



Product Review

IOOF MultiMix Diversified Fixed Interest Trust

ISSUE DATE 21-04-2020

About this Review

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

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST
APIR CODE	IOF0096AU
PDS OBJECTIVE	LOW-MEDIUM RISK INCOME-PRODUCING INVESTMENT OVER THE MEDIUM TERM BY INVESTING IN A DIVERSIFIED PORTFOLIO OF FIXED INTEREST INVESTMENTS AND A TOTAL RETURN AFTER FEES IN EXCESS OF THE BENCHMARK OVER ROLLING 3-YEARS.
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 0.5% P.A. (BEFORE FEES) OVER THREE YEARS.
STATED RISK OBJECTIVE	<2% P.A. TRACKING ERROR OVER THREE YEARS
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$302.0M AS AT 29 FEBRUARY 2020
FUND INCEPTION	29-04-2008
MANAGEMENT COSTS	0.51% P.A. (INC. 0.01% PERFORMANCE FEES)
PERFORMANCE FEE	MAY BE CHARGED BY UNDERLYING MANAGER
RESPONSIBLE ENTITY	IOOF INVESTMENT SERVICES LTD

About the Fund Manager

FUND MANAGER	IOOF INVESTMENT SERVICES LTD
OWNERSHIP	100% OWNED BY IOOF (ASX:IFL)
ASSETS MANAGED IN THIS SECTOR	\$4.98BN AS AT 29 FEBRUARY 2020
YEARS MANAGING THIS ASSET CLASS	27

Investment Team

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

Investment process

STYLE	MULTI-MANAGER
BENCHMARK	50% BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX + 50% BLOOMBERG BARCLAYS CAPITAL GLOBAL AGG TR INDEX VALUE HEDGED S
DURATION RISK LIMIT	-/+ 50% OF BENCHMARK YEARS
MAX. SUB-INVESTMENT GRADE	20% (LOOK-THROUGH)
TYPICAL SECURITY NUMBERS	3000
CURRENCY EXPOSURE	FULLY HEDGED
GEARING / ECONOMIC LEVERAGE	NOT PERMITTED

Fund rating history

APRIL 2020	RECOMMENDED
JUNE 2019	RECOMMENDED
MAY 2018	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 manager research process is pragmatic and disciplined.
- The Trust has exceeded its internal return objective and is outperforming the peer median across the majority of periods observed.

Weaknesses

- The integration of the merged teams and the ongoing corporate instability may serve as a distraction to the investment team.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY		●	
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
INTEREST RATE (DURATION) RISK			●
LEVERAGE RISK	●		
REDEMPTION RISK		●	
SECURITY CONCENTRATION RISK	●		
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE			●				

A Standard Risk Measure score of 3 equates to a Risk Label of 'Low to Medium' and an estimated number of negative annual returns over any 20 year period of 1 to less than 2. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS		●	

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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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 MultiMix Diversified Fixed Interest Trust ('the Trust') is a multi-manager style, diversified fixed income strategy that offers access to a range of underlying Australian and global fixed income managers. It aims to outperform the benchmark (50% Bloomberg AusBond Composite 0+ Yr Index + 50% Bloomberg Barclays Capital

Global Aggregate Total Return Index Value Hedged AUD by 0.5% p.a. (before fees), with a Tracking Error of less than 2% p.a. over a three year period.

- The Trust invests across a broad range of strategies, including: Australian bonds, global multi-sector bonds, investment grade credit, high yield, inflation linked bonds, emerging market debt and cash.
- 'Strategic Tilting' may be applied to reflect medium term views over and above the aggregate underlying manager positions. The aim is to capture the price adjustment associated with mean reversion back towards the long-term average.
- Derivatives may be used to obtain, reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to Australian dollars.
- As per the PDS dated 30 November 2019, the Trust's estimated management cost is 0.51% p.a, which includes the investment management fee as well as performance-related fees of 0.01%. The Trust itself does not charge a performance fee, however, a performance fee may be charged by one of the underlying managers. During the financial year ended 30 June 2019, the net transaction costs for the Trust were estimated at 0.17% of its average size. Net transaction costs are costs incurred in managing the Trust (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/or when there are applications or redemptions of fund units by investors) that are not covered by the buy/sell spread. Buy/sell spreads are subject to change depending on market conditions. Refer to the Manager for current buy/sell spreads.

