

Lonsec SMA - Income

Portfolio performance and income return

March 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	0.8	1.6	5.5	5.2	4.7	5.2	5.2	5.3	5.3
Income Portfolio Yield - Grossed-Up	1.0	2.1	6.7	6.4	5.8	6.6	6.7	6.8	6.8
ASX200 Yield - Cash	0.5	1.5	4.5	4.2	3.9	4.1	4.2	4.3	4.3
ASX200 Yield - Grossed-Up	0.7	2.1	6.2	5.7	5.3	5.6	5.7	5.8	5.8
Excess Yield - Cash	0.3	0.1	1.0	1.0	0.8	1.1	1.0	1.0	1.0
Excess Yield - Grossed-Up	0.3	0.1	0.5	0.7	0.5	1.0	1.0	1.0	1.0
Capital Growth									
Income Portfolio	5.0	0.1	11.6	17.0	3.1	2.9	0.1	1.4	-0.9
ASX200	6.4	0.7	10.4	21.5	6.7	6.8	5.1	6.7	3.5
Total Return									
Lonsec SMA - Income	5.8	1.7	17.2	22.2	7.8	8.1	5.3	6.6	4.3
ASX200 ACC. Index	6.9	2.2	15.0	25.7	10.6	11.0	9.2	11.0	7.8
Excess Return	-1.1	-0.6	2.2	-3.5	-2.8	-2.8	-4.0	-4.4	-3.5

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 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.

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 5.8% 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 Income portfolio's recent underperformance, but the portfolio remains well ahead of benchmark for the last 12 months, with excess returns of 2.2%.

At the stock level, top quarterly contributors were Computershare (+25%), Westpac (+14%) and BHP (+30%). The main detractors were Sonic Healthcare (-23%), Carsales (-17%) and ASX Ltd. (-12%).

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.

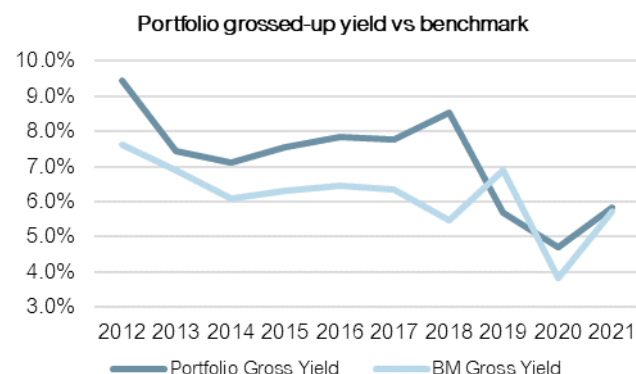
Sonic Healthcare was the main detractor from performance, but this had more to do with general PE de-rating of growth stocks than anything company-specific. The interim result showed a 28% rise in cash earnings, and although the windfall gains from COVID testing continue, the company's core pathology business has also returned to growth as patient traffic recovers from pandemic disruptions.

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 4.4%, or 5.5% 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	3.9	9.8	5.9
Consumer Disc.	6.9	2.5	-4.4
Consumer Staples	4.8	12.3	7.5
Energy	3.8	0.0	-3.8
Financials	28.8	29.3	0.5
Health Care	9.1	4.9	-4.2
Industrials	5.5	14.7	9.2
IT	3.6	4.9	1.3
Materials	25.7	12.3	-13.4
Real Estate	6.7	4.9	-1.8
Utilities	1.3	2.4	1.1
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, Consumer Discretionary and Healthcare.

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

8 April 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.