

**Ironbark — Financial Decisions  
Generation Fund  
Capability Review**

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## Generation Fund Capability Review

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### Scope

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Lonsec Investment Consulting undertook a formal evaluation and review of the Generation Fund (the Fund), managed by Ironbark Asset Management Pty Ltd (Ironbark) who has appointed Financial Decisions Pty Ltd (Financial Decisions) as investment consultant, at the request of Ironbark. This Capability Review encompasses a one-off review of the stated investment capabilities.

The focus of the Capability Review was to formulate a view on the investment capabilities of the manager, including the strength of the manager's team, process, portfolio construction and risk management framework, with the outcome of the review process being an 'Approved' or 'Not Approved' designation on the respective funds. An 'Approved' designation indicates that Lonsec believes the manager has the requisite resources, processes and skill to achieve the stated fund objectives, while 'Not Approved' reflects Lonsec's view that the manager does not have the adequate resources, processes or skill to achieve the stated objectives.

The opinion provided by Lonsec, in relation to the Capability Review performed, will be consistent with Lonsec's Research Approach to all products that it reviews. However, for the avoidance of doubt, the parties acknowledge and confirm that the Capability Review will not produce full research reports, or ratings, of the type that appear on Lonsec's website.

The opinion in the Capability Review is for the exclusive use of Ironbark and Financial Decisions and will not appear on Lonsec's website. The Capability Review is not to be distributed on Ironbark or Financial Decisions' website, or any external website or distributed to financial intermediaries, such as financial planners.

### Approach

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Lonsec undertook a review meeting in Ironbark's Sydney office on 23<sup>rd</sup> May 2017. This meeting was attended by Senior Investment Consultants Eleanor Menniti and Nick Thomas. From Ironbark, the meeting was attended by Vessela Tasker, Fund Manager, Hugo Donald, Head of Trustee Services, and Alex Donald, Director and Head of Distribution. From Financial Decisions the meeting was attended by Albert Lee, Chief Investment Officer. Also in attendance was David Smythe, Managing Partner – Zenith Investment Partners (via teleconference), and Brad Matthews, Founding Director – Brad Matthews Investment Strategies.

The review process was focused on qualitative factors, including team, process, and risk management. However, it is important to note that this review does not form an opinion on either the external consultants or the investment processes of the external consultants. It is however, a critical analysis of the capabilities of both Ironbark and Financial Decisions to monitor their external consultants and transform their recommendations into actionable investment decisions.

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## Lonsec View

Lonsec's view is based on the material provided by Financial Decisions and Ironbark, as well as the interview process and, where relevant, quantitative analysis conducted by Lonsec. The view reflects Lonsec's assessment on whether the manager has the requisite resources and skills to achieve the Fund's stated investment objectives.

Based on Lonsec's qualitative assessment of the Generation Fund, Lonsec has assigned an 'Approved' recommendation, on the basis of the Fund being able to achieve its investment objectives. The key areas of strength and weakness identified by Lonsec are summarised below, followed by some additional discussion on the limited scope of this review and the 'Approved' recommendation:

### Strengths

- Financial Decisions' client oriented investment approach is well thought out, and the Fund's philosophy around the role of asset allocation and active management are clearly reflected in the Fund's portfolio construction and manager selection processes. There appears to be a good alignment of investment philosophy between Albert Lee and the Fund's key investment consultant, Zenith.
- Albert Lee, in his role of Chief Investment Officer at Financial Decisions, is dedicated to the management of the Fund and has a suitable level of investment experience to carry out his role. In addition, Financial Decisions has indicated that it plans to hire some junior resources to assist Lee in his role.
- Key aspects of the Fund's investment process, including asset allocation, manager selection, monitoring and reporting, are supported by two well regarded external investment consultants. Lonsec believes that Zenith in particular has the people and resources in place to effectively support Financial Decisions in managing the Fund, which is considered especially important.
- The relationships Ironbark and Zenith have with fund managers in the market can allow them to help negotiate more attractive fee structures for the Generation Fund.
- Lonsec is comfortable with the decision to outsource the Responsible Entity (RE) operation to Ironbark. Ironbark have both satisfactory systems and processes in place to ensure appropriate procedures are maintained and followed. Ironbark have extensive experience in their role as RE, and carry this knowledge through to the management of the Fund.
- Any investment manager selected for use within the Fund will be subject to operational due diligence by Ironbark. This service is not routinely available to managers from their RE.
- The Generation SMA previously run by Financial Decisions has outperformed multi asset Growth peers, albeit over a relatively short timeframe.
- At the time of writing this report, the managers used within the Generation Fund were generally highly regarded by Lonsec.