Using this Fund

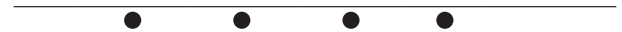
This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Diversified Fixed Interest funds can provide sound diversification benefits when combined with equities as part of a diversified investment portfolio, **although they have more limited use as standalone income producing products.**
- Diversified Fixed Interest funds will typically form part of the defensive component of a diversified investment portfolio.

- Diversified Fixed Interest funds typically perform better during periods of declining or stable interest rates and contracting or stable credit spreads. Conversely, they will typically perform worse during periods of increasing interest rates (particularly when interest rates increase sharply) and deteriorating credit spreads.
- Diversified Fixed Interest funds generally have higher default risk and lower credit quality than Australian Fixed Interest funds.

Suggested Lonsec risk profile suitability

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 February 2020, IOOF appointed Denise Allen and Mary-Anne Nunan as committee members to the Investment Committee.
- On 03 February 2020, ANZ announced that it had successfully completed the sale of its OnePath Pensions and Investments (OnePath P&I) business to IOOF Holdings Limited (IOOF). The final sale price of \$850m included approximately \$25m that ANZ had already received for the sale of its Aligned Dealer Groups in October 2018.
- On 25 October 2019, ASIC imposed licence conditions on IOOF Investment Management Ltd (restructured to IOOF Investments Services Ltd (IISL) as of 25 October 2019) to improve conflicts management. IISL is required to have a majority of independent directors with skills and background relevant to the operation of managed investment schemes and IDPS platforms. It must also establish an Office of the Responsible Entity (ORE) which will oversee IISL's compliance and the quality and pricing of its services and ensure managed investment schemes are operated in the best interests of members. Lonsec has subsequently been notified that IOOF has already commenced implementing these requirements.
- Erica Clark was appointed Head of the Office of the Responsible Entity in March 2020.
- IISL transferred managed investment scheme, IDPS and advice activities from IOOF Investment Management Limited to IISL under the group's broader re-organisation plan to split the business' RE and Registrable Superannuation Entity (RSE) functions.
- On 11 October 2019, Perennial Value Management Limited announced that its senior executives planned to acquire the remaining 42.4% economic interest in the business from IOOF Holdings
- On 20 September 2019, the Federal Court dismissed APRA's case against former IOOF Managing Director, Chris Kelaher.
- Amanda Noble was appointed Chief Risk Officer (CRO) in July 2019, however subsequently announced her resignation in November 2019. This marked the second CRO resignation over a 6-month period.

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- IOOF has recruited a new CRO to lead the Enterprise Risk and Compliance functions for the group. The new CRO will commence in June 2020.
- Since Lonsec's last review, IOOF has made some changes to the underlying manager lineup of the portfolio:
 Appointments
 - Ardea Pure Alpha Fund (Fixed Interest)
 - Stone Harbor EM Debt (Fixed Interest)
 Terminated
 - Western Asset Management Fixed Interest US Bank Loans (Fixed Interest).
- The Trust now has a dual objective: To provide a low to medium risk income-producing investment over the medium term by investing in a diversified portfolio of fixed interest investments, and to achieve a total return after fees in excess of the Trust's benchmark over a rolling three-year period.

