

Lonsec Sustainable Managed Portfolios - Balanced

Portfolio performance – October 2023

	1 mth (%)	3 mth (%)	1 yr (% pa)	3 yr (% pa)	5 yr (% pa)	S.I. (% pa)
Portfolio Total Return*	-2.45	-5.72	1.35			1.08
Peer Group Benchmark**	-1.64	-3.92	2.64			1.82
Excess Return	-0.81	-1.80	-1.29			-0.74

Past performance is not a reliable indicator of future performance. Performance is calculated before taxes, 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. *Inception date December 2020. **Peer Group Benchmark is based on the FE UT Peer Group Multi-Asset Indices.

Market review

The Australian sharemarket continued its decline in October finishing the month lower by 3.8% with heavy falls in Information Technology, Health Care and Industrials. 10 of the 11 sectors finished in the red, with Utilities finishing October as the only bright spot in the market. Several factors contributed to the drag on returns, including stubborn inflation, rising bond yields, tentative company earnings outlooks and ongoing geo-political tension in the Middle East.

Global equities had another negative month across the board, developed markets outperformed emerging markets counterparts returning -1.0% (MSCI World Ex-Australia Index (AUD)) versus a -2.0% return according to the MSCI Emerging Markets Index (AUD). US equities also declined following the Federal Reserve's stance of a "restrictive" policy until inflation seems to ease.

Domestically the A-REIT index (represented by the S&P/ASX 200 A-REIT Accumulation Index) ended the month -5.8% lower. Global REITS (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) slightly outperformed the local REIT index, albeit still experiencing a significant drawdown of -4.4% during the month. Australian infrastructure finished lower through October, with the S&P/ASX Infrastructure Index TR returning -3.1% for the month.

Michele Bullock has kept the cash rate at 4.10% in her first meeting as Governor of the RBA. The month saw bond yields rise, with Australian 10- and 2- Year Government Bond yield rising by 44bps and 37bps respectively. Unsurprisingly the Bloomberg AusBond Composite 0+ Yr Index returned -1.85%. The US Federal Reserve, who is observing resilient growth, delivered a "hawkish hold" at its meeting on the 1st of November. In contrast, in Europe and the UK, the respective central banks recognise that inflation is proving sticky in its decline. Higher yields have led to mark to market losses in fixed income markets, with the Bloomberg Global Aggregate Index (AUD) returning -0.8% over October.

Sustainable impact*

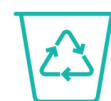
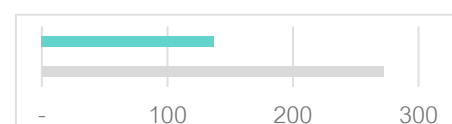
As at September 2023

■ Lonsec Sustainable Balanced ■ Proxy Benchmark



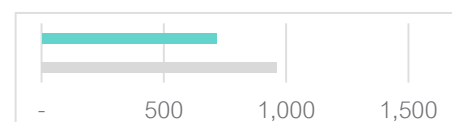
Carbon Efficiency

Tonnes of Scope 1 & 2 carbon emissions¹ per \$1m revenue



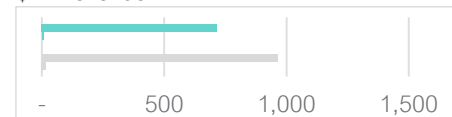
Waste Efficiency

Tonnes of waste generated per \$1m revenue



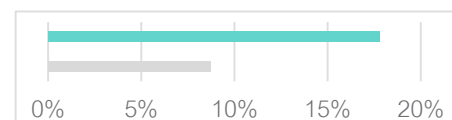
Water Efficiency

Thousand cubic metres fresh water used per \$1m revenue



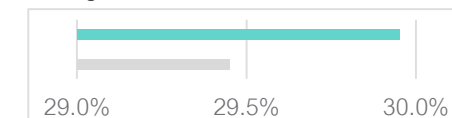
Environmental Good

Portfolio revenues allocated to environmental solutions defined by the UN SDGs



Gender Equality

Percentage of women in boards and top management



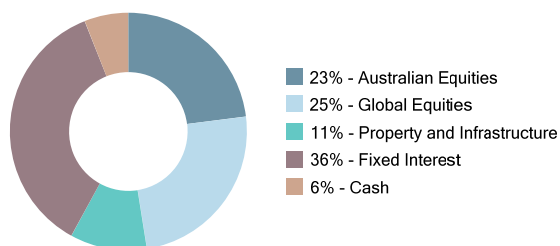
¹ Scope 1 covers emissions from sources that an organisation owns or controls directly. Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced.

* Source: Impact Cubed. Proxy benchmark and portfolio data based on Lonsec's Strategic Asset Allocation, excluding cash & fixed income.