### Weaknesses

- The fee for the Fund is considered high, especially taking into account potential performance fees. The draft PDS for the Fund estimates the total fee to be 2% p.a., including performance fees of 1%. This is very expensive compared to retail and industry fund peers.
- The base (i.e. non performance related) fee of 0.98%, at the time of writing this report, is comparable to a median Growth multi asset, multi manager product in the Lonsec universe, however it is expensive compared to broader industry measures.
- Lonsec believes investors should be aware that the Fund's fee structure may vary significantly over time. For example, the base fee is 0.98% at present, however Ironbark and Financial Decisions have indicated that this is likely to vary between 0.70% and 1.20% over time, depending on the managers selected.
- On top of the base fee, a performance fee of 10% is payable to Ironbark as Responsible Entity on any outperformance of the Fund over its benchmark (net of other fees). Lonsec believes best practice when charging performance fees is to offer a reduced base fee as compensation, however 0.98% is above the Lonsec peer group average MER.
- Lonsec also notes that charging a performance fee on total fund performance is unusual in the Growth multi asset fund space – at present none of the managers in Lonsec's universe in this sector charge a performance fee at the fund level.
- Performance fees may also be payable to the underlying managers in the Fund, depending on their performance and the fee structure agreed to with Financial Decisions and Ironbark. While this will vary over time, the draft PDS estimates this figure to be 0.65%, which is higher than the base fee being paid to these managers and is also high compared to multi manager Growth peers.
- The Fund's benchmark for performance fee purposes is a passive multi-asset index provided by Morningstar which excludes alternative assets. Lonsec believes this is not an investable alternative for advisers and would

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therefore question its appropriateness as a hurdle for performance fee purposes. Lonsec also believes the Fund's benchmark should include alternatives to give a more accurate picture of the Fund's relative performance.

- As Financial Decisions philosophically believes that active management and alternatives will improve the risk/return profile of the Fund over time, Lonsec also believes it would be more appropriate to measure the Fund's performance against a benchmark that incorporates actively managed peers, or place a hurdle on top of the passive benchmark to better assess the relative strength of the Fund compared to peers. This is particularly relevant given there is a performance fee for any net of fee outperformance over the passive benchmark.
- Given the fee structure discussed above and the number of parties receiving fees, Lonsec believes there is a risk to the Fund's sustainability if it is unable to attract meaningful inflows beyond the current FUM level of \$60m.
- While not a weakness per se, investors in the Fund need to be mindful of the trade off between fees and manager selection. Given that Financial Decisions philosophically believes in investing in asset classes (e.g. alternatives) and investment styles (e.g. equity long short) that typically charge higher fees, there is a risk that the fee limit imposed on the Fund may limit the quality and range of managers available to select.
- Whilst Lonsec views positively the outsourcing of all operational, investment and compliance responsibilities, we also believe that it would be best practice for Financial Decisions to consider the addition of a non-aligned independent voting member to be included on the investment committee. Given the reliance of the Fund on the input of the external consultants, Lonsec believes this is an important point and would enhance the investment committee's ability to independently assess recommendations made by the consultants. This would also address the point that while a number of the voting members of the committee have ample experience in managing financial advice businesses, their investment experience is limited.
- Alignment of key investment personnel to the Fund's performance outcomes is relatively weak, in that the external consultants are remunerated on a flat dollar fee basis or as a proportion of funds under management, while Lee's remuneration is not directly linked to the Fund's performance, or to Financial Decisions as a business as he only has a small equity stake in the firm.
- Key person risk associated with the Fund is moderate to high as Lee is the only person solely dedicated to managing the Fund, exacerbated by his lack of significant equity in the Financial Decisions business and remuneration structure. This is somewhat mitigated by the involvement of external consultants in the research and portfolio construction process, and the appointment of Ironbark as RE, as well as potential future hires to support Lee.
- The relationship between Financial Decisions and the Fund's key external services providers (Ironbark and Zenith) is less than a year old, and the structure of the investment committee and the Fund itself have only recently been launched (draft PDS issued 1 June 2017). Lonsec therefore believes more time is required to determine how well the committee structure and consultant relationships function in practice.
- While Ironbark and Financial Decisions recognise and manage potential conflicts of interest arising from managing the Fund, there is no formal framework within the IC charter or elsewhere that addresses how conflicts are identified and monitored.
- While Lonsec understands the argument for the Fund having the flexibility to invest in funds that are not rated by any of the major research houses, Lonsec believes best practice would be to ensure all funds have some form of independent investment due diligence undertaken prior to investing.

Overall, Lonsec believes that Ironbark/Financial Decisions have the necessary building blocks in place to effectively run the Fund. Lonsec believes that the Fund is underpinned by a sound investment philosophy with input from experienced investment personnel and consultants, supported by Ironbark as RE.

However, Lonsec would highlight that the Fund's 'Approved' rating in this report is based primarily on the view that the Fund can achieve its investment objective of outperforming the Morningstar multi asset index (net of fees), which as discussed above has some key flaws in being the benchmark for the Fund. From a peer relative perspective the Fund has some significant weaknesses, the fee structure especially, which have been listed above. We believe these points should be noted by potential investors in the Fund, and would be key detractors should the Fund pursue a public, peer relative rating.

