Lonsec

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.

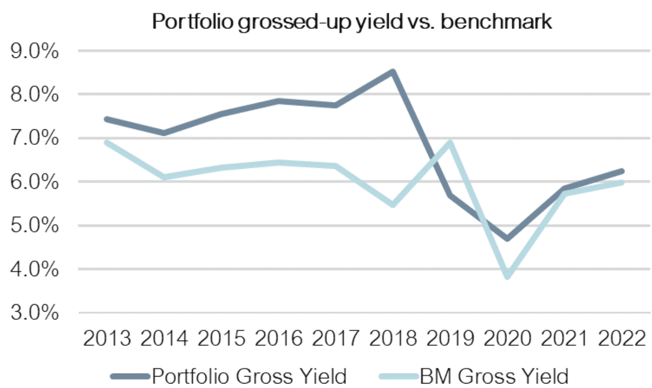
Last portfolio activity

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

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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.

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