Lonsec

Lonsec SMA - Core

Portfolio performance

November 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	4.08	-2.91	-2.72	4.89	8.23	8.36	7.37	8.59	9.94	11.10
S&P/ASX 200 Acc. Index	5.03	-1.80	1.45	7.15	8.72	8.09	7.26	8.89	8.67	7.92
Excess Return	-0.95	-1.10	-4.17	-2.25	-0.49	0.27	0.11	-0.31	1.26	3.18

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)	18.7	Portfolio Yield (%)	3.5	Tracking Error (5-yr)	5.3
Portfolio ROE (%)	20.1	Franking (%)	61	Portfolio Vol. (5-yr)	14.7
Portfolio Turnover (%)	20-30	Portfolio Beta (5-yr)	0.85	Benchmark Vol. (5-yr)	16.4

Monthly commentary

Market review

The Australian share market rebounded strongly in November, up 5% after a series of negative months. All sectors apart from Energy (-7%), Utilities (-6%) and Consumer Staples (-1%) posted positive returns. The best performing sectors for the month were Health Care (+12%), Real Estate (+11%) and Information Technology (+7%). Following a strong November, the only sectors in the red year to date now are Health Care (-5%) and Consumer Staples (-4%), while Information Technology is up 22%. The Small Ordinaries index outperformed the ASX 200 index, returning 7% for the month.

Both the Value and Growth factors rose in November, returning +5.7% and 4.5% respectively, based on the S&P factor indices. The ASX 200 index as a whole is now back in positive territory year to date, returning 4.8% for the year to November.

The RBA increased the cash rate to 4.35% in November, however weakening economic data and indications from the US Fed that rate hikes may be on hold pulled local yields lower. 10-year yields fell 56bps for the month, ending November at 4.36%.

US bond yields ended November lower, down 60bps to 4.33%, despite comments from the Fed that more rate hikes may be necessary and stronger than expected Q3 GDP data. The move in yields represented a significant fall from the 5% levels seen in October, and reflected the rapid change in investor sentiment around the timing and direction of the Fed's rate moves, and the possibility of multiple rate cuts in 2024.

The domestic and global fixed interest indices rose over the month, but underperformed equity markets, with the Bloomberg AusBond Composite 0+ Years Index gaining 3.0% and the Bloomberg Global Aggregate Index (AUD Hedged) rising 3.2%.

Portfolio review

The portfolio returned 4.1% in November, compared to a benchmark return of 5.0%. Relative performance was primarily driven by the portfolio's exposure to Santos (-10%), which fell due to weakening oil prices. Computershare (-5%) and Woolworths (-1%) also declined over the month. Key contributors for the month were CSL (+12%), which reiterated positive earnings growth and R&D initiatives during the month. Resmed (+12%), Qube Holdings (+10%) and Goodman Group (+10%) also performed strongly over the month.

The portfolio's healthcare exposures rebounded strongly in November, with CSL and RMD reiterating a strong growth outlook at their October AGM and first quarter trading updates, respectively. Despite the share price strength in November, the broader healthcare sector has been the weakest performing sector on the ASX so far in 2023 (-4.9%), in part driven by ongoing concerns over the threat of weight loss drugs on the future earnings prospects of businesses like CSL and RMD. We have made some adjustments around our healthcare exposures, but still believe the market has reacted to short-term news flow and that valuations are compelling.

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 (+4.7% p.a.) and Energy (+7.0% p.a.) benchmarks outperforming the broader ASX300 Industrials benchmark (2.2%) over the last three years. The performance disparity with more traditionally defensive sectors like Healthcare (-2.6% p.a.) and Consumer Staples (-0.4% 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.

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.

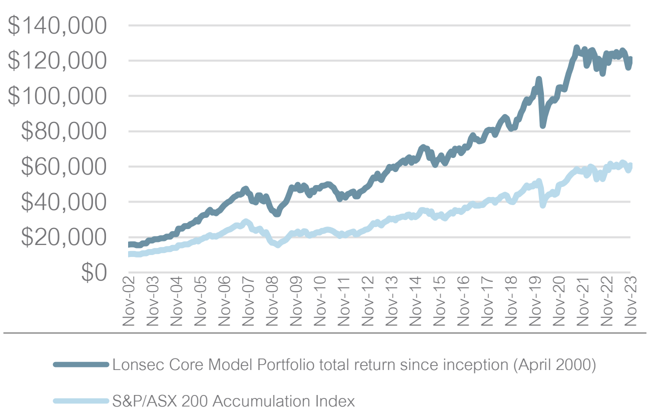
The Core portfolio typically maintains an overweight exposure to ‘defensive growth’ companies, reflecting our preference for more resilient and higher quality businesses which exhibit lower levels of cyclicality and earnings volatility through the cycle. This is evident by the portfolio’s overweight 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 $120,866. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around $60,781. 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.	6.9	7.7	0.8
Consumer Staples	4.4	7.7	3.3
Energy	5.2	5.1	-0.1
Financials	28.9	25.5	-3.4
Health Care	8.9	10.3	1.4
Industrials	7.0	11.6	4.6
IT	2.4	0	-2.4
Materials	24.7	15.4	-9.3
Real Estate	6.2	2.6	-3.6
Utilities	1.5	0	-1.5
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

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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