

Lonsec SMA - Income

Portfolio performance and income return

April 2022	1 mth (%)	3 mth (%)	1 yr (% pa)	2 yr (% pa)	3 yr (% pa)	4 yr (% pa)	5 yr (% pa)	6 yr (% pa)	7 yr (% pa)
Income Portfolio Yield - Cash	0.0	1.8	5.6	5.0	4.6	5.2	5.2	5.3	5.3
Income Portfolio Yield - Grossed-Up	0.0	2.3	6.7	6.1	5.7	6.7	6.7	6.8	6.9
ASX200 Yield - Cash	0.0	1.6	4.3	4.0	3.9	4.1	4.1	4.3	4.3
ASX200 Yield - Grossed-Up	0.0	2.2	5.9	5.4	5.2	5.5	5.6	5.8	5.8
Excess Yield - Cash	0.0	0.2	1.2	1.0	0.8	1.2	1.1	1.0	1.0
Excess Yield - Grossed-Up	0.0	0.1	0.8	0.7	0.5	1.1	1.1	1.0	1.1
Capital Growth									
Income Portfolio	2.6	9.5	12.3	11.8	2.5	3.0	0.7	1.5	-0.3
ASX200	-0.9	6.6	5.8	16.0	5.6	5.6	4.7	6.0	3.6
Total Return									
Lonsec SMA - Income	2.6	11.3	17.9	16.7	7.1	8.2	5.9	6.8	5.0
ASX200 ACC. Index	-0.9	8.2	10.2	20.0	9.4	9.7	8.8	10.3	7.9
Excess Return	3.4	3.1	7.7	-3.3	-2.3	-1.4	-2.9	-3.5	-2.9

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 SMAs. Totals presented in this report may not sum due to rounding. Total return since inception August 2002. Gross performance including dividends (but not franking credits).

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.

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 2.6% in April, significantly outperforming the S&P/ASX 200 benchmark. The end of a bidding war for Uniti Group, combined with the increased market focus on inflation-protected revenues, supported strong gains in the yield-oriented infrastructure and utilities sectors. The portfolio remains well ahead of benchmark for the last 12 months, with excess returns of 772bps.

At the stock level, the major contributors were Amcor (+10%), Steadfast (+8%) and Spark NZ (+7%). The main detractors were BHP (-7%), CBA (-2%) and Westpac (-2%).

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.

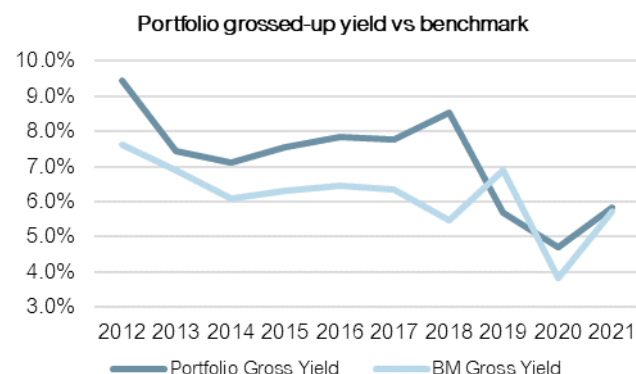
Spark NZ rallied during the month, following a bidding war for Australian telecommunications provider Uniti, which reaffirmed private equity interest in infrastructure businesses. Against this background, Spark has announced that it would explore the prospect of selling minority stakes in its mobile tower subsidiary Spark TowerCo to 3rd parties.

Last portfolio activity

Remove/Reduce	AGL, AZJ, APA
Add	CPU, DOW, EDV
Last change: 8 July 2021	

Portfolio returns

Based on current consensus estimates, the forward FY23 estimated portfolio yield is 4.6%, or 5.8% grossed-up for franking credits.



* 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

Portfolio objective and strategy

To deliver an above-benchmark, tax-effective income stream and reasonable capital growth over the medium to long term, by investing in a concentrated portfolio of large-cap Australian listed companies within the ASX200 universe.

