

Lonsec SMA - Core

Portfolio performance April 2022	1 mth (%)	3mth (%)	1 yr (% pa)	2 yr (% pa)	3 yr (% pa)	5 yr (% pa)	7 yr (% pa)	10 yr (% pa)	15 yr (% pa)	Since Inception (%)
Lonsec SMA Core	0.5	7.7	11.7	19.3	11.7	10.1	8.8	10.6	7.5	12.2
S&P/ASX 200 Acc. Index	-0.9	8.2	10.2	20.0	9.4	8.8	7.9	9.9	5.7	8.4
Excess Return	1.4	-0.6	1.6	-0.7	2.3	1.3	0.8	0.7	1.8	3.8

Past performance is not a reliable indicator of future performance. Performance is calculated before taxes and platform 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 model portfolio. Totals presented in this report may not sum due to rounding. Total return since inception April 2000. Gross performance including dividends (but not franking credits).

Portfolio characteristics

Portfolio P/E (X)	18.4	Portfolio Yield (%)	3.5	Tracking Error (5-yr)	4.9
Portfolio ROE (%)	21.7	Franking (%)	67	Portfolio Vol. (5-yr)	13.6
Portfolio Turnover (%)	20-30	Portfolio Beta (5-yr)	0.9	Benchmark Vol. (5-yr)	14.8

Monthly commentary

Market review

The Australian sharemarket fell slightly in April, the S&P/ASX 200 losing 0.9%. In terms of sector returns, Utilities (+9.3%) and Industrials (+3.5%) outperformed, while rising bond yields and earnings disappointments from US Big Tech companies weighed on the local IT sector (-10.4%).

The dispersion of major style factors continued, with Value gaining 0.2% in April, while Growth fell 1.9%. Over the 12 months to April, Value remains the strongest-performing style factor with a return of +17.9%.

Inflation concerns remained a major influence on the markets this month, with both the US (+8.5%) and Australia (+5.1%) reporting large annualised price increases compared to the previous year. These metrics strengthened the case for rapid monetary tightening by the central banks, which caused bond yields to continue rising.

Consumer sentiment continued to decline, the April index reading of 95.8 representing its lowest point since September 2020 when pandemic fears were dominant. The unemployment rate remained at a historically low 4.0%, although the Federal Budget has forecast that it would continue to fall through the year to reach 3.75%.

A further influence on Australian stocks, in particular, was the news of a further escalation of COVID-19 outbreaks in China's major cities. The expected detriment of widespread lockdowns to that country's property development and steelmaking activity caused sharp falls in the prices of iron ore and the shares of its prominent Australian miners, as well as a steep drop in the Australian dollar. The local currency finished April down 4c at US\$0.706.

Portfolio review

The portfolio returned 0.5% in April, outperforming the S&P/ASX 200 benchmark by 138bps. While prospects for rising interest rates remain a headwind for the portfolio's quality/growth stocks, the ability of such companies to pass on rising costs brought some of them into favour as Australia's annual CPI inflation rate increased to 5.1% (annualised, from 3.5% in Q4 of 2021). The portfolio's longer-term performance remains very strong, with rolling three year returns of 11.7%p.a., 228bps ahead of its benchmark.

At the stock level, the major contributors included Amcor (+10%), Transurban (+6%) and Elders (+7%). The main detractors were BHP (-7%), Resmed (-10%) and Aristocrat Leisure (-8%).

Amcor rallied at the end of the month, assisted by bullish earnings guidance released by its packaging peer Orora. Since Orora was actually spun off from Amcor in 2013, the companies operate in different market segments, but still experience similar industry conditions. Amcor was also expected to report strong Q3 earnings in early May, showing robust profit margins as the company offsets high input costs with price hikes and operating efficiencies.

Transurban also performed well, releasing quarterly traffic statistics during the month which showed a modest increase over 2019's pre-COVID levels for the month of March. This was more impressive given the extreme East coast rainfall during the period, providing encouraging signs of a long-awaited recovery after a challenging period for the sector.

