

## ANTARES FIXED INCOME

### PRINCIPLES OF INTERNAL GOVERNANCE AND ASSET STEWARDSHIP

#### 1. ORGANISATIONAL AND INVESTMENT APPROACH

##### About Antares Fixed Income

Antares Fixed Income's investment philosophy is predicated on the view that debt markets are not completely efficient and as such, opportunities can be identified and systematically exploited. Importantly, Antares Fixed Income has the discipline to recognise that not all opportunities are going to be exploitable in a risk-controlled manner. Several strategies and opportunities may offer attractive returns, but in a number of instances the return is ultimately not commensurate with the risk. For Antares Fixed Income, this is mostly prevalent when margins are not sufficiently wide to compensate for credit risk and term extension.

Another key feature of Antares Fixed Income's investment philosophy is systematically reviewing, monitoring, and analysing the components which make up the investment strategies we utilise. This systematic approach is applied to the strategies that we have identified and utilised to tilt the portfolios away from client benchmarks. Antares Fixed Income also continually monitors and reviews the economic and financial market variables which act as inputs into these strategies. This helps anchor our investment insights and more importantly, prevents them from getting obscured by the latest market trends and fashions.

Finally, the Antares Fixed Income team has collectively managed investment portfolios through a number of economic cycles dating back to the start of the 1990s. This experience has reinforced our commitment to our systematic investment approach as well as our core belief that investment opportunities are always available and can be exploited.

##### Antares Fixed Income purpose and values

Antares Fixed Income's belief is that superior investment outcomes – from a return, risk, and cost perspective – will come from portfolios with a diverse range of bond and cash investments, rather than a few concentrated positions. Accordingly, sustained excess returns can be generated by implementing a range of diversified strategies, in a risk-controlled manner, with a clear focus on minimising downside volatility. The other integral component of our investment philosophy is our view that in the fixed interest and cash asset classes, investors want a greater degree of certainty of investment outcomes and this can be achieved by a strong focus on risk management.

##### Ownership management and governance structure

Antares Fixed Income is a division of MLC Asset Management, now a part of IOOF Holdings Ltd. The MLC Asset Management Pty Limited ('MLCAM') Board is responsible for overseeing the effectiveness of all operational risk and compliance activities of its licensed activities.

The Antares Fixed Income's investment team comprises seven experienced investment professionals led by Mark Kiely, the Head of Antares Fixed Income. They in turn are supported by a number of specialist non-investment staff. Antares Fixed Income actively encourages the cross skilling of staff members in the management of all its mandates to ensure that the maximum depth of experience and skill is accessible to clients.

##### Management of client assets

At the heart of Antares Fixed Income's investment process is risk management. We achieve this by:

- Giving high priority to controlling general portfolio risks
- Minimising the dominant portfolio risk - losing capital
- Creating active procedures to minimise benchmark under-performance due to the mark-to-market effect of a change in interest rates (changes in the daily pricing of the portfolio following interest rate movements)
- Use of proprietary (Risk Matrix) and third-party risk systems which provide granularity on how risk factors are contributing to total portfolio risk.

Antares Fixed Income implements these disciplined risk management controls by working with clients to understand their risk appetite. Various strategies and tests employed include:

- Breaking portfolios down into a Risk Matrix and comparing them to the benchmark portfolio
- Allocating risk units to each element of risk in the portfolio; duration, yield curve, sector, and credit
- Stress testing portfolios and their relevant benchmarks across various risk/return scenarios

- Running pre- and post-trade compliance across all portfolios to ensure compliance with all client mandate constraints
- Running daily performance and attribution analysis to ensure no performance surprises
- Filtering each strategy for risk/return characteristics, with the optimum strategies selected.

Third party risk systems are used to complement our in-house risk system and enable Antares Fixed Income to isolate and identify the risk that individual securities add to the portfolio. Specifically, the team looks to stress test portfolios against various risk scenarios, in measuring ex ante tracking error, as well as reporting portfolio risks in a succinct and coherent framework.

Antares Fixed Income focuses mainly on downside risks and always favours asymmetrical strategies with lower downside risk than upside risk. The relevant investment risks to Antares Fixed Income's fixed interest portfolios tend to be duration, yield curve, and credit. It is the identification and measurement of these risks that Antares Fixed Income exploits to generate excess returns.