Lonsec Opinion of this Fund

People and resources

- In October 2017, IOOF announced it had agreed to purchase ANZ's OnePath Pensions and Investment business and Aligned Dealer Groups business (ANZ Wealth Management).
- While Lonsec understands the proceedings from the Royal Commission and action by APRA did not pertain directly to the investment team, Lonsec highlights the potential for ongoing distraction caused by these negative optics. To date, Lonsec believes the investment team has appropriately removed themselves from these disturbances, however, will continue to monitor for any disruptions in future reviews.
- ANZ Wealth Management also employs an investment team that operates its own range of multi-manager funds. Whilst the make-up of the merged teams is unclear Lonsec considers the two investment teams offers some complimentary skill sets. Nevertheless, as with any merger, the potential for upheaval and uncertainty increases significantly as roles and responsibilities are divided up. Whilst IOOF's historical track record in successfully merging investment teams (2010 merger of United Funds Management and IOOF) provides some comfort, Lonsec will monitor for any instability.
- The investment team is led by CIO Dan Farmer who was appointed to the role after predecessor Steve Merlicek's retirement in June 2017. Further succession planning efforts also saw the appointment of Stanley Yeo as Deputy CIO. That said, Lonsec notes that Merlicek's continues to be involved at the Investment Management Committee (IMC).
- The Trust is managed by Portfolio Manager Osvaldo Acosta. Acosta holds 19 years of experience within fixed income and capital markets. Prior to joining IOOF in December 2016, Acosta was a Fixed Income Trader and Portfolio Manager at Western Asset Management, a global fixed income manager. His career also includes three years at Australian Unity Investments, where he managed multi-manager style portfolios as Cash and Fixed Income Portfolio Manager. Lonsec believes Osvaldo is appropriately experienced to manage the Trust. His rationale

underpinning the Trust's construction is sensible and reflects familiarity with the style and risk/return characteristics of the underlying managers, as well as strong risk management awareness.

- Acosta continues to be well supported by several members of the Investment Team. This includes Deputy CIO Stanley Yeo who managed the Trust previously as well as his primary back-up Portfolio Manager (Internal Management Credit and Cash) Juanita Escobar.
- Lonsec considers Yeo's continued involvement to be beneficial, noting his thorough understanding of the mechanics and investment philosophy underpinning the Trust. However, Lonsec does recognise his contributions have lessened over time as Acosta builds a track record and strengthens his position in the Investment Team.
- Lonsec views key person risk associated with Acosta as low to moderate given the support and back-up structure implemented.
- The alignment of interests between the Portfolio Manager and investors is adequate over the short- and medium-term. 70% (includes 20% for diversified funds performance) of the Portfolio Manager's variable remuneration is linked to the performance of the Trust relative to the sector benchmark and versus peers over rolling one and three-year returns.

Research and portfolio construction

- The manager research process is viewed as pragmatic and disciplined. The investment universe is typically narrowed based on IOOF's house views on suitable styles of managers for a given asset class, and managers that are rated at least B+ by Mercer. Internal research efforts are supplemented by subscribing to Mercer's Global Investment Manager Database, which provides insights on a broad coverage of domestic and global managers. Short listed managers are then assessed across a range of quantitative and qualitative factors on a stand-alone basis, and in combination with incumbent managers to determine the 'blend' that will best achieve the Trust's risk and return objective. Further, Lonsec is pleased that on-site manager visits are a critical part of the process.
- A reserve bench of managers is maintained so that changes to the Trust's manager line-up can be made quickly should the need arises. Reserve managers are subject to the same level of research scrutiny and monitoring as incumbent managers.
- IOOF believes that traditional Tactical Asset Allocation (TAA) can be a source of unrewarded risk to investors. Instead, a 'Strategic Tilting' framework is employed, where the Trust may deviate from the aggregate underlying manager positions to capture price adjustments associated with mean reversion back towards the long-term average. These opportunities arise when a market has moved to an extreme (over or undervaluation). Lonsec is supportive of this approach, believing it may provide a basis for improving the Trust's risk/return outcome.
- Further complementing the 'Strategic Tilting' framework is the Trust's ability to utilise an "Interest Rate Overlay". The overlay is designed to provide a ballast against credit exposure during risk-off events

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in the market and thus, is purely utilised as a risk management strategy. The overlay is implemented via positions in bank bill and exchange traded bond futures. Ultimately the overlay aids in protecting the portfolio against credit spread widening by lengthening the portfolio's duration in stress events; whilst underlying managers undertake their own duration positioning independent of the Trust, the Portfolio Manager is able to create a suitable overall duration position based on their own conviction. Lonsec believes that the overlay is a good 'lever' available to the Portfolio Manager to exercise a degree of active control over the Trust.

