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Managed Portfolio Performance Update – July 2021

Lonsec Sustainable Managed Portfolios - Balanced

Portfolio performance – July 2021

	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (% pa)	3 yr (% pa)	5 yr (% pa)
Portfolio Total Return	2.14	5.36	9.96	-	-	-
Peer Group Benchmark*	1.25	3.69	8.05	-	-	-
Excess Return	0.89	1.67	1.91	-	-	-

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 reached all-time highs in July, with the S&P/ASX 300 gaining 1.1% for the month. The Materials sector was the clear standout, benefiting from solid gains in both industrial and precious metals, which saw the Materials sector up 7.1% for the month. Industrials also performed strongly with a gain of 4.3%. Information Technology gave up some of the impressive performance seen in June, with the sector retracing 6.9%.

July saw a contrast in global equity performance across regions, with emerging markets posting a 4.7% decline in Australian dollar terms over the month, as measured by the MSCI Emerging Markets Index, whilst developed markets continued their strong performance, with the MSCI AC World ex-Australia Index climbing by 2.9%.

A-REIT's advanced slightly during July, with the S&P/ASX 200 A-REIT Index achieving 0.3% for the month. This is considerably less than the prior month of June, where the index advanced 5.5%. The lower monthly return can largely be attributed to the COVID-19 Delta variant outbreak, causing continued lockdowns across Sydney, and shorter, periodic lockdowns across Brisbane and Melbourne.

The Bond rally that started in June has continued throughout July, as yields plummeted. The Australian Sovereign 3 and 10 year yields fell by 16 and 30 basis points respectively. The 10 year rate ended the month at 1.19%, approaching the level it was at prior to February's large selloff. Credit spreads widened over the month, however pales in comparison to the sharp fall in the risk-free rate which resulted in the AusBond Composite 0+ Yr Index returning 1.8% over the month. Globally, the story is much the same, with yields falling as the world grapples with the Delta variant of COVID. This resulted in the Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index returning 1.3%, over the course of July.

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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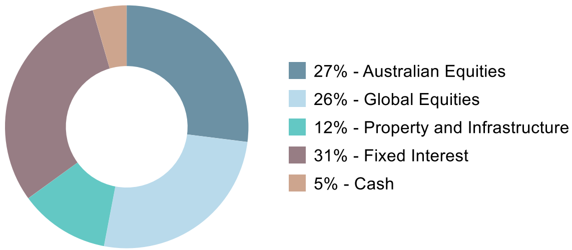
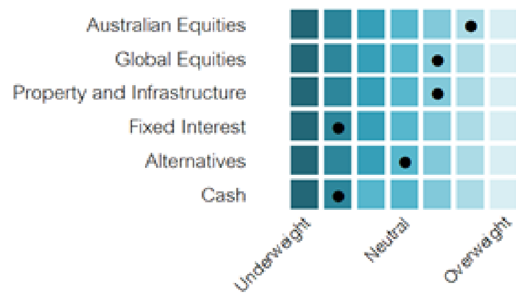
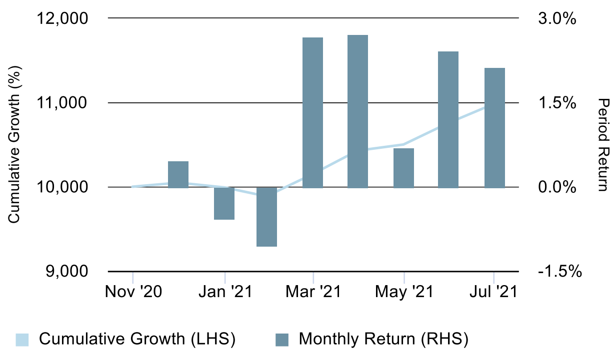
Asset allocation breakdown



Dynamic Asset Allocation Positioning



Cumulative performance (5 years)



Top 3 contributors to performance	%
Impax Sustainable Leaders Fund	0.40
AXA IM Sustainable Equity Fund	0.40
Pengana WHEB Sustainable Impact Fund	0.26

Bottom 3 contributors to performance	%
VanEck Vectors Australian Property ETF	-0.04
iShares Core Cash ETF	0.00
Bloomberg AusBond Bank Bill Index AUD	0.00

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

Portfolio Commentary

The Portfolio returned 2.14% for the month of July, outperforming the peer group benchmark but slightly under the internal benchmark. Returns from Dynamic Asset Allocation (DAA) were negative, with the underweight position in fixed income detracting value as markets adopted a more defensive tone.

Manager selection was positive with global equity managers leading the way. The quality and growth names in the portfolio again did well as bond yields fell. Impax Sustainable Leaders Fund had a strong month, returning 6.7%. The strategy invests globally in companies active in the resource efficiency and environmental markets including companies involved in waste management, pollution control, water infrastructure and renewable energy. Pengana WHEB Sustainable Impact Fund and AXA IM Sustainable Equity Fund also performed strongly, up 5.2% and 5.0% respectively.

Fixed income was mixed with Pendal Sustainable Australian Fixed Interest Fund flat against the local bond benchmark, while PIMCO underperformed on the global side.

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Outlook

Rising case numbers of the Delta variant of COVID-19 have most certainly put a handbrake on the domestic recovery with NSW and Victoria currently in the midst of an extended lockdown. Accounting for more than half the national GDP, the latest round of economic shutdowns has taken some of the shine off the growth expectations many economists had been predicting. Cyclical indicators are moderating from very high levels; however, policy support continues with ultra-low rates and ongoing, but more targeted, fiscal support being provided. Looking through the news headlines, data remains reasonably supportive of risk assets as the vaccine rollout picks up pace domestically and the rest of the globe opens up and learns to live with the virus. We have retained an overweight position in risk assets for now.

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
60%	40%

Platform availability

HUB24

Netwealth