Our overall objective of risk management extends to the management of operational risk by ensuring that there is a clear separation of duties and responsibilities between the Antares Fixed Income's portfolio management team (front office) and the various support functions within Investment Operations (back office).

### **Conflicts of interest**

Antares Fixed Income adheres to IOOF's Conflicts of Interest Policy that sets out the requirements for identifying, documenting, managing, and mitigating the risks associated with conflicts of interest across IOOF and its controlled entities.

The three mechanisms Antares Fixed Income will generally use to manage conflicts of interest are:

- Management through the use of internal controls and procedures
- Avoidance
- Disclosure.

However, if a conflict cannot be resolved using a combination of internal controls and disclosure, Antares Fixed Income must avoid the conflict or refrain from providing the affected financial service.

## **2. INTERNAL GOVERNANCE**

### **Ethical conduct and professional practice**

Antares Fixed Income adheres to the IOOF Code of Conduct policy which sets out the standards of responsibility and ethical conduct required of every employee. The code requires that we:

- Act honestly, ethically and with high standards of personal integrity
- Act in the best interests of our clients and protecting the interests and reputation of IOOF
- Demonstrate IOOF's principles in our interactions and ensuring that our behaviours and actions reflect our principles
- Strive to create a harmonious and safe working environment that respects and encourages diversity and inclusion
- Ensure that we work in an environment free from unlawful discrimination, harassment and bullying, and taking action to prevent such behaviour
- Not knowingly participate in any illegal or unethical activity
- Respect and safeguard client and employee privacy and confidentiality
- Ensure we do not use or attempt to use our positions with IOOF or our credentials to obtain improper personal benefits, including by not sharing price sensitive inside information, not taking bribes and not accepting gifts or benefits without reporting them to our direct people leaders
- Conduct our work safely and responsibly with due care and diligence.

### **Personal trading**

MLCAM's Personal Trading Policy applies to Antares Fixed Income staff in respect of their own (and their related parties) personal trading in financial products. The intent is to ensure that no client is disadvantaged by staff trading and that no staff member is advantaged by client trading.

The policy reinforces that clients' priorities take precedence over personal trading.

Each staff member must maintain a register of his/her personal trading and must obtain pre-approval to trade certain financial products (including listed securities). Where preapproval is granted the approved trades can only be made in a limited window and copies of the contract notes must be forwarded to the Risk and Compliance team.

### **Management of conflicts of interest to ensure client interests take priority (including gifts and entertainment)**

Antares Fixed Income adheres to IOOF's Conflicts of Interest Policy. This includes a requirement to maintain a register of all entertainment and gifts received and to seek approval before accepting any entertainment or gift with a value of over \$100.

Staff members receive conflicts of interest training when commencing employment with Antares Fixed Income and also undertake annual risk awareness training (which includes conflicts of interest training). To ensure Antares Fixed Income staff members remain familiar and compliant with the policy, they are required to read and sign declarations to that effect on a semi-annual basis.

### **Risk management and compliance**

Antares Fixed Income adheres to IOOF's Risk Management Framework which integrates risk management processes into strategic planning, policies, reporting and governance to ensure that risk is managed effectively and coherently.

The approach to risk management is based on a three lines of defence model. Risk management accountabilities are allocated for risk ownership and functionally independent oversight and assurance across the three lines (summarised below). The overriding principle of this model is that risk management capability must be embedded to be effective.

- First Line (businesses such as Antares Fixed Income): Own and manage risks and controls within their business and across the value chain in line with risk appetite.
- Second Line (Independent Risk Function): Develop and maintain the Risk Management Framework and ensure the effectiveness of the risk and control environment by establishing risk appetite, providing risk insight and advice, and performing oversight.
- Third Line (Internal Audit): Provides independent assurance over the Risk Management Framework and its application by the first and second lines.

### **Incident and Breaches Policy**

Antares Fixed Income follows the IOOF Incidents and Breaches Policy setting out how incidents are to be assessed, recorded, escalated, and reported if deemed as breaches. It prescribes minimum requirements for the key stages of the incident management lifecycle including the roles and responsibilities of employees for incident management.

