

Lonsec SMA - Core

Portfolio performance May 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	-2.4	3.0	6.3	15.6	10.0	10.3	8.3	11.1	7.2	12.0
S&P/ASX 200 Acc. Index	-2.6	3.2	4.8	15.9	7.8	8.8	7.5	10.4	5.3	8.2
Excess Return	0.2	-0.2	1.4	-0.3	2.1	1.5	0.9	0.7	1.9	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)	16.4	Portfolio Yield (%)	4.9	Tracking Error (5-yr)	4.9
Portfolio ROE (%)	20.6	Franking (%)	66	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 in May, the S&P/ASX 200 losing 2.6% while the Small Ordinaries dropped 7%. In terms of sector returns, Materials and Utilities were the only sectors to hold stable, while IT (-9%) and REITs (-9%) were most affected by the initiation of RBA rate rises.

The dispersion of major style factors was more modest this month, with both Value (-2%) and Growth (-3%) losing ground. However, over the 12 months to May, Value remains the strongest-performing style factor with a return of +11.7%, while Growth is down 1.7%.

Inflation and a steeper trajectory for interest rate rises continued to weigh on markets this month. Although the US economic data softened somewhat, with more modest inflation during April and a falling Purchasing Managers Index (PMI) for May, the US Federal Reserve continued its hawkish commentary, citing the need to “keep pushing” and possibly move more aggressively until inflation falls.

In Australia, the RBA undertook its first interest rate hike since 2010, raising the cash rate to 0.35%, noting that local inflation had increased faster than expected, and that domestic price and labour cost pressures were “broadening and building”. The RBA also confirmed that further interest rate rises would be required in the near-term.

Having fallen sharply in the previous month, the Australian dollar regained some ground in May, finishing up 1c at US\$0.718.

Portfolio review

The portfolio returned -2.4% in May, outperforming the S&P/ASX 200 benchmark by 20bps as a few core holdings bucked the general market trend downwards. The portfolio's longer-term performance remains very strong, with rolling three year returns of 10.0%p.a., 214bps ahead of its benchmark.

At the stock level, top contributors were Amcor (+9%), BHP (+4%) and Qube Logistics (+3%). The main detractors were Goodman Group (-14%), James Hardie (-12%) and Woolworths (-10%).

Amcor rallied again this month, as the company's 3rd quarter earnings confirmed the bullish expectations from peer results back in April. The group's profit margins benefited from a combination of mix shift towards high value products, price increases and cost management, and management narrowed its full year guidance to 9.5-11% EPS growth (previously 7-11%). Free cashflow remains strong, and is likely to support further capital management later in the calendar year.

BHP also rose in May, during which it demerged its petroleum division to Woodside. This portfolio received a fully-franked in specie dividend of new Woodside shares as part of the demerger, but after careful consideration, we have chosen to sell these shares and use the proceeds to bring the position in (now purely mining-focused) BHP back up to target weight.

Last portfolio activity

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

Last change: 8 September 2021

Lonsec

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.

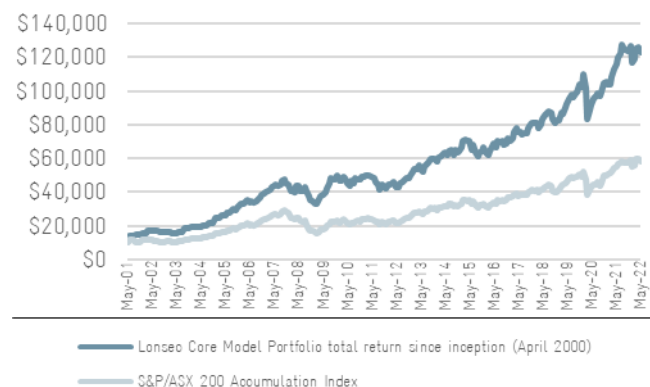
The Core portfolio has maintained its 'defensive growth' bias into 2022, reflecting our preference for more resilient and higher quality businesses which exhibit lower levels of cyclicality and earnings volatility through the cycle. This is evident by the portfolio's overweight exposure to the Healthcare 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 \$123,080. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around \$57,879. Both figures include dividends (but not franking credits) and are gross of fees.

GICS Sector	ASX200 (%)	Portfolio (%)	Active Weight (%)
Communication Services	3.8	2.5	-1.3
Consumer Disc.	6.5	4.9	-1.6
Consumer Staples	4.8	11.0	6.2
Energy	4.0	0.0	-4.0
Financials	28.9	22.1	-6.8
Health Care	9.5	18.4	8.9
Industrials	5.8	9.8	4.0
IT	3.1	2.5	-0.6
Materials	25.6	22.1	-3.5
Real Estate	6.5	4.9	-1.6
Utilities	1.5	0.0	-1.5
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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