / 39	21 / 41	37 / 41	40 / 42
Quartile	3rd	2nd	4th	4th
Standard Deviation	Incpt.	3 yr	2 yr	1 yr
Fund (% p.a.)	8.55	10.33	11.25	6.21
Benchmark 1 (% p.a.)	11.95	14.61	16.08	9.46
Downside Deviation	Incpt.	3 yr	2 yr	1 yr
Fund (% p.a.)	6.03	7.59	8.67	1.07
Benchmark 1 (% p.a.)	8.55	10.75	12.22	2.40
Risk/Return	Incpt.	3 yr	2 yr	1 yr
Sharpe Ratio - Fund	1.13	0.87	0.91	3.51
Sortino Ratio - Fund	1.60	1.18	1.18	20.40

Zenith benchmarks funds in the Multi-Asset - High Growth peer group against the Zenith Composite High Growth Benchmark. While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

IISL aims to outperform the Consumer Price Index (CPI) by 4% p.a. over rolling ten-year periods. While the Fund is not managed to a specific risk constraint, the expected frequency of negative returns is limited to once every three and a half years.

All commentary is effective 31 August 2021.

The Fund has achieved its investment objective over most periods of assessment. When measured relative to the peer group, the Fund has had mix success, oscillating between the upper and lower quartiles.

A consistent feature of the Fund's risk/return profile, has been the constrained volatility outcomes (as measured by Standard Deviation) relative to the Zenith assigned peer group, which



has contributed to strong risk-adjusted returns over the assessed timeframes.

## RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	3 yr	2 yr	1 yr
Excess Return (% p.a.)	-2.06	-1.54	-3.35	-6.15
% Monthly Excess (All Mkts)	36.21	33.33	25.00	25.00
% Monthly Excess (Up Mkts)	17.07	8.33	5.56	0.00
% Monthly Excess (Down Mkts)	82.35	83.33	83.33	100.00
Beta Statistics	Incpt.	3 yr	2 yr	1 yr
Beta	0.70	0.70	0.69	0.65
R-Squared	0.97	0.98	0.98	0.97
Tracking Error (% p.a.)	3.85	4.68	5.19	3.48
Correlation	0.98	0.99	0.99	0.99
Risk/Return	Incpt.	3 yr	2 yr	1 yr
Information Ratio	-0.53	-0.33	-0.64	-1.77

All commentary is effective 31 August 2021.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

The Fund has had limited success with respect to outperforming in all market conditions. Consistent with the strategy's constrained volatility profile, IISL has delivered strong returns in falling markets.

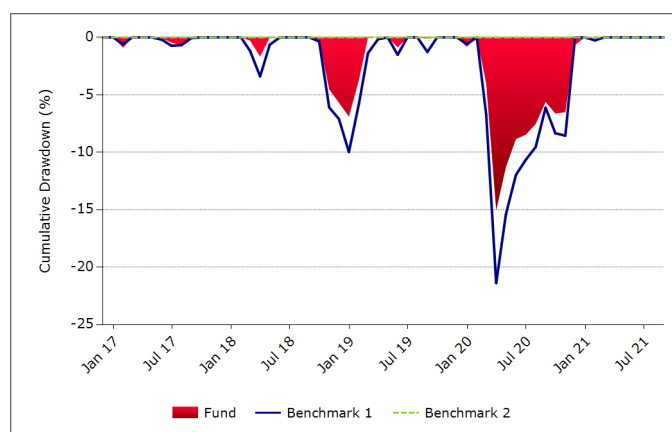
## DRAWDOWN ANALYSIS

*Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.*

Drawdown Analysis	Fund	BM1	BM2
Max Drawdown (%)	-15.06	-21.39	
Months in Max Drawdown	2	2	
Months to Recover	9	8	

Worst Drawdowns	Fund	Benchmark 1	Benchmark 2
1	-15.06	-21.39	
2	-6.90	-9.98	
3	-1.67	-3.40	

Worst Drawdowns	Fund	Benchmark 1	Benchmark 2
4	-0.90	-1.52	
5	-0.86	-1.27	



All commentary is effective 31 August 2021.

The Fund's drawdown profile has generally been more constrained relative to the benchmark, particularly during sustained market drawdowns.

## INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2021	8.57%	12.45%	21.03%
FY to 30 Jun 2020	4.87%	-5.72%	-0.86%
FY to 30 Jun 2019	4.57%	4.45%	9.02%
FY to 30 Jun 2018	6.98%	4.55%	11.53%

The Fund does not target a specific level of income and capital growth return. That said, Zenith would expect that given the Fund's portfolio largely comprises growth assets, Fund returns are likely to be dominated by capital appreciation.

Distributions are made on a half-yearly basis following June and December.

## REPORT CERTIFICATION

Date of issue: 30 Sep 2021

Role	Analyst	Title
Author	Rodney Sebire	Head of Alternatives & Global Fixed Interest
Sector Lead	Andrew Yap	Head of Multi Asset & Austr. Fixed Income
Authoriser	Bronwen Moncrieff	Head of Research

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## RATING HISTORY

As At	Rating*
30 Sep 2021	Recommended
19 Jan 2021	Recommended
30 Sep 2020	Recommended
1 Oct 2019	Recommended
18 Mar 2019	Recommended
1 Feb 2019	Under Review
7 Dec 2018	Under Review
15 Oct 2018	Recommended
17 Oct 2017	Recommended
10 Feb 2017	Recommended
11 Nov 2016	Recommended
26 Oct 2016	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

\*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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