- At the time of the review, the Trust had lessened its short duration position against the benchmark and continued to maintain an overweight credit allocation.

Risk management

- Risk management has strengthened over recent years with the introduction of a number of external risk and portfolio monitoring systems. The improved quantitative tools, and associated increased sophistication, allow risk to be monitored on an ex-ante basis with reduced reliance on internally generated spreadsheets. Risk management is viewed with respect to asset quality, asset diversity and liquidity.
- In addition to using Bloomberg and FactSet to manage the Trust's holdings, it is also employed for risk management and attribution. The Trust's underlying portfolios (available in real-time) can now be loaded on to Bloomberg PORT and FactSet for risk factor and scenario analysis, enabling an improved understanding of their risk characteristics at the look-through level.
- All of the Trust's underlying managers are accessed via separate mandates rather than pooled vehicles. Lonsec considers this to be a positive structure as it can facilitate tighter portfolio construction, the opportunity for better pricing, greater tax efficiency for investors and better control of product design.

Performance

- The Trust's internal return objective is to outperform the composite benchmark by 0.5% p.a. (before fees) over three year periods. This objective has not been met over the three-year period to 31 January 2020, with the Trust out performing by 0.3% p.a. (before fees). However, the Trust has outperformed the peer median across the majority of periods measured.
- The Trust achieved its risk objective of delivering returns with a Tracking Error of less than 2% p.a. over this period (1.2% p.a.). Notably, the volatility of returns (as measured by Standard Deviation) has been below the peer median over the medium to long-term. Lonsec notes that backward-looking risk measures, such as Standard Deviation, do not capture all the inherent risks associated with strategies such as this, including credit risk and market liquidity risk.

Overall

- Lonsec has maintained the Trust's 'Recommended' rating at its latest review. The Trust continues to be a solid offering in the peer group as well as a consistent performer across the majority of periods. Lonsec believes that the Trust provides access to a well-researched lineup of underlying managers and is supported by a well-versed management team. Lonsec believes that Acosta is of suitable experience to be managing a Trust of this nature but continues to note that he is relatively less experienced than comparable peers. Lonsec also notes that the product's return objective could be considered relatively weak given the fee load.
- However, given the events that transpired during the Financial Services Royal Commission and the recent corporate transaction with ANZ, Lonsec highlights that elevated corporate instability may continue to serve as a distraction for the investment team in the near-term.

People and Resources

Corporate overview

IOOF is a wealth management company offering products and services across; financial advice and distribution, portfolio and estate administration and investment management.

IOOF is listed on the Australian Securities Exchange (ASX:IFL). As of 31 December 2019, IOOF had \$145.7bn in Funds Under Management, Administration and Advice.

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

Size and experience

NAME	POSITION	EXPERIENCE	
		INDUSTRY /	FIRM
OSVALDO ACOSTA	PORTFOLIO MANAGER - FIXED INTEREST	19 /	3
JUANITA ESCOBAR#	PORTFOLIO MANAGER - INTERNAL MANAGEMENT CREDIT AND CASH	16 /	6
DAN FARMER	CIO	24 /	10
STANLEY YEO^	DEPUTY CIO	20 /	9

Primary back-up | ^ Secondary back-up

Oswaldo Acosta assumed management of the Trust in December 2016. Acosta gained 19 years of experience within fixed income and capital markets across a number of roles. Most recently he worked at Western Asset Management where he was part of the team responsible for portfolio management, trading and implementation of interest rate strategies across a variety of fixed income portfolios. Prior to that he oversaw multi-manager style portfolios at Australian Unity Investments and was a Treasury Manager at Westfield Group.

The Investment Team is structured along specialist lines with all members reporting to CIO Dan Farmer. The team conducts qualitative and quantitative research, and provides overall data support and recommendations to

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the six-member Investment Management Committee (IMC). The IMC considers and ultimately approves asset allocation decisions and manager changes.

The IMC meets bi-monthly or more frequently if required, and comprises; Anthony Hodges (Chairman and Independent Member), Denise Allen and Mary-Anne Nunan (Independent Members). Steve Merliceck (Member), Daniel Farmer (CIO) and Stanley Yeo (Deputy CIO). Osvaldo Acosta has been appointed as Secretary. Yeo also has portfolio management responsibilities (Strategy and International Equities).

