

# Lonsec Sustainable Managed Portfolios - Balanced

## Portfolio performance – May 2021

	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (% pa)	3 yr (% pa)	5 yr (% pa)
Portfolio Total Return	0.71	6.22	-	-	-	-
Peer Group Benchmark*	1.01	4.91	-	-	-	-
Excess Return	-0.30	1.31	-	-	-	-

Past performance is not a reliable indicator of future performance. Performance is calculated before taxes and other fees such as model management and platform fees and are net of underlying investment management fees. For full details of fees, please refer to the relevant platform provider. Performance is notional in nature and the actual performance of individual portfolios may differ to the performance of the Managed Portfolios. Totals presented in this report may not sum due to rounding. \*Performance prior to 1 December 2020 is based on a notional portfolio. \*\*Peer Group Benchmark is based on the Financial Express UT Peer Group Multi-Asset Indices.

## Market review

The S&P/ASX 300 Accumulation Index returned 2.3% over the month as the broad cyclical value rotation we have experienced over the last few months continued, with the Financials and Consumer Discretionary sectors among the strongest over the month. Growth names generally have come under pressure in recent months as upbeat indications of normalizing economic activity lead investors into the cyclical value pockets of the market.

First quarter earnings in the United States came in generally stronger than expected with the S&P 500 Index gaining 0.7% in USD terms. The strongest results were seen in the cyclical areas of the market. Similar to the sentiment we have seen domestically, more expensive sectors have come under pressure amid continued inflation concerns, highlighted again by the divergence between the 'old economy' Dow Jones Industrial Average and the 'new economy' Nasdaq 100, returning 2.2% and -1.7% respectively in May. Emerging Markets gained in May and outperformed Developed market peers, with the MSCI Emerging Markets Index climbing 2.1% in AUD terms, benefitting from weakness in the US Dollar.

Australian Listed Property added another month of positive performance with the S&P/ASX 200 A-REIT Index returning 1.7%, although underperformed the broader Australian equity market. Diversified REITS Charter Hall Long WALE (-1.97%), Abacus Property Group (-0.66%), and GPT Group (-0.04%) dragged on the index.

Since the large movements experienced late in 2020 and into early 2021, bond yields globally have generally traded sideways as a result of ongoing inflationary uncertainty and central bankers' monetary response. Underlying the relatively stagnant bond yield movements, rises in inflation expectations continue to push real yields downwards. Australian Fixed Interest securities, as measured by the Bloomberg Ausbond Composite 0+ Year Index, rose 0.3% in May, whilst Global Fixed Interest securities returned 0.7% on an AUD hedged basis as measured by the Bloomberg Barclays Global Aggregate Index.

**We strongly recommend that potential investors read the product disclosure statement or investment statement.**

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 • ABN 11 151 658 561 • AFSL 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.

## Sustainable impact

Year ending December 2020



### Total Greenhouse Gas emissions\*

53% lower than the benchmark^



### More women on boards

More women on boards and management teams

**A \$100,000 investment in the Lonsec Sustainable Portfolios will avoid an estimated 185 Metric Tonnes of Total Greenhouse Gases p.a. ^^**

This is equivalent to:



### Greenhouse Gas Emissions from

40 passenger vehicles driven for one year



### CO2 Emissions from

31.3 homes' electricity use for one year



### Carbon Sequestered

3,059 tree seedlings grown for 10 years

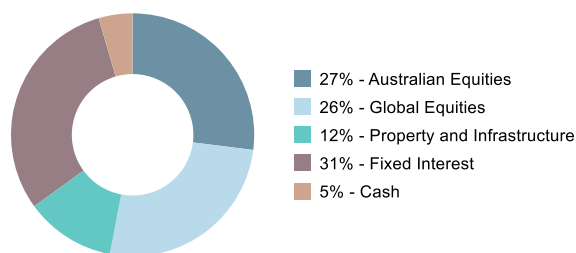
Source: Bloomberg, EPA, Lonsec. These figures refer to the past. Past performance is not a reliable indicator of future performance.

\* Total GHG Emissions is defined as the total of company Scope 1 and Scope 2 emissions. Greenhouse Gases are defined as those gases which contribute to the trapping of heat in the Earth's atmosphere and they include Carbon Dioxide (CO2), Methane, and Nitrous Oxide.

