Lonsec

**Managed Portfolio Performance Update – June 2021**

# Lonsec Sustainable Managed Portfolios - High Growth

## Portfolio performance – June 2021

| | 1 mth (%) | 3 mth (%) | 6 mth (%) | 1 yr (% pa) | 3 yr (% pa) | 5 yr (% pa) |
|---|---|---|---|---|---|---|
| Portfolio Total Return | 3.78 | 8.92 | 12.18 | - | - | - |
| Peer Group Benchmark* | 2.16 | 6.61 | 12.12 | - | - | - |
| Excess Return | 1.62 | 2.31 | 0.06 | - | - | - |

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 Australian share market finished the fiscal year with the strongest return since the 1980s, with the S&P/ASX 300 Index gaining 28.5% over the past 12 months with June contributing 2.3%. The recent value rotation showed some signs of weakening, with the S&P/ASX 200 Value Index returning 1.6% for the month, versus a return of 3% for the S&P/ASX 200 Growth Index. The best performing sectors for the month were information technology (+13.4%), followed by communications services (+5.6%) and property (+5.3%). Financials was the only sector to finish in the red for the month (-0.2%).

Global equities continued to rally for their fifth consecutive quarter in June buoyed by the global vaccination rollout supporting strong corporate earnings results posted in the US and Europe. Developed markets rose 4.7%, as measured by the MSCI World ex-Australia Index, during June while performance in emerging market equities were softer, with the MSCI Emerging Markets Index rising 3.3% in Australian dollar terms despite continuing to lead developed markets over 12 months.

The listed property sector, both Australian and Global REITs, performed very strongly in June with the S&P/ASX 200 A-REIT Index posting a 5.5% gain, driving double-digit gains across the sector since the start of the year. This has in part been driven by retail REITs, in anticipation of economic reopenings around the globe and supported by falling bond yields over the June quarter.

Throughout June, yields at the higher end of the Australian Sovereign curve fell substantially, with the 10-year yield having fallen by 17 basis points over the course of the month. This movement has helped to drive strong returns for the Bloomberg AusBond Composite 0+ Yr Index, which increased by 0.7% throughout June. Similar movements have been observed globally, resulting in the Bloomberg Barclays Global Aggregate Index (AUD Hedged) returning 0.5% over the month.

## 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

**C02 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.

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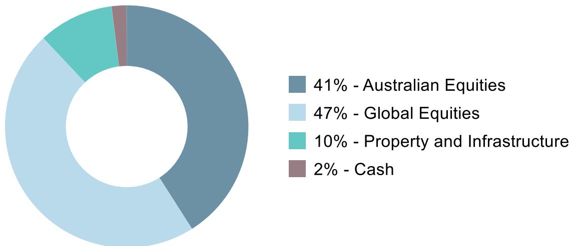
## Asset allocation breakdown

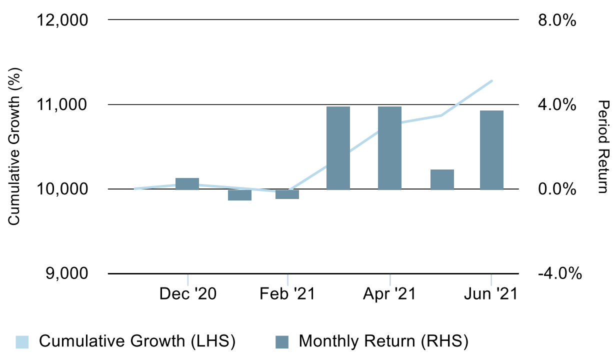



| Top 3 contributors to performance | % |
|---|---|
| BetaShares Global Sustainability Leaders ETF | 0.92 |
| BetaShares Australian Sustainability Leaders ETF | 0.62 |
| AXA IM Sustainable Equity Fund | 0.52 |

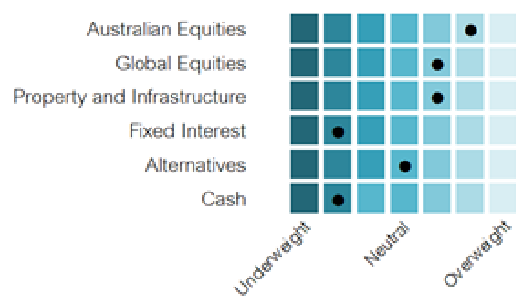
| Bottom 3 contributors to performance | % |
|---|---|
| ATLAS Infrastructure Australian Feeder Fund AUD Hedged Class | -0.01 |
| Bloomberg AusBond Bank Bill Index AUD | 0.00 |
| Resolution Capital Global Property Securities Fund | 0.06 |

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

## Cumulative performance (5 years)




## Dynamic Asset Allocation Positioning



## Portfolio Commentary

The Portfolio returned 3.78% for the month of June, outperforming the internal benchmark and peer group benchmark. Returns from Dynamic Asset Allocation (DAA) were slightly positive although the bulk of the value add came from manager selection.

In contrast to the first quarter of 2021 where cyclical stocks (namely resources and the major banks) drove performance, the second quarter saw the more growth names return to favour, benefiting the Sustainable Portfolios. BetaShares Australian Sustainability Leaders ETF was the top performing Australian equity strategy returning 6.2% for the month. The ETF has a healthy overweight to information technology which was the top performing sector in the ASX300. More generally, we saw small to mid-cap stocks outperform large caps. The Sustainable Portfolios tend to be underweight the large cap end of the Australian market which consists of predominantly resources and financials.

On the global side, BetaShares Global Sustainability Leaders ETF (ETHI) was the top performer on the global side, returning 7.7%. ETHI aims to tracks the performance of an index that combines a positive climate leadership screen with a broad set of negative ESG screens. The ETF looks for climate leaders while screening out gambling, tobacco, uranium and nuclear energy, human rights and supply chain concerns and a host of other exclusions. The ETF has a high exposure (39%) to Information Technology stocks which, similar to the Australian experience, recovered strongly during the month.

## Outlook

We continue to favour a risk-on position and remain overweight Australian equities and real assets. Our cyclical indicators are pointing to a continuation in economic recovery and fiscal & monetary policy remain very supportive. Valuations are however looking full across most asset classes, and we are conscious that we may be entering a new policy phase, as rising inflation sees central banks start to think about 'thinking about' reducing policy support from what are currently very high levels. We expect risks and volatility to increase as markets respond to these changing dynamics however it's important to remember that underpinning these moves is a strengthening global economy which should continue to be broadly supportive of growth assets.

Sustainable investing continues to benefit from several structural tailwinds. Decarbonisation will be a driving thematic over the next decade or more as the global economy transitions away from fossil fuels and towards cleaner, more renewable energy sources, providing opportunities for those companies assisting in this decarbonisation process. Regulatory and policy tailwinds have accelerated rapidly over the last 12 months in order to aid this transition. There will be many opportunities for growth – in clean & renewable energy, carbon capture solutions, electric vehicles, battery technology - however sustainable investing also entails understanding and managing the environmental, social and governance risks associated with company operations. Investing sustainably is as much about managing risks as it is about taking advantage of opportunities. Both should ultimately lead to better performance. We expect to see greater engagement and pressure on companies doing the wrong thing, not only from a climate perspective, but more broadly as investors and society as a whole are demanding more from companies.

## 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 |
|---|---|
| 98% | 2% |

**Platform availability**

HUB24
Netwealth