Given the defensive and tax-effective income focus, the portfolio has generally outperformed in "down" markets, whilst performance has generally lagged the overall benchmark in "up" markets, particularly when the high-growth (low-yield) or cyclical segments of the market outperform.

Consistent with its investment philosophy and process, the portfolio has generally retained an underweight exposure to the Resources and Cyclical sectors, given the relatively high volatility in earnings and dividends of such businesses. As such, the capital growth component of portfolio performance has historically lagged the broader market when such segments outperform.

Sector allocation

GICS Sector	ASX200 (%)	Portfolio (%)	Active Weight (%)
Comm. Services	5.0	9.8	4.8
Consumer Disc.	6.7	2.5	-4.2
Consumer Staples	5.0	12.3	7.3
Energy	3.9	0.0	-3.9
Financials	29.1	29.3	0.2
Health Care	9.4	4.9	-4.5
Industrials	5.6	14.7	9.1
IT	3.3	4.9	1.6
Materials	24.8	12.3	-12.5
Real Estate	6.9	4.9	-2.0
Utilities	1.4	2.4	1.0
Cash	0	2.0	2.0
TOTAL	100	100.0	

- Industrials, Consumer Staples and Communications Services represent the largest active sector exposures in the portfolio.
- The main underweight sector exposures in the portfolio are: Materials, Healthcare 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	August 2002
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	FinClear, 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.

Date prepared

12 May 2022

Report prepared by

Nick Field, Associate Portfolio Manager

Release authorised by

Danial Moradi, Portfolio Manager

IMPORTANT NOTICE: This document is published by Lonsec Investment Solutions Pty Ltd ACN 608 837 583, a Corporate Authorised Representative (CAR 1236821) (LIS) of Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec Research). LIS creates the model portfolios it distributes using the investment research provided by Lonsec Research but LIS has not had any involvement in the investment research process for Lonsec Research. LIS and Lonsec Research are owned by Lonsec Fiscal Pty Ltd ACN: 151 235 406. Please read the following before making any investment decision about any financial product mentioned in this document.

Disclosure at the date of publication: Lonsec Research receives a fee from the relevant fund manager or product issuer(s) for researching financial products (using objective criteria) which may be referred to in this document. Lonsec Research may also receive a fee from the fund manager or product issuer(s) for subscribing to research content and other Lonsec Research services. LIS receives a fee for providing the model portfolios to financial services organisations and professionals. LIS' and Lonsec Research's fees are not linked to the financial product rating(s) outcome or the inclusion of the financial product(s) in model portfolios. LIS and Lonsec Research and their representatives and/or their associates may hold any financial product(s) referred to in this document, but details of these holdings are not known to the Lonsec Research analyst(s).

Warnings: Past performance is not a reliable indicator of future performance. Returns are prepared and reported using model asset allocations, actual returns may vary depending on platform fees or allocations, and individual holdings. Any express or implied rating or advice presented in this document is limited to general advice and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. Before making an investment decision based on the rating or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or should seek independent financial advice on its appropriateness. If the financial advice relates to the acquisition or possible acquisition of a particular financial product, the reader should obtain and consider the Investment Statement or the Product Disclosure Statement for each financial product before making any decision about whether to acquire the financial product.

Disclaimer: LIS provides this document for the exclusive use of its clients. It is not intended for use by a retail client or a member of the public and should not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by LIS. The information contained in this document is current as at the date of publication. Financial conclusions, ratings and advice are reasonably held at the time of publication but subject to change without notice. LIS assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, LIS and Lonsec Research, their directors, officers, employees and agents disclaim all liability for any error or inaccuracy in, misstatement or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it.

Copyright © 2022 Lonsec Investment Solutions Pty Ltd ACN: 608 837 583 (LIS). This report may also contain third party supplied material that is subject to copyright. The same restrictions that apply to LIS copyrighted material, apply to such third party content.