All employees are responsible for the identification, escalation, and timely capture of incidents to ensure they are managed and reported in a timely manner in accordance with this Policy. Incidents assessed as significant breaches are reported to ASIC within 10 business days. Corrective actions must be taken to address the control failure to prevent recurrence and are captured in the Risk system.

If an incident has financial impact to the client, we aim is to restore the client to the position they would have been in had the error / incident had not occurred. Antares Fixed Income follows group IOOF Client Remediation Policy which comprises of the following principles:

- Remediation is to be executed in a timely manner, whilst balancing the need for accuracy and efficiency
- Remediation outcomes and payments will be transparent and appropriately communicated to impacted Clients in a clear and concise manner
- The remediation amounts payable to clients will take into account forgone returns or interest where there is a period of time between the occurrence of the error and the remediation payment being made, and any further financial loss which arises as a direct result of the delay
- ClientFirst thinking and language will be applied to remediation, including a focus on client outcomes, speed of resolution, continuous improvement and learning. Where appropriate, causation factor/s will be identified as an enabler to a better client experience and learning outcomes for application within the business.
- The shareholder will not profit at the client's expense
- Appropriate operational control and stakeholder review processes will be applied when devising and executing remediation exercises; and
- Conflicts of Interest will be appropriately assessed and managed.

### **Brokerage and commissions**

Brokerage payable on security transactions is paid by the portfolio undertaking the transaction. Any underwriting commissions received from underwriting a placement are paid to the portfolio that undertook the underwriting.

### **Equitable asset valuation and pricing**

As investment manager, Antares Fixed Income is not the owner of the assets it manages. The client that owns the assets determines the custodial and unit pricing arrangements. Antares Fixed Income works with the client appointed custodians for trade processing, reconciliations, and queries.

### **Best execution and trade allocation**

Antares Fixed Income seeks to ensure that, as far as reasonably possible, clients receive best execution. All information available to Antares Fixed Income is used to assess the most appropriate execution strategy, venue, price, speed of execution and settlement. The information is used on a trade-by-trade basis to select the trading options that are most likely to achieve the required client execution result.

Best execution determinations may include, but are not limited to, the:

- Price for the trade and volume
- The broker's ability to execute the trade in a prompt, orderly and satisfactory manner
- Confidentiality provided by the broker
- The broker's execution capabilities and any related risks in trading a block of securities (e.g. anonymity)
- The broker's broad market coverage resulting in a continuous flow of information
- The broker's consistent quality of service, including the quality of any investment-related services provided.

### **Trade allocations**

Antares Fixed Income ensures that all clients are treated fairly and equitably in accordance with the guidelines within the Investment Management Agreement ("IMA"), which ultimately drives aggregation and allocation of trades. For portfolios with similar guidelines and benchmarks, trades are usually allocated on a percentage of combined FUM basis. In cases where trades are executed to rebalance portfolios to a target level or a cashflow has taken place, the percentage weighted allocation may vary.

### **Remuneration policy**

Antares Fixed Income follows IOOF's Remuneration Policy which includes measures of performance, the mix of forms of remuneration (such as fixed and variable components, and cash and equity-related payments) and the timing of eligibility to receive payments. All forms of remuneration are captured by the Policy, regardless of where, or from whom, the remuneration is sourced.

The objectives of the Policy are to:

- Ensure employees are compensated fairly and responsibly for the services they are engaged to perform
- Be a source of attraction, motivation, and retention of talent
- Reward the achievement of long-term sustainable performance
- Support the principles of Diversity, Inclusion and Equal Opportunity
- Have regard to and facilitate the long-term interests of all our stakeholders
- Ensure remuneration practices support the sound management of financial as well as non-financial risk
- Comply with regulatory requirements and to ensure that succession planning and development plans are in place for 'key management personnel' and their potential successors.

### **Whistle-blower protection policy**

Antares Fixed Income adheres to the group IOOF Whistle-blower Policy which promotes a culture of compliance, honesty and ethical behaviour and supports employees in meeting their duty under the Code of Conduct to disclose actual or suspected misconduct based on reasonable grounds. The Policy defines misconduct broadly to encourage persons to disclose concerns about a wide range of issues.