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## Rationale for Recommendation

### Business

Financial Decisions Pty Ltd is a Sydney based boutique advisory firm, originally created from a merger of three Genesys practices in 2003 and independent since 2009. The firm is 90% owned by principals Damien Cooper and Matthew Collins, with the remaining 10% shared between other senior staff, including Chief Investment Officer Albert Lee.

For the past nine years Financial Decisions has been building investment portfolios for clients, the most recent iteration being a range of separately managed accounts (SMAs) which were launched in late 2014 and offered on selected platforms. In 2016, Financial Decisions commenced a strategic partnership with Ironbark Asset Management to offer one of their strategies, the Generation Fund, as a unitised managed investment trust with Ironbark as Responsible Entity.

The objective of the strategic partnership between Ironbark and Financial Decisions is to offer a multi manager diversified fund which leverages off the capabilities of Financial Decisions and external providers across asset consulting, investment management, operations and governance. The Generation Fund is designed for use by the Financial Decisions client base and are built to meet the objectives and needs of these clients. At the time of writing this report, the Fund had approximately \$60m in funds under management.

The Financial Decisions Investment Committee oversees the running of the Generation Fund.

Ironbark Asset Management (Fund Services) Limited ('IBFS') is the Responsible Entity of the Fund and the issuer of units in the Fund. Ironbark Asset Management Pty Ltd ('IBAM') is the investment manager of the Funds. IBFS is a wholly owned subsidiary of IBAM (collectively 'Ironbark').

Ironbark has ultimate responsibility of the Fund, however as the Investment Manager they have appointed Financial Decisions as the investment consultant to the funds. As such, Ironbark relies on the expertise and recommendations of Financial Decisions and the Financial Decisions Investment Committee for all key investment decisions relating to the Fund.

In accordance with the compliance plan for the Fund, it is the responsibility of Ironbark as RE, where an external investment manager has been appointed, to provide investment services compliance measures for the selection, appointment and monitoring of External Services Providers. This role includes the consideration of the adequacy of the external service provider's procedures and controls of investments including:

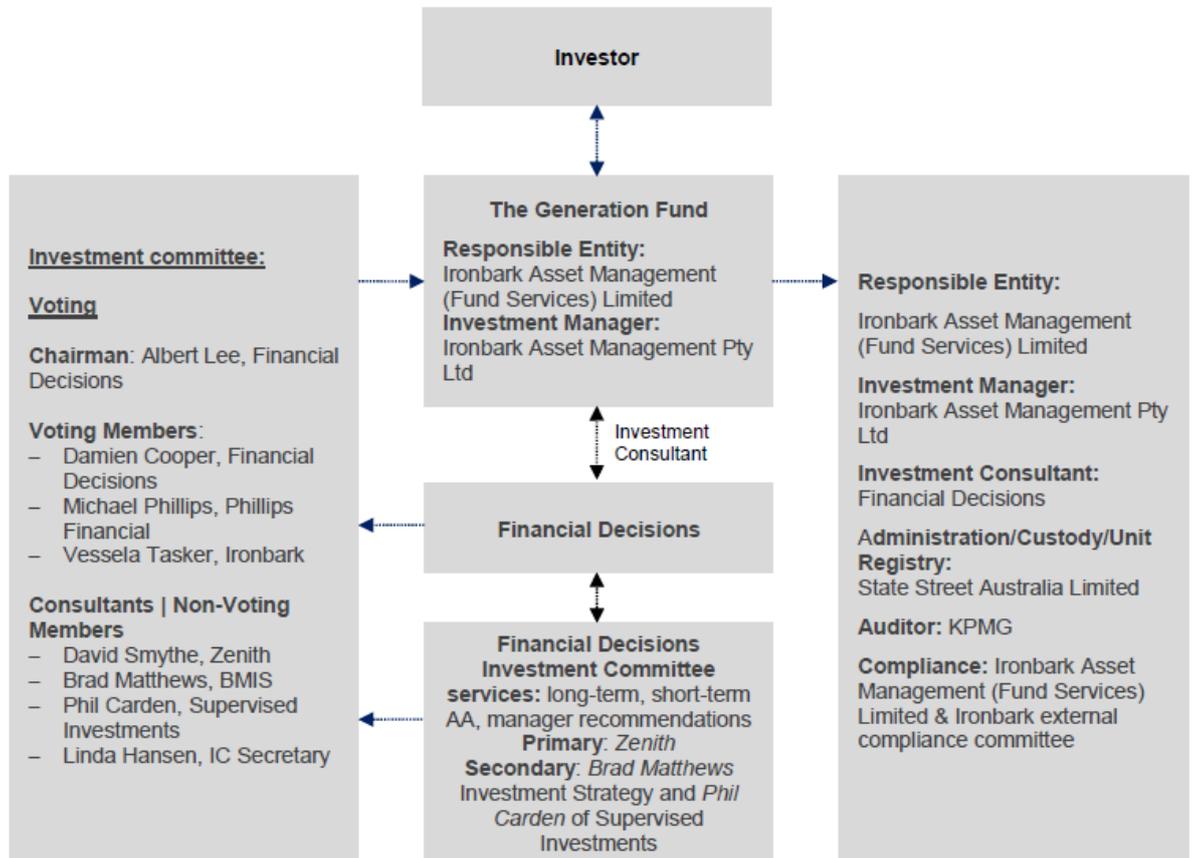
- Compliance with authorised investments and any investment restrictions, including any restrictions on borrowing and;
- Reviews over ongoing management of portfolios.