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

Remuneration

The investment team is rewarded with a combination of fixed salary and variable bonus. 70% (incl 20% related to diversified trust performance) of the bonus is assessed on fund performance relative to the relevant peer group over one and three year periods, with the other 30% awarded on qualitative factors such as team contribution and client servicing. The magnitude of the bonus can be up to 100% of the fixed salary.

Research Approach

Overview

Screening of Managers

A strong emphasis is placed on active risk budgeting during the portfolio construction process. Accordingly, the focus is on those managers who can fulfill particular roles within the available tracking error budget. This approach reduces the investment universe of available managers down to a more manageable size worthy of detailed analysis. This short list of managers is further refined by excluding those with a Mercer rating below B+, although exceptions may apply at times (e.g. no Mercer rating yet for a new manager).

Research focus

Short listed managers undergo a combination of quantitative and qualitative reviews.

Qualitative factors considered include: the manager's background and history (including financial stability); calibre of key decision makers and the depth of available resources; investment strategy and style; idea and portfolio construction processes; and implementation constraints. On-site visits to a manager's offices form a critical part of this process.

Quantitative analysis aims to confirm the qualitative view or possibly identify where further qualitative research may be required. This typically involves: returns-based style/capitalisation analysis; excess return correlation analysis; regression analysis and up/down markets analysis; and various risk analytics.

Internal research is supplemented by Mercer's Global Investment Manager Database, or GIMD. This is a web-based global repository that provides subscribers information and insights on over 5,700 managers and their strategies across all asset classes. Research notes, news items, research priorities and ratings prepared by Mercer's research consultants are also found here.

Portfolio Construction

Overview

INTERNAL RETURN OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 0.5% P.A. (BEFORE FEES) OVER THREE YEARS.
BENCHMARK	50% BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX + 50% BLOOMBERG BARCLAYS CAPITAL GLOBAL AGGREGATE TOTAL RETURN INDEX VALUE HEDGED AUD
INVESTMENT STYLE	MULTI-MANAGER
CREDIT MANAGEMENT	IOOF (VIA STRATEGIC TILTING) AND UNDERLYING MANAGERS
DURATION MANAGEMENT	IOOF (VIA STRATEGIC TILTING), UNDERLYING MANAGERS AND INTEREST RATE OVERLAY
CURRENCY MANAGEMENT	FULLY HEDGED (UNDERTAKEN BY UNDERLYING MANAGERS)
TYPICAL NO. OF UNDERLYING MANAGERS	10

IOOF believes passive investing in fixed income has drawbacks, and so adopts a fully active approach. The number and style of managers employed are dictated by IOOF's house view.

Manager weights are determined by considering the risk/return characteristics, contribution to active risk, the correlation of excess returns and the diversification benefits of each strategy. Various manager weights are stress tested and the optimal blend that can best achieve the Trust's risk and return objectives is then submitted to the IMC for approval.

Manager Lineup

The Trust's current manager line-up is listed below. Consistent with IOOF's aim of broad style neutrality, there is a selection of managers with varying investment styles.

- Ardea Investment Management
- Brandywine (Global Bonds)
- Janus Henderson (Australian Bonds)
- IOOF (Short Duration Credit, Cash)
- PIMCO (Global Bonds)
- T. Rowe Price (Global Bonds)
- Western Asset Management (Australian Bond)
- Bentham Asset Management (US Bank Loans, Asset-Backed Securities)
- Stone Harbor EM Debt (Fixed Interest)

While the majority of the Trust is allocated to external managers, a small allocation is made to internal IOOF capabilities (0.4% as at 29 February 2020).

Strategic Tilting

The Trust can occasionally deviate from the aggregate underlying managers positions when markets are at extremes to capture price adjustments associated with mean reversion back towards the long-term average. This approach is based on the view that markets can exhibit periods of extreme over and undervaluation, along with extreme volatility. These environments present opportunities to buy assets cheaply or to reduce risk by selling assets that are overvalued. This is distinct from Tactical Asset Allocation that adjusts a portfolio's positioning based on short-term market forecasts. Strategic tilting decisions consider a wide range of information sources, including advice from Mercer and market material from external research houses, investment banks and brokers.