### **Training and development**

There is mandatory training set for all staff covering key obligation set by law, regulators, internal policies and procedures as well as Code of Conduct. In addition, staff who are Representatives or Responsible Managers of MLCAM representing Antares Fixed Income must undertake specific ongoing learning and development to maintain their status.

Compliance monitoring of staff training is in place, for example People Leaders are alerted if training is not completed by due dates. Training records are maintained and overseen by the Risk and Compliance team. In addition, all staff are required to complete semi-annual attestations confirming they are aware of and understand key policies.

### **Complaints and dispute resolution**

Under the IOOF Customer Complaints Handling Policy an initial response letter / email is sent upon receipt of a complaint by a client, to confirm receipt and advise that Antares Fixed Income will investigate the concern raised. The Client Services team will work to resolve the complaint within the first five days. If the complaint is from a retail client and is not resolved during this initial period, it moves to the MLC Resolve team who will work with the client according to rules as set out by Australian Financial Complaints Authority (AFCA) and aim to resolve the complaint within 30 days. If the complaint by the retail client is not resolved within the 45-day period, or should the client not be satisfied with the resolution, the client has the option of referring the matter AFCA.

Antares Fixed Income through MLC Wealth is a member of AFCA which is the external dispute resolution scheme for retail clients.

When a complaint is ultimately resolved, it is logged in our complaints register along with all relevant documentation and reporting to Risk and the Executive team.

## **3. ASSET STEWARDSHIP**

### **Monitoring of performance**

Antares Fixed Income constantly monitors the performance of the investments it has chosen for its clients. To do this it uses a number of quantitative and qualitative measures. Each mandate contains benchmarks and other performance measures agreed with the relevant client and set out in formal agreements. Performance against these measures is monitored and reported to clients in accordance with those agreements.

### **Engagement with company management**

Antares Fixed Income regularly reviews company disclosures, engages with market participants, and seeks independent industry feedback. Antares Fixed Income regularly meets with company management and executives and attends company updates to keep informed on the operational, financial and strategic progress of companies.

### **Approach to environmental, social and governance ('ESG') factors**

Antares Fixed Income believes that entities that better manage their ESG risks will have stronger risk-adjusted investment returns and have more resilient long-term business success. In this way, ESG factors can be especially valuable as a framework for assessing longer term business threats, which may be overlooked by the market's typically short-term outlook. Antares Fixed Income is aware of the growing importance of ESG for investors and continues to monitor the evolution of ESG plus its implications to the fixed income market.

Antares Fixed Income incorporates consideration of ESG factors as part of the fundamental credit assessment undertaken for all corporate issuers. Specifically, the consideration of ESG factors is documented for each bond issuer within the credit research template used for summarising Antares Fixed Income's opinions.

At the portfolio construction level, Antares Fixed Income has undertaken a degree of both negative and positive screening of certain issuers and sectors. For instance, Antares Fixed Income views favourably investments with positive ESG attributes if it does not negatively impact investment returns.

### **Proxy Voting**

Antares Fixed Income represents its investors in matters of corporate governance through the proxy voting process. Although proxy voting requests by bond issuers are a rarity, Antares Fixed Income's principles followed when electing of these matters are to protect and enhance the value of investments.

Antares Fixed Income applies the Financial Service Council ("FSC") Standard 13 Voting Policy, Voting Record and Disclosure to its operational processes where applicable.

### **Client engagement, education, and communication**

Clients are provided with an investment report, either monthly or quarterly, depending on the client's requirements as set out in their mandate or the PDS. The investment report typically includes the following:

- An explanation of performance against the agreed benchmarks
- Commentary on economic and market environment for the period
- An analysis of the investment strategy in place
- A review and outlook for the asset class
- Portfolio security holdings (on request).

In addition to the periodical reporting cycle, each institutional client is offered a face-to-face analysis of the previous quarter's result. This analysis includes a detailed update pack which contains portfolio information and attribution analysis. Face to face meetings as well as conference calls can also be organised on an ad-hoc basis.

## **4. LEGAL DISCLAIMER**

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