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# Lonsec SMA - Core

## Portfolio performance

| December 2023 | 1 mth (%) | 3mth (%) | 1 yr (% pa) | 3 yr (% pa) | 5 yr (% pa) | 7 yr (% pa) | 10 yr (% pa) | 15 yr (% pa) | 20 yr (% pa) | Since Inception (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Lonsec SMA Core | 6.43 | 6.41 | 8.33 | 6.99 | 9.33 | 8.75 | 7.93 | 9.11 | 10.06 | 11.36 |
| S&P/ASX 200 Acc. Index | 7.26 | 8.40 | 12.42 | 9.24 | 10.28 | 8.51 | 7.93 | 9.42 | 8.79 | 8.21 |
| Excess Return | -0.82 | -1.99 | -4.09 | -2.25 | -0.95 | 0.23 | 0.00 | -0.32 | 1.27 | 3.14 |

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) | 20.1 | Portfolio Yield (%) | 3.3 | Tracking Error (5-yr) | 5.3 |
| Portfolio ROE (%) | 20.1 | Franking (%) | 60 | Portfolio Vol. (5-yr) | 15.0 |
| Portfolio Turnover (%) | 20-30 | Portfolio Beta (5-yr) | 0.86 | Benchmark Vol. (5-yr) | 16.6 |

## Monthly commentary

### 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. The Small Ordinaries index broadly matched the ASX 200 index, returning 7.2% for the month and 8.5% for the quarter.

Both the Value and Growth factors (as measured by S&P) rose in December, returning 7.0% and 7.6% respectively. For the quarter, Growth returned 8.5% while Value gained 8.3%. The ASX 200 index as a whole was up 12.4% for the year to December.

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. Modest GDP growth in the September quarter and slowing consumption emerged as potential economic headwinds going into 2024, however core inflation remained above 5%, complicating the RBA's outlook. 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, as 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. The Bloomberg AusBond Composite 0+ Years Index gained 3.8% for the quarter, while the Bloomberg Global Aggregate Index (AUD Hedged) rose 5.4%.

### Portfolio review

The 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. We believe the outlook for the insurance sector remains positive, driven by a hardening premium cycle, expanding insurance margins across the industry, and elevated investment earnings, particularly in a "higher-for-longer" setting.

For the quarter, the portfolio returned 6.4%. At the stock level, key contributors for the quarter were RIO (+19%), Goodman Group (+19%), REA Group (+17%), CSL (+14%) and BHP (+14%). Key detractors over the quarter included Computershare (-6%), QBE (-6%) and Santos (-4%).

While the portfolio has outperformed over the long term, portfolio underperformance over last three years is currently reflecting a period of heightened volatility and performance divergence across the various ASX sectors, with the ASX300 Resources (+14.2% p.a.) and Energy (+15.9% p.a.) benchmarks outperforming the broader ASX300 Industrials benchmark (+7.2%) over the last three years. The performance disparity with more traditionally defensive sectors like Healthcare (+1.8% p.a.) and Consumer Staples (+1.8% p.a.) has been even larger.

We expect to see this divergence in sector performance to normalise over 2024, supported by the solid earnings growth profiles from companies within the less cyclical sectors.

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**Last portfolio activity**

| | |
|---|---|
| Remove/Reduce | TCL, QUB, WBC, ELD, CSL |
| Add/Increase | BHP, STO, NAB, QBE, RIO |

Last change: 23 October 2023

## 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.

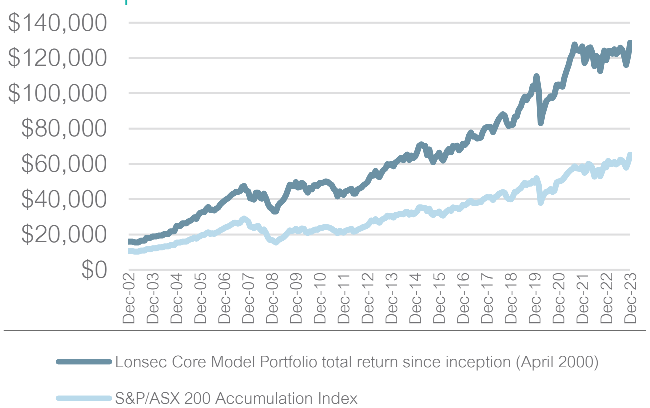
The Core portfolio typically maintains an overweight exposure to 'defensive growth' companies, reflecting our preference for more resilient and higher quality businesses which exhibit lower levels of cyclicality and earnings volatility through the cycle. This is evident by the portfolio's overweight exposure to the Healthcare and Consumer Staples sectors, and underweight exposure to Materials, Financials, Energy 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 $128,642. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around $65,192. Both figures include dividends (but not franking credits) and are gross of fees.

| GICS Sector | ASX200 (%) | Portfolio (%) | Active Weight (%) |
|---|---|---|---|
| Communication Services | 4.0 | 9 | 5.0 |
| Consumer Disc. | 6.8 | 7.7 | 0.9 |
| Consumer Staples | 4.2 | 7.7 | 3.5 |
| Energy | 5.0 | 5.1 | 0.1 |
| Financials | 28.5 | 25.5 | -3.0 |
| Health Care | 9.6 | 10.3 | 0.7 |
| Industrials | 6.8 | 11.6 | 4.8 |
| IT | 2.4 | 0 | -2.4 |
| Materials | 25.0 | 15.4 | -9.6 |
| Real Estate | 6.3 | 2.6 | -3.7 |
| Utilities | 1.4 | 0 | -1.4 |
| Cash | 0.0 | 5.1 | 5.1 |
| TOTAL | 100.0 | 100.0 | |

- The main overweight positions in the portfolio are Industrials, Consumer Staples and Communication Services, as well as Cash.
- The main underweight positions in the portfolio are Materials, Financials and Real Estate.

## 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 |

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## Analyst disclosure and certification

Analyst remuneration is not linked to the recommendations or advice. The analyst(s) may hold securities (or any other beneficial interest) in the companies referred to in this document. Lonsec considers any holdings not to be sufficiently material to compromise the recommendation or advice. Analyst(s) holdings may change during the life of this document. The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the securities to which this document refers.

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