Positions can be implemented by:

- Changing the weights to existing managers;

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- Adding new managers / strategies; and/or
- Through the use of derivatives.

Interest Rate Overlay

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

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
DURATION RISK LIMIT	-50% TO +50% OF BENCHMARK YEARS
MAX. WEIGHT TO SINGLE OBLIGOR	100%
MAX. SUB-INVESTMENT GRADE	20% (LOOK-THROUGH)
MIN. CREDIT QUALITY AT PURCHASE	NONE
TRACKING ERROR TARGET	<2% P.A. OF TRACKING ERROR OVER THREE YEARS
CURRENCY EXPOSURE	FULLY HEDGED

Risk monitoring

Compliance oversight is performed both internally and by the appointed Custodian who monitor portfolio positions against the Trust's investment constraints on a daily basis. Breaches are reported by the Custodian to the Investment Operations Team, who then investigates and reports to the IMC.

Bloomberg and FactSet are used to manage holdings of the Trust, as well as for risk factor and scenario analysis. NeoLink, a web portal to holdings information by the BNP Paribas, is also used for reconciliation purposes.

The Board of IISL has established the Board Audit and Risk Committee (the Committee) to provide an objective non-executive review of the effectiveness of IISL's financial reporting processes and undertake certain duties and responsibilities in relation to IISL in its capacity as a Responsible Entity of a Managed Investment Scheme. The Committee's activities relate to oversight of financial reporting requirements, compliance and risk management frameworks, professional accounting requirements; and internal and external audit. This committee operates separately to the Investment Team, under the terms of reference of the IISL Board.

Managers are monitored via a series of ad-hoc and regular reviews. These include an assessment of monthly investment reports and quarterly manager questionnaires, quarterly manager interviews, performance analytics and on-going review of external research. On-site visits to a manager's offices may be undertaken where practical.

Implementation

Portfolio allocations are monitored daily and re-balanced as necessary (subject to a tolerance range of +/-5% at the manager level). Cashflows are actively used to rebalance the portfolio on an on-going basis. Cashflows are allocated using a proprietary cashflow management system which allows for straight through processing to underlying managers.

Transition management and implementation are performed by a panel of transition managers including Citi, Macquarie and UBS. External transition managers are appointed from a panel at 'arms length' to ensure objectivity.

Currency management

The Trust aims to be fully currency hedged. Underlying managers are responsible for managing the currency exposures within their respective strategies.

Risks

An investment in the Trust carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Interest rate risk

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

Credit risk

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

Derivative risk

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

Counterparty risk

Counterparty Risk is a special case of credit risk, where a fund is indirectly exposed to the credit risk of a counterparty for the completion of a trade or investment, e.g. over-the-counter derivatives such as interest rate swaps.

Currency risk

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

Other risks

Please refer to the PDS for all other key risks identified by the Manager.

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Quantitative Performance Analysis - annualised after-fee % returns (at 31-3-2020)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	3.08	3.07	3.55	3.48	3.34	3.30	5.53	5.20
STANDARD DEVIATION (% PA)	5.21	5.21	3.12	3.17	2.87	2.90	2.44	2.39
EXCESS RETURN (% PA)	-3.13	-3.14	-1.51	-1.57	-0.76	-0.80	-0.50	-0.82
OUTPERFORMANCE RATIO (% PA)	41.67	41.67	41.67	41.67	48.33	48.33	50.83	47.50
WORST DRAWDOWN (%)	-4.01	-3.84	-4.01	-3.84	-4.01	-3.84	-4.01	-3.84
TIME TO RECOVERY (MTHS)	NR	NR	NR	NR	NR	NR	NR	NR
SHARPE RATIO	0.35	0.36	0.60	0.62	0.52	0.49	1.12	0.96
INFORMATION RATIO	-0.96	-1.03	-0.72	-0.90	-0.37	-0.49	-0.29	-0.65
TRACKING ERROR (% PA)	3.26	3.03	2.09	1.89	2.03	1.70	1.72	1.46