Financial Decisions as investment consultant to the Fund is responsible for providing investment recommendations to the Investment Manager via the Investment Committee process. Financial Decisions in turn has appointed Zenith Investment Partners to assist with investment decisions. Brad Matthews Investment Strategies (represented on the committee by Brad Matthews) and Supervised Investments (Phil Carden) also sit on the committee as secondary consultants. These three groups provide various inputs into the process, including macroeconomic analysis, SAA, TAA and fund manager research and recommendations.

Investment Committee (IC) meetings are conducted on a quarterly basis, with ad hoc committee meetings called in special circumstances. All other operational and compliance services are outsourced to specialist providers. All service providers are reviewed by the IC annually.

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## People and resources

All IC members contribute to the investment process in varying degrees, although there is no formal delineation of duties between individuals, apart from Vessela Tasker being the designated representative for Ironbark and ensuring the Fund is managed in line with Ironbark’s responsibilities as RE and Investment Manager.

NAME	ROLE	INDUSTRY EXPERIENCE (YRS)	YEARS AT FD	PREVIOUS ROLES
<b>VOTING MEMBERS</b>				
ALBERT LEE	IC CHAIRMAN/CHIEF INVESTMENT OFFICER, FINANCIAL DECISIONS	16	12	MACQUARIE BANK
DAMIEN COOPER	CHIEF EXECUTIVE OFFICER, FINANCIAL DECISIONS	19	14	-
MICHAEL PHILLIPS	CHIEF EXECUTIVE OFFICER, PHILLIPS FINANCIALS	35	NA	-
VESSELA TASKER	FUND MANAGER, IRONBARK	15	NA	STATE STREET GLOBAL ADVISORS, INVESTORS MUTUAL LTD, PWC, AJO PARTNERS
<b>NON-VOTING MEMBERS</b>				
DAVID SMYTHE	MANAGING PARTNER, ZENITH INVESTMENT PARTNERS	21	NA	IWL LTD, LONSDALE SECURITIES, AXA FUNDS MANAGEMENT
BRAD MATTHEWS	FOUNDER, BRAD MATTHEWS INVESTMENT STRATEGIES (BMIS)	30	NA	AMP GROUP, ST GEORGE BANK
PHIL CARDEN	PORTFOLIO MANAGER, SUPERVISED INVESTMENTS	35	NA	AMP LIFE LTD, MACQUARIE BANK
LINDA HANSEN	IC SECRETARY, MARKETING MANAGER - FINANCIAL DECISIONS	11	11	-

Of the voting members, Albert Lee is the only committee member solely dedicated to managing the Fund and is the key source of investment views within the voting members. Damien Cooper and Michael Phillips provide the IC with investment insights, but also act as representatives of their respective firms’ advisers and their clients. Although Phillips Financials is a separate business to Financial Decisions, the two firms have worked together in the past, in particular with Lee as Phillips Financials does not have any internal investment expertise. To help mitigate key person risk with Lee and manage his workload, Financial Decisions have indicated that they are looking to provide him with some junior resourcing, both internally from advisers with investment management interest and expertise, and via externally sourced quantitative support.

Vessela Tasker sits on the IC as Ironbark’s representative, although she cannot vote on decisions that would create a conflict, such as those involving managers distributed by Ironbark. Tasker’s focus is to ensure any decisions relating to the Fund do not breach any of its mandate limits or, where relevant, are not in conflict with Ironbark’s views – for example a fund that fails Ironbark’s operational due diligence screening could not be used by the Generation Fund.

In terms of voting, decisions are made based on a majority decision from voting members. If there is a tied vote, more research is undertaken outside of the IC, with Lee carrying the casting vote if there still is a tie.

Zenith is the primary consultant to Financial Decisions. Established in 2002, Zenith is an independently owned investment research provider that produces investment research solutions for financial advisors and their clients. Key areas of specialisation are in managed fund research, model portfolio construction and maintenance, and Investment Committee participation.

David Smythe, Manager Partner, sits on the Financial Decisions Investment Committee as a non-voting member. Smythe has 21 years’ experience in research and analyst roles. As the core consultant to Financial Decisions, Zenith is heavily involved in all investment aspects of the Fund, including asset allocation, manager selection, portfolio construction, attribution and other quantitative reporting and providing currency hedging recommendations. Zenith is remunerated via a basis point arrangement based on the FUM of the Generation Fund, commencing at \$50,000 and capped above \$100m, which paid directly by Financial Decisions to Zenith. Zenith joined the committee in 2016.

