



Lonsec's investment philosophy and portfolio construction process – managed portfolios

Lonsec Investment Solutions

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Our solutions

Lonsec Investment Solutions provides financial advisers, dealer groups and wealth management institutions with access to the knowledge and expertise to construct high quality portfolios, offering our best ideas via our bespoke investment consulting service or encapsulated in Lonsec's managed portfolios and SMAs, to meet different client needs.

Investment research

Access market insights and portfolio construction tools from one of Australia's leading investment research houses.

Investment consulting

Harness our portfolio construction and research expertise within your own investment committee process.

Tailored portfolios

Leverage our experience in portfolio construction and managed account structures to develop your own managed account solutions.

Managed portfolios

Outsource the core elements of portfolio construction to tap into the expertise and resources of a leading research house.

Individually Managed Accounts

Harness the personalisation available with an Individually Managed Account. These accounts operate under a different investment philosophy, portfolio construction process and Asset Allocation Investment Committee from the LIS managed portfolios.

Our investment philosophy

Lonsec's investment research driven approach to portfolio construction is underpinned by four key beliefs:

one

A dynamic approach to portfolio management to achieve investment objectives while managing downside risk.

two

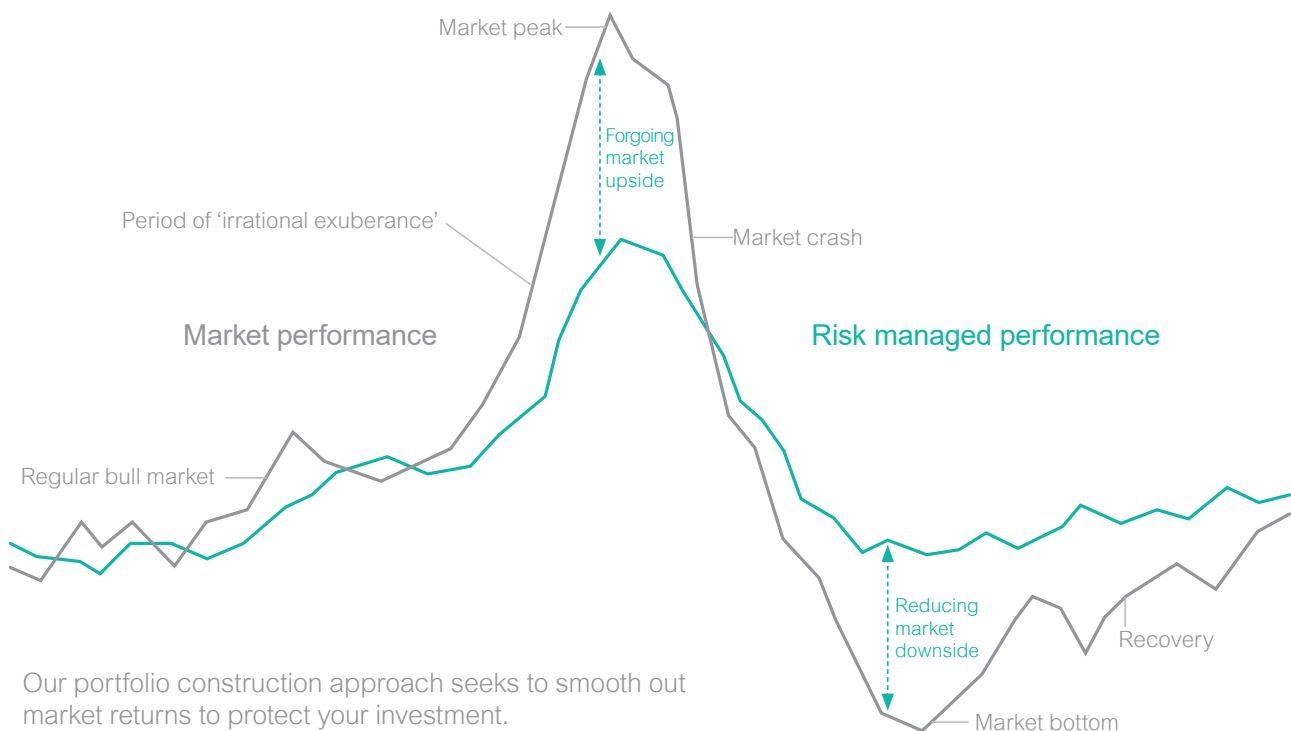
Investing in high quality investments underpinned by Lonsec's extensive research.

three

A strong risk management culture supported by a rigorous governance process.

four

A diversified approach to portfolio construction.



