

Lonsec Listed Managed Portfolios - Balanced

Portfolio performance - December 2023

	1 mth (%)	3 mth (%)	1 yr (% pa)	3 yr (% pa)	5 yr (% pa)	S.I. (% pa)
Portfolio Total Return*	3.53	5.21	9.44	4.32	6.44	6.81
Peer Group Benchmark**	3.29	5.05	8.83	3.76	5.44	5.82
Excess Return	0.24	0.16	0.61	0.56	1.00	0.99

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. *Performance prior to 1 December 2010 is based on a notional portfolio. **Peer Group Benchmark is based on the FE UT Peer Group Multi-Asset Indices.

Market review

The Australian share market ended the year on a high note, with the ASX200 benchmark gaining a remarkable 12.7% in November and December. The quarterly rally was driven by the rate sensitive sectors, including REITs (+16%), while Materials (+13%) and Banks (+10%) also outperformed. Energy (-9%) was the weakest performer as crude oil prices declined over the quarter.

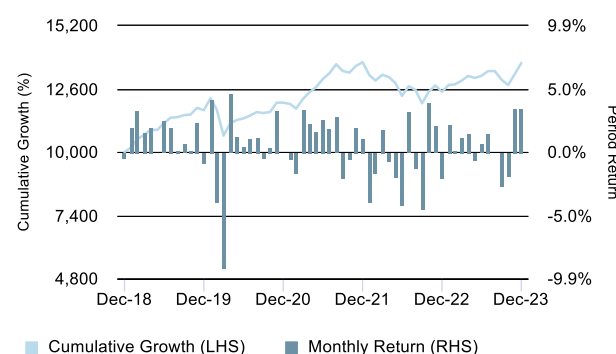
Global equities rose 5% over the quarter and 23% over calendar 2023. In contrast, the Japanese Nikkei was flat in local currency terms, and negative in USD terms as the yen strengthened into year end, due to the anticipated end of the Bank of Japan's yield curve control policy. Year to date returns were in positive territory in the major regions (US +20%, Europe +13% and Japan +24%).

Real assets enjoyed a strong month and quarter, with the prospect of 2024 rate cuts boosting these sectors after they underperformed for most of the year. Within REITs, the S&P/ASX 200 A-REIT Accumulation Index and the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged) returned 17% and 13%, respectively over the quarter. The Global Infrastructure sector (as represented by the FTSE Global Core Infrastructure 50/50 Index (AUD Hedged)) finished 3% higher for December and 8% higher for the quarter.

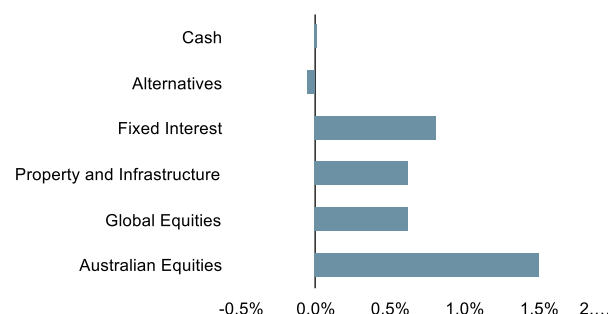
The RBA left rates on hold in its final meeting of 2023, although remained less dovish about rate cuts in 2024 compared to other central banks. Australian bond yields followed US yields lower over the month, with 10-year yields falling 45bps to 3.96%. US bond yields fell again in December, down 48bps, as markets reacted to Federal Reserve's flagging of potential rate cuts in the coming months.

The domestic and global fixed interest indices rose over the quarter, with markets starting to price in potential rates cuts in 2024. The Bloomberg AusBond Composite 0+ Years Index gained 3.8% for the quarter, while the Bloomberg Global Aggregate Index (AUD Hedged) rose 5.4%.

Cumulative performance (5 years)



Performance contribution



Performance contribution measures the absolute contribution of each constituent asset class to the total performance of the portfolio.

Top 3 contributors to performance	%
Lonsec SMA - Core	1.35
Vanguard Global Aggregate Bond Index (Hedged) ETF	0.44
Vanguard Australian Property Securities Index ETF	0.35

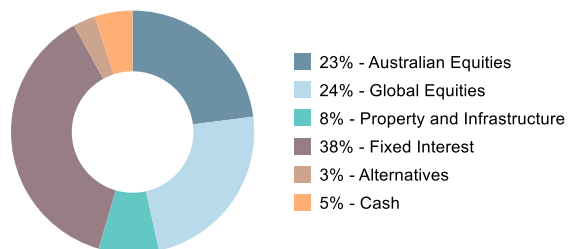
Bottom 3 contributors to performance	%
ActiveX Ardea Real Outcome Bond Fund (Managed Fund)	-0.06
Global X Physical Gold	-0.05
Generic Cash	0.01

Portfolio changes	%
Vanguard Global Aggregate Bond Index (Hedged) ETF	13%
Betashares Global Shares ETF	3%
iShares Global Consumer Staples ETF	-1%
iShares Global Healthcare ETF	-2%
Vanguard International Fixed Interest Index ETF (Hedged)	-13%

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

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Asset allocation breakdown



Portfolio Commentary

The portfolio returned 5.2% over the December quarter, as both equities and bonds rallied into year-end after indications from central banks that the end of the current rate hiking cycle is imminent, with markets starting to price in potential rates cuts in 2024. On the back of a strong Q4, rolling year portfolio returns were positive, and ahead of the benchmark.