Lonsec

Last portfolio activity

Remove/Reduce	ASX, COL, CSL, SHL
Add/Increase	QUB, SUN, CPU

Last change: 8 September 2021

Portfolio strategy

Lonsec believes that higher quality companies will outperform lower quality companies over time. Lonsec also believes that markets tend to be inefficient over the short term, leading to such higher quality companies trading at a discount to their intrinsic valuation from time to time. Lonsec considers that a detailed 'bottom-up' investment process, implemented by an experienced investment team, can exploit such opportunities as they occur to add alpha over a market cycle. Combined, this focus on quality and value forms the backbone of Lonsec's 'Quality-at-a-Reasonable-Price' or QARP investment style.

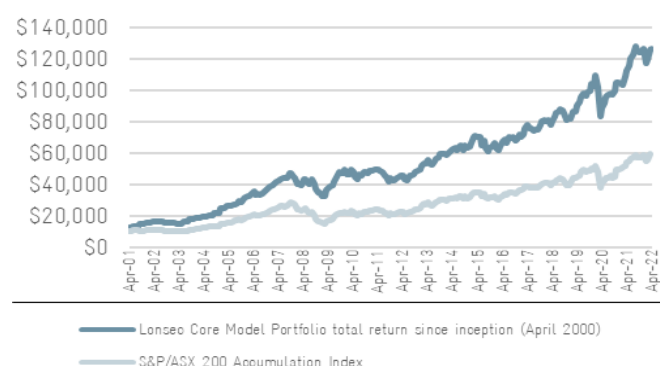
The Core portfolio has maintained its 'defensive growth' bias into 2022, reflecting our preference for more resilient and higher quality businesses which exhibit lower levels of cyclicality and earnings volatility through the cycle. This is evident by the portfolio's overweight exposure to the Healthcare and Consumer Staples sectors, and underweight exposure to Financials, IT and Consumer Discretionary.

Portfolio objective

To deliver strong returns above benchmark, over the medium to long term, by investing in a concentrated portfolio of quality Australian companies.

Suitable for investors seeking capital growth, and a solid dividend yield, over a holding period of at least three years.

Portfolio profile



* Yield figures are notional in nature and reflect the model portfolio weightings. Refer to page 3 for important disclosures regarding Lonsec's equity model portfolios

A \$10,000 investment in the Core portfolio at inception (April 2000) would now be worth around \$126,108. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around \$59,426. Both figures include dividends (but not franking credits) and are gross of fees.

GICS Sector	ASX200 (%)	Portfolio (%)	Active Weight (%)
Communication Services	5.0	2.5	-2.5
Consumer Disc.	6.7	4.9	-1.8
Consumer Staples	5.0	11.0	6.0
Energy	3.9	0.0	-3.9
Financials	29.1	22.1	-7.0
Health Care	9.4	18.4	9.0
Industrials	5.6	9.8	4.2
IT	3.3	2.5	-0.8
Materials	24.8	22.1	-2.7
Real Estate	6.9	4.9	-2.0
Utilities	1.4	0.0	-1.4
Cash	0	2.0	2.0
TOTAL	100	100.0	

- The main overweight positions in the portfolio are Healthcare, Consumer Staples and Industrials.
- Investors should note that JHX and AMC are ranked under Materials when widely viewed as Industrial exposures.
- The main underweight positions in the portfolio are Financials, Energy and Materials.

Portfolio style and construction rules

Investment Philosophy	QARP, High Conviction
Investment Universe	ASX 200 Stocks
Benchmark	S&P/ASX 200 Accumulation Index
Inception Date	April 2000
Typical No. of Stocks	15-25
Minimum/Maximum Stock Weights	2.5% - 15.0%
Stock Limit	Stock Weight +10.0%
Sector Limit	Sector Weight +20.0%
Cash Limit	0 -10%
Typical Turnover	20-30% (3-5 Changes Per Annum)
Platform Availability	BT Panorama, FinClear, CFS FirstWrap HUB24, Macquarie, Praemium

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

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Report prepared by

Nick Field, Associate Portfolio Manager

Release authorised by

Danial Moradi, Portfolio Manager

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