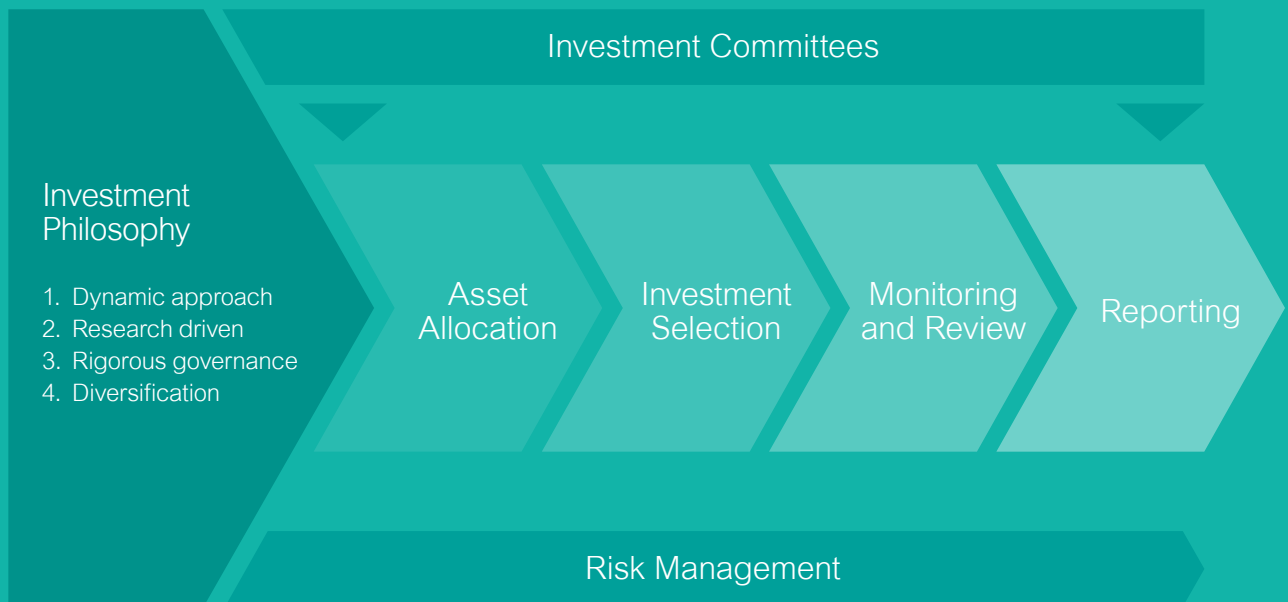
Our portfolio construction approach seeks to smooth out market returns to protect your investment.

Smoothing out returns by forgoing some potential upside, whilst limiting the downside, will result in superior long-term performance. Philosophically aligned to this belief, our portfolios are designed to keep pace with market returns while outperforming the market during a downturn.

Our portfolio construction process

Lonsec's investment process combines a dynamic approach to asset allocation with active investment selection.

The chart below shows Lonsec's portfolio construction process:



Asset allocation

A key part of our portfolio construction process is to establish an asset allocation based on the objectives set for the portfolios.

We apply a dynamic approach to asset allocation designed to manage portfolio risk as well as enhance portfolio returns over the medium term. Our dynamic asset allocation process focuses on three key factors:



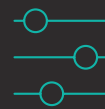
Asset class valuations

We utilise a range of valuation metrics to assess whether asset classes are expensive or offer value over the long term.



An assessment of the business cycle

We analyse whether the business cycle is in an expansionary or contractionary phase by assessing a range of macro-economic indicators.



Sentiment and momentum

We observe a range of indicators to determine short term market sentiment.

Our investment teams will tilt the portfolio asset allocation away from our neutral strategic asset allocation within the allowable asset class ranges based on our assessment of these key factors.

Our neutral strategic asset allocation process seeks to determine a neutral asset allocation framework designed to maximise return and minimise risk over the long term. We incorporate both quantitative and qualitative inputs in determining the neutral strategic asset allocation target weights, including our proprietary forward-looking capital market

assumptions, an assessment of risks such as volatility and liquidity risk, and correlations between asset classes.

We conduct a formal review of the strategic asset allocation every two years and reassesses the inputs on an annual basis. The objective of the formal review is to ensure that our strategic asset allocation framework remains robust and continues to be effective in achieving the stated investment objectives of the respective risk profiles in the long term.

Investment selection

Our investment selection process has a focus on quality, diversification and risk. To be eligible for portfolio inclusion, fund managers must meet our minimum quality criteria which includes funds rated Recommended or higher by our investment research team.

Leveraging the knowledge and expertise of one of Australia's largest investment product research teams, Lonsec Research Pty Ltd (Lonsec Research) conducts comprehensive research across all asset classes including listed and unlisted investment structures. Investments are assessed on a forward-looking basis considering key factors such as people, philosophy, process, portfolio construction and risk management. Investment products rated Recommended or higher are believed to exhibit competitive advantages to peers in these factors and are also believed to have a high probability of achieving their investment objectives.

Portfolio allocations take into account the role each fund will play within the portfolio.

We build portfolios using three key building blocks:

Market exposure

Exposure to market returns either via long only-active management or passive strategies.

