

# Lonsec SMA - Income

## Portfolio performance and income return

May 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	0.3	1.1	5.3	5.0	4.7	5.1	5.1	5.2	5.2
Income Portfolio Yield - Grossed-Up	0.7	1.8	6.8	6.4	6.0	6.5	6.6	6.7	6.8
ASX200 Yield - Cash	0.4	0.9	4.1	4.0	3.7	4.0	4.1	4.2	4.2
ASX200 Yield - Grossed-Up	0.6	1.2	5.7	5.5	5.1	5.4	5.6	5.7	5.7
Excess Yield - Cash	-0.1	0.2	1.2	1.0	0.9	1.1	1.0	1.0	1.0
Excess Yield - Grossed-Up	0.2	0.5	1.2	0.9	0.9	1.1	1.1	1.0	1.1
<b>Capital Growth</b>									
Income Portfolio	-1.6	6.0	8.9	9.5	1.8	2.8	1.1	1.0	-0.3
ASX200	-3.0	2.3	0.7	11.9	4.1	4.7	4.7	5.0	3.2
<b>Total Return</b>									
Lonsec SMA - Income	-1.3	7.1	14.2	14.5	6.5	7.9	6.2	6.2	5.0
ASX200 ACC. Index	-2.6	3.2	4.8	15.9	7.8	8.6	8.8	9.2	7.5
Excess Return	1.3	3.9	9.4	-1.5	-1.4	-0.7	-2.6	-3.0	-2.5

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 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, 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. The Australian dollar regained some ground in May, finishing up 1c at US\$0.718.

### Portfolio review

The portfolio returned -1.3% in May, outperforming the S&P/ASX 200 benchmark as a few core holdings bucked the general market trend downwards. The portfolio remains well ahead of benchmark for the last 12 months, with excess returns of 9.4%.

At the stock level, top contributors were Amcor (+9%), BHP (+4%) and Westpac (+3%). The main detractors were Woolworths (-10%), Computershare (-8%) and Waypoint REIT (-7%).

Amcor rallied again this month, as the company's 3<sup>rd</sup> 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.

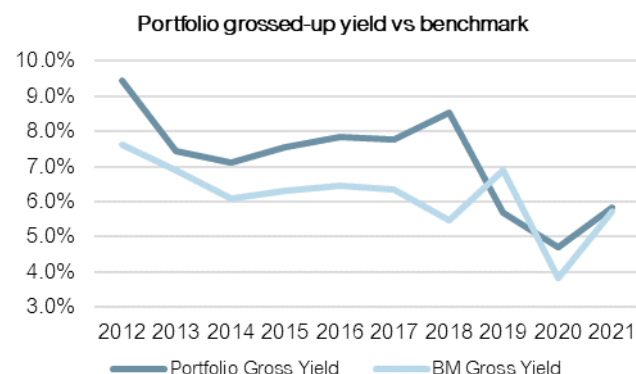
BHP also rose in May, during which it demerged its petroleum division to Woodside. This portfolio received a fully-franked in specie dividend of new Woodside shares as part of the demerger, but after careful consideration, we have chosen to sell these shares and use the proceeds to bring the position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

## Last portfolio activity

Remove/Reduce	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 4.9%, or 6.2% 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	3.8	9.8	6.0
Consumer Disc.	6.5	2.5	-4.0
Consumer Staples	4.8	12.3	7.5
Energy	4.0	0.0	-4.0
Financials	28.9	29.3	0.4
Health Care	9.5	4.9	-4.6
Industrials	5.8	14.7	8.9
IT	3.1	4.9	1.8
Materials	25.6	12.3	-13.3
Real Estate	6.5	4.9	-1.6
Utilities	1.5	2.4	0.9
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

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### Date prepared

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