

Lonsec Sustainable Managed Portfolios - High Growth

Portfolio performance – September 2021

	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (% pa)	3 yr (% pa)	5 yr (% pa)
Portfolio Total Return	-2.86	4.25	13.55	-	-	-
Peer Group Benchmark*	-1.67	1.93	8.67	-	-	-
Excess Return	-1.19	2.32	4.88	-	-	-

Past performance is not a reliable indicator of future performance. Performance is calculated before taxes 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 lower in September, ending an impressive 11-month run of gains, with the S&P/ASX 300 losing 1.9% for the month. The Energy sector benefitted from rising coal and oil prices, with the sector up 16.7% for the month. Materials, Health Care and Information Technology were the biggest drags on the Index falling 9.3%, 4.9% and 3.9% respectively.

September saw an evaporation to the gains made in global markets over the last three months, with developed and emerging markets receding by 3.1% and 2.8% in Australian Dollar terms respectively as measured by the MSCI AC World ex-Australia Index and MSCI Emerging Markets Index. This contraction in performance was primarily driven by fears of a global financial contagion stemming from the worlds most indebted company, Evergrande Group based in China.

The S&P/ASX 200 A-REIT Accumulation Index returned -2.2% in September, mainly fuelled by selling towards the month end. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) sold off during September, with the index closing 5.4% lower.

September saw a sharp reversal in the performance in Fixed Income markets, with the trend of decreasing yields coming to a halt. Increasing inflationary expectations, and growing fears that the current high levels of inflation may not be transitory, have driven yields upwards. Credit spreads also widened over the month which, combined with the changes to the risk-free rate, resulted in the Bloomberg AusBond Composite 0+ Yr Index falling -1.5% over the month. Globally, the story is very similar, as continued supply issues drive fears of protracted inflationary pressure, resulting in rising yields. As such, the Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index fell -1.0% 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



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.

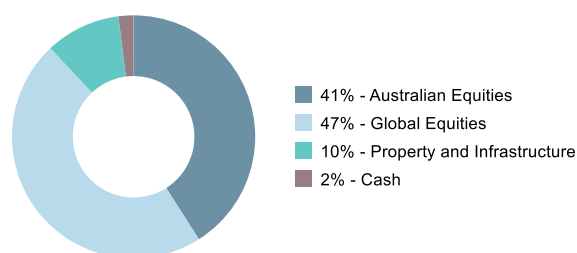
^^ Compared to investing in a passive (index) growth portfolio using Lonsec's SAA benchmark weights.

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

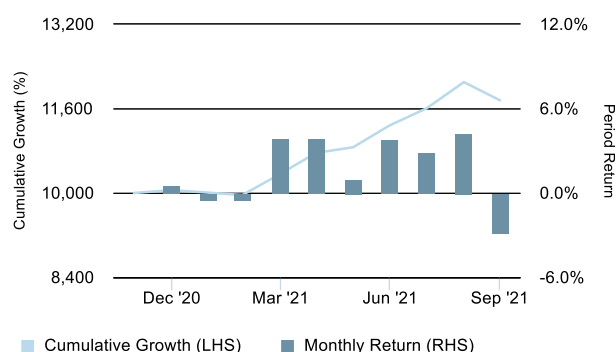
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Asset allocation breakdown



Cumulative performance (5 years)



Top 3 contributors to performance

	%
ATLAS Infrastructure Australian Feeder Fund AUD Hedged Class	0.04
Bloomberg AusBond Bank Bill Index AUD	0.00
VanEck Australian Property ETF	-0.08

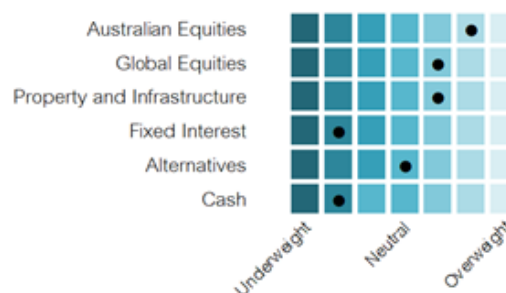
Bottom 3 contributors to performance

	%
Impax Sustainable Leaders Fund	-0.67
AXA IM Sustainable Equity Fund	-0.46
Pengana WHEB Sustainable Impact Fund	-0.46

Portfolio changes

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

Dynamic Asset Allocation Positioning



Portfolio Commentary

In a month where all major asset classes were down, the Portfolio returned -2.86% in September. Diversification had limited impact, with bonds and real assets providing little, to no relief from the broad-based market sell-off. Against that backdrop, the portfolio held up well versus the internal benchmark but was slightly below the peer group benchmark. Returns from Dynamic Asset Allocation (DAA) was flat, with the value added in the underweight fixed income position largely offset by the overweight positions in Australian equities and real assets.

Manager selection was a detractor for the month. While 3 out of 4 Australian equity managers outperformed the benchmark, BetaShares Australian Sustainability Leaders ETF underperformed the benchmark by 1.5% which more than offset the value added from the other strategies.

Global equities was the largest detractor from performance, with impact managers such as Wheb and Impax, the largest contributors. Being underweight energy was the primary cause. Energy was the only sector within the MSCI AC World ex Australia TR Index AUD to produce positive returns for the month (and they were strong returns up 10%) while all other GICS sectors posted negative returns.

Fixed income strategies for the most part outperformed, with Pandal Sustainable Australian Fixed Interest Fund, Altius Sustainable Bond Fund and PIMCO ESG Global Bond Fund all adding good value. As previously noted the Altius Sustainable Bond Fund has been downgraded to 'Investment Grade' by Lonsec's investment research team, following an extended period of underperformance. The fund's rating has fallen below Lonsec's minimum quality criteria of a 'Recommended' rating or higher and will therefore be removed from the portfolio.

Outlook

The latest round of economic shutdowns in NSW and Victoria, combined with slowing growth out of China, have had a negative impact on a range of domestic indicators including business confidence, consumer confidence and building approvals. This has resulted in a deterioration in our Australian Equities cyclical signal which now sits at neutral. While we expect some of these indicators to reverse as the two largest states begin to ease restrictions, equity valuations remain elevated suggesting there is less reward on offer for taking risk than in previous re-openings. While we believe the global economic recovery remains largely intact, it is slowing, and this slightly more defensive element in our risk positioning we think is prudent as central banks start to think about removing policy stimulus.

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
Macquarie

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