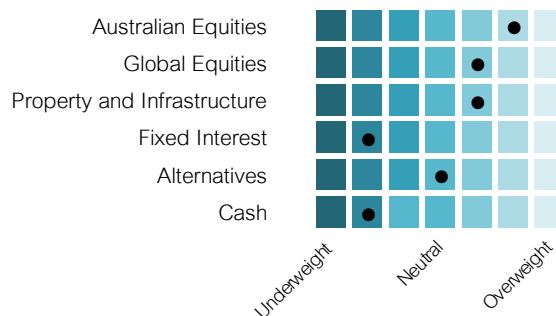
^ The Benchmark is the Lonsec Strategic Asset Allocation (SAA) Growth benchmark. Based on Lonsec Sustainable Managed Portfolio - Growth shareholdings as at 31 December 2020.

^^ Compared to investing in a passive (index) growth portfolio using Lonsec's SAA benchmark weights.

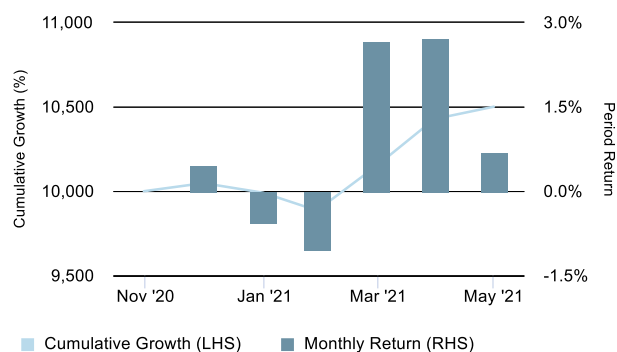
### Asset allocation breakdown



### Dynamic Asset Allocation Positioning



### Cumulative performance (5 years)



#### Top 3 contributors to performance

	%
Aphinity Sustainable Share Fund	0.16
AXA IM Sustainable Equity Fund	0.14
Australian Ethical Australian Shares Fund (Wholesale)	0.12

#### Bottom 3 contributors to performance

	%
BetaShares Australian Sustainability Leaders ETF	-0.03
Ausbil Active Sustainable Equity	-0.03
Altius Sustainable Bond Fund	0.00

#### Portfolio changes

	%
There were no changes to the portfolio for the past 1 month	

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## Portfolio Commentary

The Portfolio returned 0.71% for the month of May, underperforming the internal benchmark and peer group benchmark. Returns from Dynamic Asset Allocation (DAA) were broadly flat with the value added by being overweight Australian equities being offset by the value detracted in global listed infrastructure which underperformed.

Manager selection was a detractor for the month. All Australian equity managers failed to keep pace with the market, in an environment where cyclical and financials dominated. The Lonsec Sustainable Portfolios tend to be overweight the technology sector given the role technology companies play in the modern economy. They help us communicate, fuel economic growth and create new job opportunities – aligning closely to a number of UN Sustainable Development goals. Technology was the worst performing sector in the ASX300 for the month, down 9.1%. The story was more mixed in global equities, with the AXA IM Sustainable Equity Fund managing to outperform the MSCI AC World ex Australia TR Index, while BetaShares Global Sustainability Leaders ETF kept pace. Fixed income strategies broadly tracked their respective indices.

## Outlook

With fundamentals continuing to favour risk assets, the question we are asking ourselves is how much good news is already priced in given equity markets have regained or exceeded their pre-COVID-19 peaks? The ongoing cyclical recovery, improving earnings outlook, and generally supportive financial conditions suggest there is further to run in this cycle. We have maintained our risk-on positioning for now. While equity valuations are no longer attractive in an absolute sense, low bond yields support a healthy equity risk premium suggesting investors are still being rewarded for taking on equity market risk. That said, some markets are looking more stretched than others and we prefer taking risk in Australian and emerging market equities over global developed equities, with the US in particular looking extended.

Our base case remains that inflation will for the most part be transitory, with commodity prices, base effects and supply challenges set to ease later in the year.

## Portfolio at a glance

### Designed for

The portfolio is designed to provide investors with a diversified portfolio encompassing ESG and sustainable investment principles to generate growth with some income over the medium term.

### Sustainable objectives

1. To outperform the strategic benchmark.
2. Make a positive contribution to the key environmental and social challenges facing society, as measured by the UN's Sustainable Development Goals.

### Suggested minimum investment timeframe

5 years

### Investment strategy

The portfolio aims to minimise its exposure to sectors and industries widely considered harmful to society or the environment including tobacco, alcohol, gambling, weapons, adult entertainment, uranium and coal mining. They will also actively seek out investment opportunities that have a positive impact on society and the environment through impact investing.

### Investment universe

The portfolio invests across a diversified range of Australian equities, global equities, property and infrastructure, fixed interest assets and alternative assets. The portfolio can access such exposures through managed funds and Australian listed securities such as exchange traded funds (ETFs), Exchange Traded Products (ETPs), managed portfolios and cash.

### Target exposure

Growth assets	Defensive assets
60%	40%

### Platform availability

HUB24

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