FUND: IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST

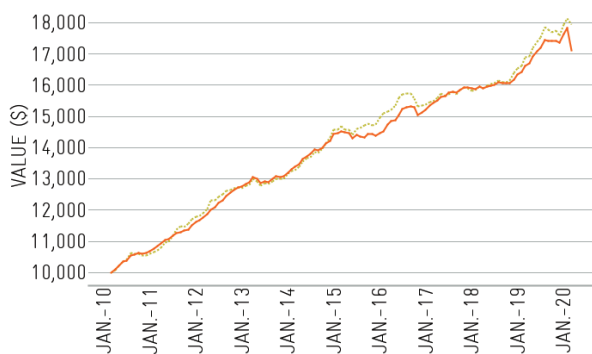
LONSEC PEER GROUP: FIXED INTEREST - DIVERSIFIED FIXED INTEREST - MULTI-MANAGER

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

CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

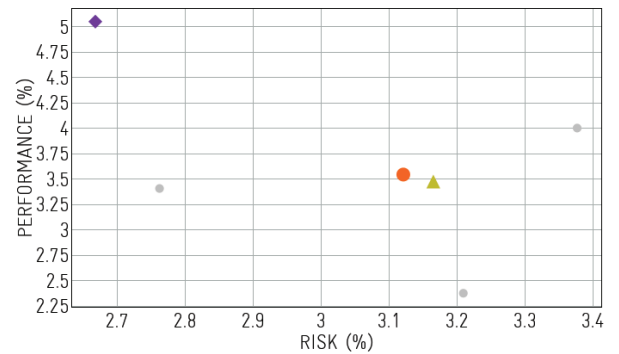
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of \$10,000 over 10 years



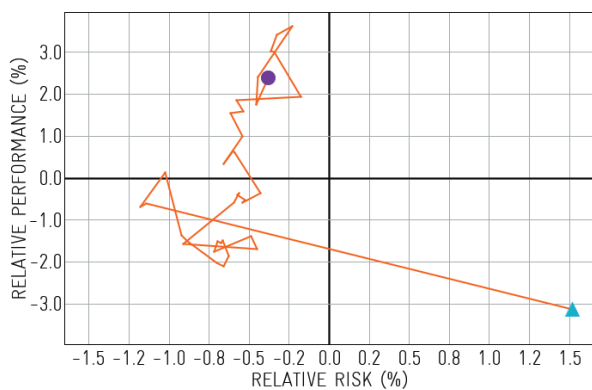
— IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST
 50% BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX AUD / 50% BLOOMBERG BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)

Risk-return chart over three years



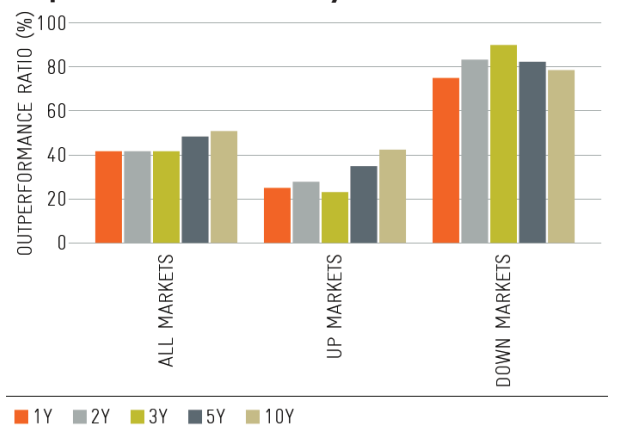
● IOOF MULTIMIX DIVERSIFIED FIXED INTEREST TRUST
 ◆ 50% BLOOMBERG AUSBOND COMPOSITE 0+ YEAR INDEX AUD / 50% BLOOMBERG BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)
 ▲ PEER MEDIAN
 ● PEERS

Snail trail



● START (03-2017) ▲ END (03-2020)

Outperformance consistency



IOOF MultiMix Diversified Fixed Interest Trust

Glossary

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

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