Lonsec

Lonsec SMA - Core

Portfolio performance March 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	5.0	-0.8	15.3	22.9	13.1	10.6	8.5	10.7	7.6	12.2
S&P/ASX 200 Acc. Index	6.9	2.2	15.0	25.7	10.6	9.2	7.8	10.2	5.9	8.5
Excess Return	-1.9	-3.1	0.3	-2.8	2.5	1.3	0.7	0.5	1.7	3.7

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)	19.6	Portfolio Yield (%)	3.3	Tracking Error (5-yr)	4.9
Portfolio ROE (%)	21.3	Franking (%)	65	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 rebounded in March, with the S&P/ASX 200 gaining 6.9% in the month to finish 2.2% higher for the quarter. In terms of quarterly returns, Energy (+28.6%) and Materials (+15.4%) were the best performers, boosted by continued strong oil and iron ore prices, while IT (-13.7%) and Healthcare (-10.1%) had the largest falls on expectations for tightening monetary policy.

Major style factors delivered mixed returns for the quarter, with Value gaining 7.3% and Growth falling 2.5%. Over the 12 months to March, Value remains the strongest-performing style factor with a return of +19.5%.

The February reporting season in Australia was better than expected, resulting in a 2% increase to average expected EPS growth across the market for the full year. The earnings upgrades were predominantly focused on the Financials and Resources sectors, while Industrials and Real Estate generally saw EPS downgrades.

Economic data was mixed for this quarter. While February retail sales were better than expected, consumer confidence fell back to levels from the early 2020 COVID crisis. The unemployment rate remains 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%.

As bond yields and money markets priced in persistent inflation and the need for a steeper rise in the RBA's interest rates, the Australian dollar rose 2 cents to finish the quarter at US$0.75.

Portfolio review

The portfolio returned 5.0% in March, but underperformed the S&P/ASX 200 benchmark for both month and quarter. Over the year to date, the local sharemarket has seen extreme divergence in sector returns, with the more cyclical resources and banking sectors rallying strongly while defensive sectors fall. This dynamic has been the main driver of the Core portfolio's recent underperformance. Despite the short-term volatility, longer term performance remains ahead of the benchmark, with rolling three year returns of 13.1%p.a., 250bps ahead of its benchmark.

Portfolio stocks had a relatively strong reporting season in February. Looking ahead, earnings across the portfolio are expected to grow by c.12% in FY23, supplemented by a forecast dividend yield of 3.3%.

At the stock level, top quarterly contributors included Computershare (+25%), BHP (+30%) and Newcrest (+10%). The main detractors were James Hardie (-27%), Ansell (-17%) and Aristocrat Leisure (-16%).

Computershare was the largest contributor to excess returns this quarter, its acquisition of the Wells Fargo Corporate Trust operations having further increase earnings leverage to interest rates. Strong first half business performance, and expectations for multiple rate hikes in 2022, led the company to upgrade FY22 earnings guidance from +2% to +9% growth.

Ansell was a major detractor during the quarter, having already downgraded FY22 earnings in January ahead of its first half result briefing. This manufacturer of protective gloves has performed extremely well until mid-2021, but is now suffering margin pressure and disruptions to its global supply chain. We are reviewing the likelihood of an earnings recovery for this company.

Last portfolio activity

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

Last change: 7 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.

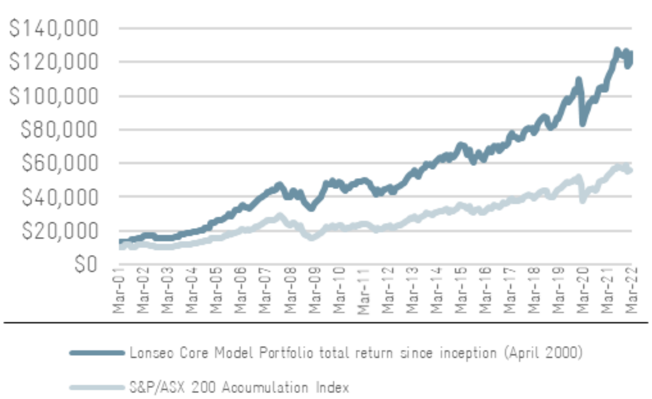
The Core portfolio has maintained its 'defensive growth' bias through 2021, reflecting our preference for more resilient and higher quality businesses which exhibit lower levels of cyclicality and earnings volatility through the cycle. This is evident by the portfolio's overweight exposure to the Healthcare 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 $125,453. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around $59,938. Both figures include dividends (but not franking credits) and are gross of fees.

GICS Sector	ASX200 (%)	Portfolio (%)	Active Weight (%)
Communication Services	3.9	2.5	-1.4
Consumer Disc.	6.9	4.9	-2.0
Consumer Staples	4.8	11.0	6.2
Energy	3.8	0.0	-3.8
Financials	28.8	22.1	-6.7
Health Care	9.1	18.4	9.3
Industrials	5.5	9.8	4.3
IT	3.6	2.5	-1.1
Materials	25.7	22.1	-3.6
Real Estate	6.7	4.9	-1.8
Utilities	1.3	0.0	-1.3
Cash	0.0	2.0	2.0
TOTAL	100.0	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 Consumer Discretionary.

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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