As a secondary consultant, Brad Matthews provides additional manager research insight, as well as macroeconomic and shorter term asset allocation advice. Phil Carden also provides macroeconomic views and specialist insight into fixed income. At the time of writing this report BMIS had only just been appointed to the committee, while Phil Carden has had a relationship with Financial Decisions for some years and had sat on previous iterations of the Financial Decisions IC. Both secondary consultants are paid a flat dollar fee by Financial Decisions for their IC participation.

Overall, Lonsec believes the IC is of a relatively high quality, albeit whilst it has ample financial advice industry experience, there is limited direct money management expertise. This is mitigated by the appointment of high quality external consultants, however Lonsec believes it would be best practice for Financial Decisions to consider

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the addition of a non-aligned independent voting member to be included in the IC. Lonsec views positively the intent to add more resourcing to assist Lee in his role.

### Investment philosophy and objectives

The Generation Fund is a multi asset, multi manager product that broadly aligns to a Growth risk profile (70/30 growth/defensive split), and has been designed to align to Financial Decisions’ clients and their investment objectives. Specifically, Financial Decisions believes that a well constructed asset allocation and a particular focus on downside protection will add value to the Fund over the long term. Financial Decisions is also supportive of active management in certain sub-sectors, while recognizing that an indexed approach can generate cost efficient outcomes in certain circumstances. Financial Decisions believe that structuring the Fund as a unit trust avoids implementation leakage of traditional financial planning model portfolios, and other inefficiencies.

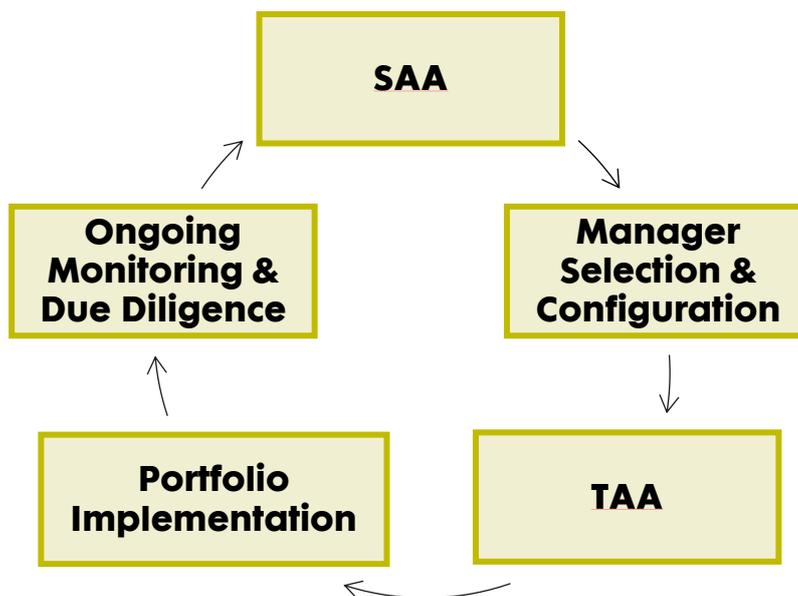
The following table outlines the key characteristics of the Generation Fund:

PRODUCT NAME	NEUTRAL ASSET ALLOCATION	BENCHMARK	RETURN OBJECTIVE	EXPECTED VOLATILITY	TIMEFRAME
GENERATION FUND	70% GROWTH / 30% DEFENSIVE*	MORNINGSTAR AUSTRALIAN MULTI-SECTOR GROWTH INDEX	OUTPERFORM BENCHMARK AFTER FEES & BEFORE TAXES	NOT TARGETED. EXPECTED TO BE 8-10% P.A.	3 - 5 YEARS

\*Alternatives defined as a 50% growth / 50% defensive asset

### Investment process

The Financial Decisions investment process is a five step process incorporating the following key stages:



Financial Decisions has appointed Zenith to provide SAA, TAA and manager research capabilities. BMIS and Supervised Investments have been appointed to supplement the core consulting services of Zenith in macroeconomic and TAA analysis, as well as manager selection. The process then becomes a consultative arrangement whereby all three consultants’ views are discussed, with the final decision making responsibility falling to the voting members of the IC, who determine whether the advice should be followed or not and the supporting rationale.

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## Strategic Asset Allocation (SAA)

The formulation of the SAA of the Fund is outsourced to Zenith, with additional insight provided by BMIS and Supervised Investments. The IC formally reviews the SAA on an annual basis, however the expected risk, return and correlation inputs to the SAA process are reviewed quarterly and provided to the IC. In constructing the SAA, Zenith generates internal estimates for returns, volatilities and correlations for each asset class (defined as a premium above the risk free rate) to determine the optimal asset allocation that meets the return target for the Fund.

