

Lonsec SMA - Income

Portfolio performance and income return

November 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	0.5	1.4	4.2	4.6	4.8	4.5	4.7	5.0	5.0
Income Portfolio Yield - Grossed-Up	0.7	1.8	5.3	6.0	6.1	5.6	5.9	6.3	6.5
ASX200 Yield - Cash	0.5	1.2	4.2	4.4	4.3	3.9	4.1	4.1	4.2
ASX200 Yield - Grossed-Up	0.7	1.6	5.6	6.0	5.9	5.3	5.6	5.6	5.7
Excess Yield - Cash	0.0	0.2	0.0	0.2	0.5	0.6	0.6	0.9	0.8
Excess Yield - Grossed-Up	0.0	0.2	-0.3	0.0	0.2	0.3	0.3	0.7	0.8
Capital Growth									
Income Portfolio	3.3	-3.0	-7.9	-0.5	2.3	-2.1	2.1	-0.2	0.4
ASX200	4.5	-3.0	-2.7	-1.2	2.8	0.9	4.6	2.9	3.9
Total Return									
Lonsec SMA - Income	3.8	-1.6	-3.7	4.1	7.2	2.4	6.8	4.7	5.4
ASX200 ACC. Index	5.0	-1.8	1.5	3.2	7.2	4.8	8.7	7.0	8.1
Excess Return	-1.2	0.2	-5.2	0.8	0.0	-2.4	-1.9	-2.3	-2.7

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 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%).

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 3.8% in November, underperforming the benchmark by 1.2%. Performance for the year to November 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 Waypoint REIT (+11.3%), followed by Transurban (+9.6%) and Atlas Arteria (9.2%). The largest detractor was Computershare (-4.8%), followed by QBE (-1.5%) and Woolworths (-0.9%). EDV has faced significant share price pressure in CY23, and fell another 0.2% in November, driven by a flattening growth profile, growing capex commitments, the July announcement of new gaming regulatory changes in Victoria and a public board stoush with its largest shareholder. Looking ahead, we still believe regulatory risks are expected to remain a headwind, however these appear to be more than priced in at current levels. QBE experienced some share price weakness in early November, but rallied into month end following the release of its Q3 performance update.

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Investment Solutions Pty Ltd • ACN 608 837 583 • A Corporate Authorised Representative (CAR 1236821) of Lonsec Research Pty Ltd • ABN 11 151 658 561 • AFSL 421 445. This information must be read in conjunction with the Warning, Disclaimer, and Disclosure at the end of this document. This report supersedes all prior reports.

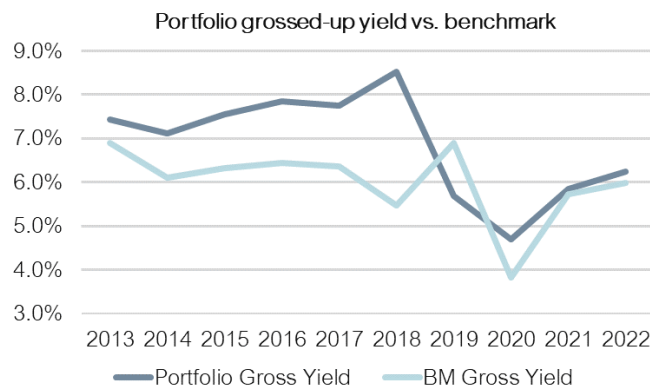
Last portfolio activity

Remove/Reduce	WBC
Add	NAB

Last change: 4 August 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.	6.9	2.5	-4.4
Consumer Staples	4.4	12.3	7.9
Energy	5.2	0	-5.2
Financials	28.9	29.4	0.5
Health Care	8.9	4.9	-4.0
Industrials	7.0	19.6	12.6
IT	2.4	0	-2.4
Materials	24.7	12.3	-12.4
Real Estate	6.2	4.9	-1.3
Utilities	1.5	2.5	1.0
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

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 December 2023

Report prepared by

Eleanor Menniti, Associate Portfolio Manager

Release authorised by

Danial Moradi, Portfolio Manager

Important Notice: This document is published by Lonsec Investment Solutions Pty Ltd (LIS) ACN: 608 837 583, a corporate authorised representative (CAR number: 1236821) of Lonsec Research Pty Ltd ABN: 11 151 658 561 AFSL: 421 445 (Lonsec Research). LIS and Lonsec Research are owned by Lonsec Holdings Pty Ltd ACN: 151 235 406. LIS creates the model portfolios it distributes using the investment research provided by Lonsec Research but has not had any involvement in the investment research process for Lonsec Research. 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 managers or product issuers 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 fees for providing investment consulting advice, approved product lists, model portfolios to financial services professionals and other advice to clients. 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, Lonsec Research 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 analyst(s).

Warnings: Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is limited to "general advice" (as defined in the Corporations Act 2001 (Cth)) 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 their financial circumstances or should seek independent financial advice on its appropriateness. If the 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. Financial conclusions, ratings and advice are given on reasonable grounds held at the time of completion (refer to the date of this document) 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, 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.

This document is subject to copyright of LIS. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this document may, in any form or by any means (electronic, mechanical, micro-copying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of LIS. This document may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to LIS copyrighted material, applies to such third-party content.

Copyright © 2023 Lonsec Investment Solutions Pty Ltd