Risk control

Exposure to strategies that have the ability to reduce downside risk. These strategies are designed to act as a 'shock absorber' for the portfolios.

Value add

Strategies that are designed to generate strong relative long-term growth or diversification from traditional asset classes.

Our qualitative investment selection process is supported by rigorous quantitative analysis including holdings-based analysis, risk and return based analysis, and forward-looking scenario analysis. We use a range of quantitative tools including the iRate portfolio analytics tools, Financial Express, Style Research and Bloomberg.

Changes to the portfolio's underlying investment will be made when there is a clear catalyst to make a change. Some examples for when our investment team will make changes include:

- An investment falls below the minimum product quality criteria, i.e. an investment product rating falls below the minimum recommended rating.
- An investment is approaching their stated capacity, in terms of their funds under management.
- An investment is not performing in-line with the intended objective the product was included in the portfolios to perform. For example, when a fund manager has been included to provide downside risk management, but the manager's risk and return outcomes are not consistent with the desired characteristics over the medium to long-term.
- When we are reconfiguring the composition of the portfolio based on a medium-term view of risks in the market.

We aim to keep portfolio turnover below 40% per annum. All portfolio changes are made via our investment committee process.

Lonsec's investment committees

We believe that a strong governance framework is critical in making effective portfolio decisions. Having an investment committee process governed by an investment committee charter and comprised of experienced investment professionals with diverse areas of expertise, reflects best practice in portfolio construction decision making.

Our investment committee is responsible for all investment decisions relating to Lonsec's managed portfolios including asset allocation and investment selection decisions. We operate Asset Allocation and Fund Manager Selection committees, with membership comprising of Lonsec's CIO, the Heads of asset classes and investment consulting as well as external experts.

Our investment committees meet on a quarterly basis with the ability to meet intra quarter as required. All investment decisions are made by voting members of the investment committee, with the Chair of the committee having the ability to make a final call on any decision should there be a casting vote.

Asset Allocation Investment Committee

The Asset Allocation Investment Committee is responsible for the provision of our dynamic and strategic asset allocation recommendations.



Lonsec's external experts – Macro Strategy and Asset Allocation

Chief Investment Officer

Head of Investment Consulting

Director of Research

Portfolio Manager, Multi-Asset Products

Portfolio Manager, Listed Products

Senior Investment Consultants

External experts

Having input from external experts into an investment committee encourages diversity of views and brings additional expertise to the investment committee framework.

We have a minimum standard of two external experts within our investment committee process. Each external expert brings a wealth of knowledge to the Asset Allocation Investment Committee.

Lonsec's external experts – Macro Strategy and Asset Allocation

The external experts provide independent and objective macro strategy and asset allocation views to the investment committee on a quarterly basis, as well as global economic, geopolitical and financial markets recommendations.

Manager Selection Committee

The Manager Selection Committee approves all fund manager allocation decisions. The Committee is made up of managed fund experts from across the Lonsec Group and is responsible for setting the objectives, strategy and rules for each model portfolio, monitoring performance and approving any manager changes to the model portfolios.

Title	Responsibility
Head of Investment Consulting	Chairperson
Chief Investment Officer	Portfolio construction and manager selection
Director of Research	Portfolio construction and listed security selection
Portfolio Manager, Multi-Asset Products	Portfolio construction and manager selection
Portfolio Manager, Listed Products	Portfolio construction and listed security selection
Senior Investment Consultant	Portfolio construction and manager selection
Senior Investment Consultant	Portfolio construction and manager selection
Senior Investment Consultant	Portfolio construction and manager selection

Portfolio review and reporting

Our investment committee process is the forum for overseeing Lonsec's managed portfolios. In addition to the formal investment committee process, we meet with the underlying investment managers used within our managed portfolios, as part of the formal product review process. Additionally, the investment consulting team meets with existing and prospective investment managers for portfolio updates.

As part of the managed portfolios reporting process, we provide regular reports to our partner platform providers, including performance, risk and attribution analysis. This forms part of the RE (Responsible Entity) and superannuation trustee platform monitoring process.

We provide regular reporting to financial advisers using Lonsec's managed portfolios. This includes monthly and quarterly performance reports with information on the performance of the portfolios against the relevant benchmark, contribution to returns and portfolio and market commentaries. The performance reports are included in the Monthly Portfolio Update which also includes our investment insights, updates on portfolio changes and upcoming events. Our advisers are also immediately notified with a portfolio update when a change has been made to portfolios, providing detailed information of the change and the rationale.

The Monthly Portfolio Update includes performance reports, investment insights, updates on portfolio changes and upcoming events.

Want to find out more

Get in touch today to find out how we can help you start implementing managed portfolio solutions for your clients. Call us on **1300 826 395** or email **info@lonsec.com.au**

[Lonsec.com.au](https://lonsec.com.au)

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