Prior to generating the final AA, these inputs are combined with an expectation for manager value add for each asset class, which is derived in part through observation of the performance of Zenith’s recommended investments. After tax impacts are also considered, including franking benefits for domestic equity investments. Zenith’s risk and correlation estimates are largely based on historical returns. Once this process is complete, all inputs are run through an optimiser to determine the recommended AA for the Fund, following Zenith applying a ‘reasonableness’ test to the optimiser’s output.

## Tactical Asset Allocation (TAA)

TAA recommendations are provided by Zenith as part of their quarterly report to the IC, including asset class modelling and scenario analysis. The IC facilitates idea generation, also taking into account the views of BMIS and Supervised Investments.

Financial Decisions will typically seek to maintain the Fund’s AA at close to the long term targets, but will implement conservative tilts where the IC believes it will add value over time, for example when medium term valuation signals are seen to be obvious and enduring, or to factor in currency views.

The neutral/long term target SAA for the Generation Fund, the allowable ranges for each asset class, and the Fund’s current AA have been outlined in the following table.

ASSET CLASS	MIN	NEUTRAL	MAX	CURRENT TAA POSITION
AUSTRALIAN EQUITIES	15%	26%	30%	26%
INTERNATIONAL EQUITIES	15%	26%	40%	26%
PROPERTY & INFRASTRUCTURE	0%	8%	15%	8%
ALTERNATIVES	10%	20%	30%	20%
FIXED INTEREST	10%	15%	30%	15%
CASH	2%	5%	10%	5%

## Manager selection and manager configuration

Manager research and selection is undertaken collectively between Financial Decisions (specifically Lee, who spends the majority of his time on manager research) and the external consultants. The ongoing oversight of existing and potential managers for the Fund incorporates:

- Changes in investment markets,
- Manager performance versus benchmarks,
- Business management changes,
- Changes in ratings
- Allocating to managers whose approach suits the prevailing market conditions

Zenith provides a written report to the IC on a quarterly basis covering these topics, which also includes any recommended manager changes. In addition, Zenith provides ad hoc information to the IC as it becomes available, including sector reviews, research reports, sector and economic trends and relevant quantitative analysis. While the preference is to use managers that rated ‘Approved’ or higher by Zenith (or ‘Investment Grade’ or higher by Lonsec or Morningstar), the IC can use funds that are not rated if they have conviction in the strategy (e.g. from knowing the key investment personnel from previous roles) and believe that it will improve the Fund’s risk/return profile.

In addition to Zenith’s input, BMIS regularly monitors and assesses the underlying managers in the context of the general investment environment and provides an in-depth performance analysis of the underlying funds. This analysis focuses on understanding a fund’s systematic or ‘beta’ exposures and deriving how much ‘alpha’ the manager is generating in excess of this.

The IC consider the following prior to making a manager change to the Fund:

- Appropriateness of the recommendation for Fund and client base (taking into account both investment and advice business views of the IC)
- Portfolio turnover considerations
- Pricing and fees
- Liquidity
- Product structure
- Ironbark’s operational concerns and mandate limits

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## Portfolio implementation

Ironbark manages and oversees the portfolio positions on a daily basis with custody of the underlying positions held with the external custodian.

Following on from an IC meeting, Financial Decisions provide Ironbark with investment recommendations with respect to the Fund. Ironbark are responsible for modelling the portfolio positions to determine the required buy and sell orders of the underlying investments of funds in order to match the recommendations.

Before implementation of the investment recommendations the Ironbark Investment Committee will meet to:

- Review the recommendations from the Financial Decisions IC to ensure that the proposed investments are within the investment guidelines for the Fund, and
- Ensure that any new manager allocations proposed have had the appropriate due diligence undertaken before investment

Between meetings of the Financial Decisions IC Ironbark manages the portfolio on a daily basis and implements cash inflows and outflows to the funds in line with the Fund’s AA targets. Ironbark has +/-2.5% tolerance bands around the target asset class and manager weights.

## Risk management

### Ongoing monitoring

The IC has a structured approach to monitoring and ongoing due diligence of underlying managers. Financial Decisions and Ironbark rely on Zenith and, to a lesser extent, BMIS to conduct ongoing due diligence and monitoring of the underlying managers. Regular performance monitoring is presented to the IC at each meeting by Zenith and any material change to an underlying manager’s business or ratings is highlighted.

A summary of primary Fund monitoring responsibilities is detailed below:

INVESTMENT COMMITTEE	ZENITH	BMIS	IRONBARK
REGULAR MEETINGS WITH MANAGERS	HOLDINGS BASED ANALYSIS OF MANAGERS ON A MONTHLY BASIS	UNDERLYING FUNDS’ PERFORMANCE MONITORING & ASSESSMENT	REVIEW OF MANAGERS’ PDS & OTHER DISCLOSURE DOCUMENTS
ASSESSMENT OF RESEARCH REPORTS AND MONTHLY REPORTING FROM ZENITH	MONTHLY COMMENTARY SUPPLIED BY MANAGERS	MACRO VIEWS	REVIEW OF MANAGER DUE DILIGENCE UNDERTAKEN BY FINANCIAL DECISIONS IC & PERFORMING INVESTMENT GOVERNANCE & OPERATIONAL DUE DILIGENCE AS REQUIRED
REVIEW OF MATERIAL CHANGES TO UNDERLYING MANAGER BUSINESS MODELS	EXTENSIVE QUANTITATIVE MODELLING AND ONGOING MANAGER ASSESSMENT	DETAILED PERFORMANCE DATA ANALYSIS TO IDENTIFY WHETHER FURTHER INVESTIGATION IS NEEDED	PORTFOLIO MANAGEMENT VERSUS GUIDELINES
	RELATIVE PERFORMANCE OF MANAGERS VERSUS BENCHMARKS & ASSESSMENT OF RISK ADJUSTED RETURNS		FUND LIQUIDITY BASED ON UNDERLYING MANAGER FUND INVESTMENTS
	CHANGES TO AN UNDERLYING MANAGERS BUSINESS MODEL OR KEY PERSONNEL		
	REGULAR SCHEDULED ASSET CLASS/ SECTOR REVIEWS		
	UPDATE MEETINGS WITH MANAGERS		

### Conflicts of interest

Financial Decisions and Ironbark have acknowledged there may be potential for conflicts of interest to arise in managing the Fund – for example, Supervised Investments offers funds in the Australian market that could be used in the Generation Fund – however do not have formal processes within the IC charter to manage these conflicts. Ironbark have stated there is no intention to invest in Supervised Investments funds, and as previously discussed Ironbark is excluded from any IC decisions involving managers distributed by Ironbark. Financial Decisions also has its own conflicts of interest management policy that covers Financial Decisions staff members on the IC.

However, Lonsec believes it would be best practice for the charter to include a specific framework for the identification and management of conflicts, and maintain a register of identified conflicts and how they are

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managed. For example, at the time of writing this report, Financial Decisions had a small stake in Winston Capital Partners, a third party managed fund distribution firm, which may cause a conflict if a fund distributed by Winston was considered for inclusion in the Generation Fund. This conflict is disclosed in the Financial Decisions conflicts register but not with regard to the IC or the Fund itself.

## Fees

The management cost for the Fund is estimated in the draft PDS to be 2%, although in practice the fee will vary from 2% for a number of reasons. These include the underlying managers being used in the Fund and the fee structure negotiated by Financial Decisions and Ironbark, whether performance fees are being paid to the underlying managers and the whether a performance fee is being charged on the Fund as a whole. The discussion in this section will refer to the 2% fee stated in the PDS.

### Fee compared to the Lonsec rated universe

The table below outlines the minimum, average and maximum MERs and ICRs of the Growth (61-80% in growth assets) multi manager funds rated by Lonsec (based on wholesale APIR codes).

FEE	MIN	AVERAGE	MAX	GENERATION FUND
MER	0.50%	0.89%	1.80%	0.98%
ICR	0.50%	0.98%	1.90%	2.00%

Source: Lonsec, iRate

Excluding any performance fees, the cost of the Fund is 0.46% in management fees (shared between Ironbark and Financial Decisions) plus an indirect 0.52% manager fee paid to the underlying managers, for a total management cost of 0.98%. This is above the average MER of Lonsec's universe, although it is well below the maximum fee.

In addition to this 'base' fee, performance fees may be payable to the underlying managers based on their strategy's performance and the fee structure negotiated for the Generation Fund. In the PDS these performance fees are estimated to be 0.65%. Lonsec notes this is higher than the base fee being paid to managers and is high compared to multi manager Growth peers in Lonsec's universe. In Lonsec's peer group, where managers have provided an estimate of performance fees, these have typically been 0.10% or less.

While this figure will naturally vary significantly over time, Lonsec believes it is not unreasonable for investors to normally expect to pay a performance fee, given the Fund's philosophy around active management, alternatives and desire to get exposure to alpha generation. Therefore performance fee structures are likely to be in place for a notable proportion of underlying managers at any given time. For example, at the time of writing this report, seven out of the 17 funds used in the Generation Fund had performance fee arrangements in place, and the IC has indicated that it was considering adding exposure to investment classes that usually charge performance fees (e.g. Australian small caps).

Ironbark is also eligible to receive a 10% performance fee on any total fund performance above the Morningstar multi asset benchmark, net of fees (accrued daily and paid out semi annually), subject to a high water mark and only paid when fund performance has been positive. Based on Ironbark's analysis, this is estimated in the PDS to be 0.36%, although subsequent review by Ironbark reduced this to 0.30%. This brings the combined performance fee for the Fund to 0.95 - 1.00%, and the total Fund ICR to 1.95 - 2.00%. This figure sits very much at the upper end of Lonsec's peer group. Lonsec also notes that no other fund in our multi asset Growth peer group charges a performance fee at the fund level.