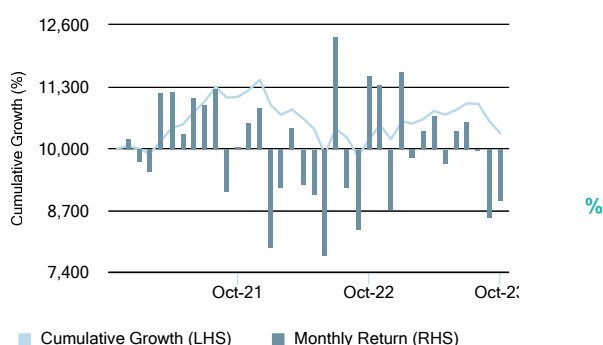
We strongly recommend that potential investors read the product disclosure statement or investment statement.

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Asset allocation breakdown



Cumulative performance (5 years)



Top 3 contributors to performance

iShares Core Cash ETF	0.01
Bloomberg AusBond Bank Bill Index AUD	0.01
AXA IM Sustainable Equity Fund	-0.01

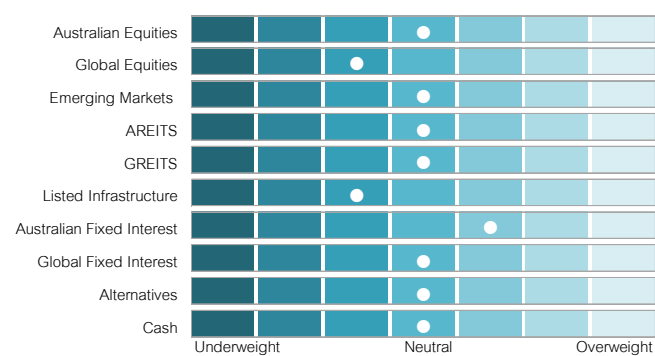
Bottom 3 contributors to performance

Australian Ethical Australian Shares Fund (Wholesale)	-0.38
Ausbil Active Sustainable Equity	-0.29
Pengana WHEB Sustainable Impact Fund	-0.28

Portfolio changes

Pendal Sustainable Australian Fixed Interest Fund	1%
ATLAS Infrastructure Australian Feeder Fund AUD Hedged Class	-0.5%
Bloomberg AusBond Bank Bill Index AUD	-0.5%

Dynamic Asset Allocation Positioning



Portfolio Commentary

The portfolio returned -2.45% for the month of October, underperforming the peer group benchmark. Dynamic asset allocation (DAA) had a neutral impact on performance, as the slightly underweight positions in global equities and global listed infrastructure were offset by the slight overweight to Australian fixed income.

Manager selection detracted for the month, as outperformance within fixed interest was offset by weaker performance from equities and AREIT managers. The strongest relative returns were generated by the Janus Henderson Tactical Income Fund, as the Fund's overweight to credit outperformed in a month where rising rates hurt duration exposures, followed by the ATLAS Infrastructure Australian Feeder Fund and Resolution Capital Global Property Securities Fund within real assets. The top performing equity managers for the month were the Alphinity Sustainable Share Fund and AXA IM Sustainable Equity Fund.

This was offset by weaker relative performance from the Pengana WHEB Sustainable Impact Fund, which underperformed due to its bias towards mid cap stocks and exposures within the Fund's 'Health' theme, such as Lonza. The Australian Ethical Australian Shares Fund, Ausbil Active Sustainable Equity Fund and Generation Wholesale Global Share Fund also underperformed their benchmarks.

Outlook

We believe that we are at the beginning of the end of this economic cycle. However, the duration of this slowdown remains elusive as employment conditions remain robust. Historical US recessions have been as short as two months to as long as 18 months but have averaged ten months overall. As a result, we believe now is the time to be cautious but not outright bearish.

Interest rates will stay higher for longer. Short-term interest rates continue to be influenced by inflation that, in turn, is not falling fast enough because of factors outside Central Banks' control. For example, Reserve Bank of Australia (RBA) rate hikes will not mitigate the inflationary impact of strong immigration pushing up rental prices. For long term interest rates, the unsustainability of the US fiscal path remains a simmering issue, putting upward pressure on long-term interest rates.

Compensation to equity investors is poor for taking on equity risk at this point in the cycle. Equally poor expected earnings growth compounds the disadvantage to equity investors.

During the month we made some changes to fund allocations, to reflect Lonsec's latest Dynamic Asset Allocation positioning.

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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.

Portfolio objectives

To deliver a balance of capital growth and income over the medium term, through exposure across a range of asset classes and strategies that incorporate ESG and sustainable principles within their investment processes.

The portfolio aims to balance the need to deliver a mix of income and growth while creating impact by making an above benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs) agenda.

Cash +2.4% p.a.

Suggested minimum investment timeframe

5 years

Investment strategy

By incorporating ESG factors into its investment decision making, Lonsec aims to reduce the risks associated with the impacts of ESG issues and generate more sustainable, long-term returns for its investors. Consequently, ESG considerations are heavily embedded in Lonsec's investment selection process. Lonsec's proprietary Sustainability Score or 'Bee Score' assists Lonsec in identifying funds that deliver a net positive impact.

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
Macquarie
BT Panorama

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