

REPLACEMENT OF THE INVESTMENT MANAGER FOR SOME ONEPATH TAX EFFECTIVE INCOME FUND STRATEGIES

MARCH 2019

UBS Asset Management (Australia) Ltd ('UBS') has been replaced as the underlying investment manager of the OnePath Tax Effective Income Fund for the Australian shares and property securities strategies but will continue to manage cash and fixed interest.

WHAT ARE THE CHANGES?

UBS has been replaced as the underlying investment manager of the OnePath Tax Effective Income Fund ('the Fund') for the Australian shares investment strategy which will be managed by Nikko AM Limited ('Nikko') and the property securities investment strategy which will be managed by Renaissance Property Securities Pty Ltd ('Renaissance').

WHY ARE WE MAKING THIS CHANGE?

Our internal portfolio management team recently conducted a thorough review of UBS as the underlying investment manager of the Fund.

As a result of our review, we made the decision to replace UBS as investment manager of the Australian shares and property securities strategies of Fund. We identified two underlying investment managers who we believe are better suited and more specialised to individually manage these strategies.

The review involved the identification of high calibre investment managers who are highly rated based on the sustainability of their business model, experienced investment team and their investment processes. At the forefront of our review was that the objectives of the existing strategies would continue to be met by the replacement investment managers.

WHO ARE THE NEW INVESTMENT MANAGERS?

Renaissance Property Securities Pty Ltd

Renaissance is a boutique Australian investment manager which specialises in the management of portfolios of properties securities listed on the Australian Stock Exchange. It was established in 2003 and its funds under management as at 31 December 2018 was \$777 (AUD) million.

Renaissance Asset Management is the holding company for Renaissance Property Securities which is 100% owned by Australian real estate investment trust (AREIT) specialists Carlos Cocaro and Damian Barrack.

The main reasons for appointing Renaissance to manage the Funds property securities strategy are:

- They have provided consistent outperformance since inception through seeking to identify mispriced stocks and to add value through the small cap of the AREIT market where stocks tend to be under-researched. In particular, they have consistently exceeded the S&P/ASX 300 A-REIT benchmark (top quartile) over rolling 3 years.

- Renaissance is an active, intrinsic value style AREIT manager. The Renaissance investment philosophy is that each security has an underlying or intrinsic value and that securities become mispriced relative to this value and they seek to exploit such market inefficiencies.
- Both AREIT principals/owners have extensive experience in this area and carry out in-depth research into the AREIT sector and its individual stocks, while cross examining each other's research. They also use third party research to test and complement their analysis.
- The interests of Renaissance and its owners are closely aligned with the interests of their clients. The owners are highly motivated to deliver outperformance for their clients over the medium to the long term as the success of their business is dependent on it.
- They have a history of managing to an unchanged investment philosophy and process, only adapted for market changes incrementally.
- They are a small to medium size player in this market and are able to enter and exit stocks with relative ease. Therefore, they are able to capitalise on opportunities in AREITs which are often under-researched and under owned.

Nikko AM Limited

Nikko is part of the Nikko AM Group. Nikko's Australian equities business was responsible for \$7.5 billion (AUD) as at December 2018.

The main reasons for appointing Nikko to manage the Fund's Australian shares strategy are:

- They have a history of delivering income stream/dividends in accordance with stated investment objectives over the long term.
- They have a strong history in providing income dividend focused products and of providing dividend focused strategies.
- Their investment team is very experienced and has a long tenure working together. The team conducts proprietary research including dedicated environmental, social and governance (ESG) analysis and policy that meets our ESG requirements.
- They have a long term focus (sustainable mid cycle earnings) and strong risk management framework and a deep understanding of the risks embedded within the portfolio they manage.
- They are currently highly rated by external research houses.

WHICH PRODUCTS ARE AFFECTED BY THE CHANGE?

The Fund is offered through the following products:

Open products:

- OneAnswer Frontier Personal Super, Pension and Investment Portfolio
- OnePath Wholesale Trusts.

Closed products:

- OneAnswer Personal Super, Allocated Pension, Term Allocated Pension and Investment Portfolio (including //Select)
- OnePath Investment Savings Bond.

WHEN DID THE TRANSITION TAKE PLACE?

The restructure of the portfolio was implemented in February 2019 and involved some trading activity.

WERE ANY TRANSITION COSTS INCURRED?

Yes, there were costs associated with selling and buying securities, such as brokerage costs and stamp duty, which were incurred at the time of the restructure. These costs are reflected in the Fund's unit price.

The actual cost was relatively small. We expect that the improved future performance returns will outweigh this small one-off cost.

ARE THERE ANY TAX IMPLICATIONS FOR YOUR CLIENTS?

As the transition involved the selling of securities (as noted above) there was a corresponding realisation of capital gains and losses on those assets. Based on our analysis (prior to transition) we expected a small net capital gain to be realised. However, capital losses from prior years are substantial and therefore likely to offset these capital gains.

Investment clients

Any net capital gains arising from the sale of assets will be taken into account when determining the 30 June 2019 financial year end distribution.

Superannuation clients

Any net capital gains arising from the sale of assets is provided for in the daily unit prices reflected in the account balances of your super clients' accounts.

WHAT WILL NOT CHANGE?

The following remains the same:

- Ongoing Fee clients pay
- investment strategy and objective
- standard risk measure
- distribution frequency (where applicable)
- buy/sell spreads, and
- strategic asset allocation and ranges.

HOW WILL YOUR CLIENTS BE NOTIFIED OF THE CHANGES?**Investment clients**

Notice of the changes will be published on our website (onepath.com.au) under the 'Product Updates' section in March 2019.

Superannuation clients

We will write to existing super clients within 12 months of the changes taking place.

WHICH PRODUCT DISCLOSURE STATEMENTS (PDSS) ARE IMPACTED BY THE CHANGES?

PDS Updates which detail how this change impacts the below PDSs will be available on the OnePath website (onepath.com.au) under the 'Product Updates' section in March 2019:

- OneAnswer Frontier Personal Super and Pension PDS dated 18 September 2017
- OneAnswer Frontier Investment Portfolio PDS dated 18 September 2017
- OneAnswer Investment Portfolio PDS dated 18 September 2017 (closed to new investors)
- OneAnswer Personal Super and Pension PDS dated 18 September 2017 (closed to new investors).

DO YOUR CLIENTS NEED TO TAKE ANY ACTION?

Your clients are not required to take any specific action. The changes have happened automatically.

ANY QUESTIONS?

If you have any further questions, please:

- call Adviser Services on **1800 804 768**, weekdays between 8.30am and 6.30pm (AEST)
- email us at **adviser@onepath.com.au**
- speak with your ANZ Wealth Business Development Manager.

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