

Lonsec SMA - Income

Portfolio performance and income return

December 2023	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	0.3	0.8	4.6	4.7	4.9	4.5	4.7	4.9	5.0
Income Portfolio Yield - Grossed-Up	0.3	1.0	5.9	6.1	6.2	5.7	5.9	6.3	6.5
ASX200 Yield - Cash	0.2	0.7	4.6	4.5	4.4	4.0	4.2	4.2	4.2
ASX200 Yield - Grossed-Up	0.2	0.9	6.2	6.1	6.0	5.4	5.7	5.7	5.8
Excess Yield - Cash	0.1	0.1	0.1	0.2	0.5	0.5	0.5	0.7	0.8
Excess Yield - Grossed-Up	0.1	0.1	-0.3	0.0	0.2	0.3	0.2	0.6	0.7
Capital Growth									
Income Portfolio	5.5	5.9	1.8	0.3	4.2	0.0	3.4	0.6	0.6
ASX200	7.1	7.7	7.8	1.0	4.8	3.2	6.1	3.8	4.3
Total Return									
Lonsec SMA - Income	5.8	6.7	6.4	5.0	9.2	4.6	8.0	5.5	5.6
ASX200 ACC. Index	7.3	8.4	12.4	5.5	9.2	7.2	10.3	8.0	8.5
Excess Return	-1.4	-1.7	-6.0	-0.5	-0.1	-2.6	-2.2	-2.5	-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 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. 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. 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 5.8% in December, underperforming the benchmark by 1.4%. For the quarter the portfolio underperformed the benchmark by 1.7%. Performance for the year to December continues to be affected by the extreme divergence seen in sector returns on the ASX over the 1st half of 2023, with particular challenges to the "bond proxy" stocks which trade at relatively high PE ratios to their steady earnings. The portfolio's higher exposure to such stocks as Sonic Healthcare, Transurban, ASX Ltd. and Atlas Arteria was a major headwind in that period while more cyclical companies, particularly in the Resources sector, were achieving high returns.

As the business cycle enters a more challenging period in the second half of 2023 and early 2024, we are seeing the more reliable earnings from the portfolio holdings being better appreciated by the markets.

For the month the top contributor was CAR Group (+12.1%), followed by Sonic Healthcare (+9.9%) and BHP (+8.9%). The largest detractor was QBE (-3.6%), followed by Atlas Arteria (-0.3%) and Spark New Zealand (+0.4%). We believe the outlook for the insurance sector, including QBE, 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 top contributor was BHP (+13.9%), while the top detractor was Computershare (-6.1%).

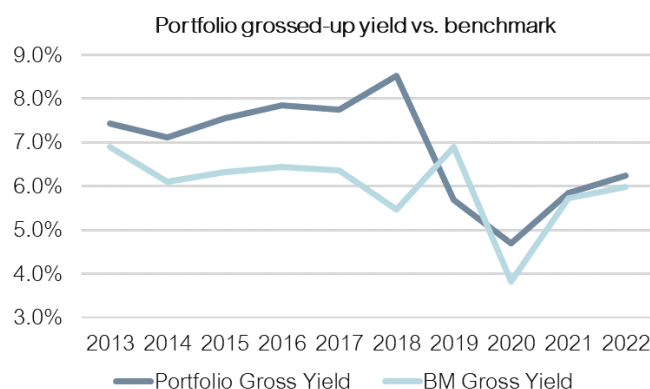
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Last portfolio activity

Remove/Reduce	WBC
Add	NAB
Last change: 13 November 2023	

Portfolio returns

Based on current consensus estimates, the forward FY23 estimated portfolio yield is 4.7%, 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	4.0	9.8	5.8
Consumer Disc.	6.8	2.5	-4.3
Consumer Staples	4.2	12.3	8.1
Energy	5.0	0	-5.0
Financials	28.5	29.4	0.9
Health Care	9.6	4.9	-4.7
Industrials	6.8	19.6	12.8
IT	2.4	0	-2.4
Materials	25.0	12.3	-12.7
Real Estate	6.3	4.9	-1.4
Utilities	1.4	2.5	1.1
Cash	0.0	2.0	2.0
TOTAL	100.0	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, Consumer Discretionary and Energy.

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

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