Lonsec is supportive of performance fee arrangements as a means of aligning investment personnel to fund performance. However, performance fees on total fund performance are not a common feature of multi manager multi asset funds in the Lonsec universe, and in this case the performance fee structure is not offset by an attractive 'base' fee which helps ensure that a manager is only being rewarded when the Fund is outperforming. Lonsec therefore believes the fee structure is not ideal for investors and that it is a key weakness of the Generation Fund.

### Fee compared to the broader industry

Lonsec has also compared these fees to those charged by industry super funds and retail master trusts, based on data from SuperRatings. The data in the table below was taken from the 2017 SuperRatings Benchmark Report and is based on a \$50,000 member balance during financial year 2015/16.

FEE	MEMBER FEE*	ADMIN FEE	INVESTMENT MGT FEE**	TOTAL
NOT FOR PROFIT MEDIAN	0.16%	0.16%	0.65%	0.97%
RETAIL MASTER TRUST MEDIAN	0.15%	0.57%	0.70%	1.42%
INDUSTRY AVERAGE	0.16%	0.22%	0.67%	1.05%

\*Converted to a % based on the dollar fee charged on a \$50,000 balance

\*\* Defined as base management fee plus each fund's most recent disclosed performance fee and any other indirect costs

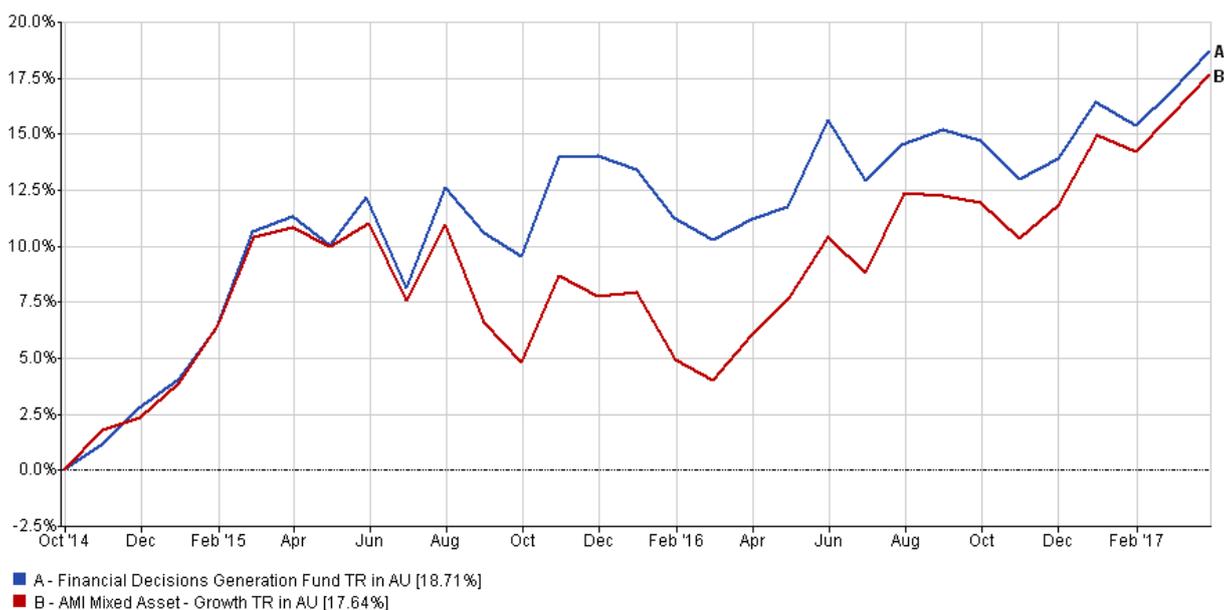
While there are some differences in how super funds break down management versus performance fees, the investment management fee in this table does factor in performance fees. The Generation Fund is expensive compared to all industry segments based on this analysis.

# Capability Review

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## Quantitative analysis

The below analysis is based on data provided by Ironbark for the SMA version of the Generation Fund that was previously managed by Financial Decisions. Although the time frame over which this analysis has been conducted is short, due to the short track record of the SMA (inception date of October 2014), the SMA outperformed the Financial Express Growth peer group benchmark over the period.



30/09/2014 - 31/03/2017 Data from FE 2017

The Generation SMA was also able to outperform the benchmark with a lower level of volatility, smaller maximum loss and higher Sharpe ratio than the benchmark.

	BETA	DOWNSIDE RISK	MAX DRAWDOWN	MAX GAIN	MAX LOSS	RELATIVE RETURN	RETURN	SHARPE	VOLATILITY
GENERATION SMA	0.88	6.49	-3.61	11.32	-3.61	0.36	7.10	0.53	6.78
FE GROWTH	1.00	7.03	-6.33	10.84	-5.54	0.00	6.71	0.46	7.04

It should be noted however that the SMA was managed slightly differently and with a different IC structure, and that the fee charged on the SMA was 1.17%.

## Capability Review

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### Approved by

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**The report was prepared for the exclusive use of Ironbark and Financial Decisions ("Client")**

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