The portfolio's developed markets global equities allocation outperformed over the month, led by the Betashares Global Shares Currency Hedged ETF (+4%) and the Barrow Hanley Global Share Fund ETF (+2%). For the quarter, the top performer was the Betashares Global Shares Currency Hedged ETF (+9%). Emerging markets exposures were positive for December, as the active Betashares Martin Currie Emerging Markets ETF (+2%) outperformed the benchmark return of 1%. Emerging markets ended the year up 9%, however underperformed developed markets.

The Vanguard AREIT ETF and active Resolution GREIT rose in December and returned 15.7% and 15.1% respectively over the quarter, while IFRA returned 8.9%. The overall portfolio allocation to real assets has been a key detractor to portfolio performance over the rolling year, despite a very strong December quarter.

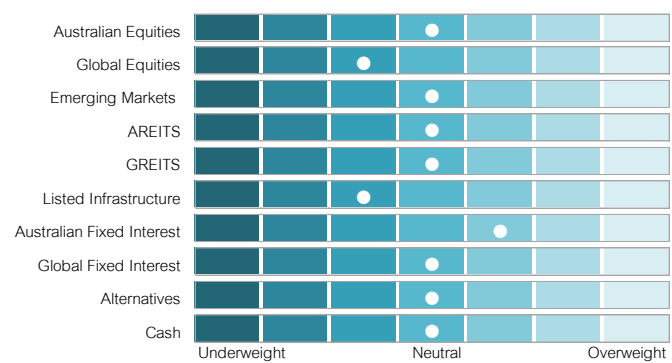
In Australian equities, the Core portfolio returned 6.4% over December, lagging the benchmark by 82bps. This was primarily driven by the portfolio's exposure to the rate sensitive businesses including Insurance (SUN, QBE, SDF) and the underweight exposure to Banks and Resources. The resources sector outperformed in December (MVR 7.6%), but underperformed the market over the quarter, with base metals and Energy lagging the strong rally in iron ore over the period.

The portfolio's fixed income allocations were mixed against the benchmark over the quarter, as the shorter duration exposures continued to underperform in December due to ongoing declines in bond yields, benefiting funds with duration exposure. This was a sharp reversal from earlier in the year when these exposures protected the portfolios as yields rose sharply.

All funds posted positive absolute returns for the month and quarter, with the exception of the Ardea Real Outcome Fund.

In addition to adding duration within the fixed income allocation over the year, we have also recently adjusted the portfolio's global bonds allocation by reducing exposure to Japanese bonds, on concerns that the Bank of Japan could start raising rates in 2024. Japan is one of the very few countries with a negative cash rate and yield curve control over their 10-year bonds, with a reference rate of less than 1%.

Dynamic Asset Allocation Positioning



Outlook

Macroeconomic conditions continue to decelerate, consistent with our ongoing thesis that we have entered the end of this cycle. However, beyond just trying to identify the point where we will begin to shift our portfolios into more of a defensive posture, we note that the cycle is impacting different groups, regions and even stocks differently. Without a consensus or majority of factors moving negatively and few signs that this "muddle through" situation breaks into a definitive trend, we continue to hold a cautious but not bearish stance on markets.

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Portfolio at a glance

Designed for

The portfolio is designed to provide investors with a balance of income and capital growth over the medium term through exposure across a range of asset classes by investing in listed securities.

Investment objective

2.4% p.a. above cash

Suggested minimum investment timeframe

5 years

Investment strategy

The portfolio invests in a mix of income and growth assets, which may include Australian and global equities, property and infrastructure, fixed interest and income securities, alternative assets and cash.

Investment universe

The portfolio invests across a diversified range of Australian equities, global equities, property and infrastructure, fixed interest assets alternative assets.

The portfolio can access such exposure through Australian Listed Securities including Exchange Traded Funds (ETFs), Exchange Traded Products (ETPs) such as Listed Investment Companies (LICs) and Listed Investment Trusts (LITs), Exchange Traded Bonds (XTBs) and Exchange Traded Hybrids, Separately Managed Accounts (SMAs) and cash.

Target exposure

Growth assets	Defensive assets
60%	40%



Platform availability

BT Panorama
HUB24
Macquarie Wrap
Netwealth
Praemium
CFS Firstwrap
AMP North

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