Lonsec

Lonsec Sustainable Managed Portfolios

Adviser use only

Contents

About Lonsec

The Lonsec Group has played a fundamental role in building the investment capabilities of financial advisers, fund managers, superannuation funds and individuals for over 20 years.

Our business encompasses managed investments and listed securities research, awards and ratings, portfolio consulting, managed accounts and data and analytics.

Supported by one of the largest research teams, the Lonsec Group is positioned at the nexus of Australia's financial advice and investment industry, enabling us to provide practical, actionable insights that add real value to our investment and advice solutions.

Lonsec Investment Solutions

Lonsec Investment Solutions Pty Ltd (Lonsec) is a specialist model portfolio manager with extensive expertise in portfolio construction, asset allocation and investment selection, with our best ideas encapsulated in a series of Lonsec managed portfolios to meet different client needs.

Drawing on Lonsec's in-depth investment product research, our portfolios invest in managed funds and listed structures, such as Exchange Traded Funds (ETFs), that are rated Recommended and higher.

What are managed portfolios?

A managed portfolio is an investment scheme managed by a professional investment manager, such as Lonsec, on an investor's behalf. The investment manager is responsible for the investment decisions relating to the portfolio including the underlying investments held within the portfolio, as well as the portfolio weights and portfolio rebalancing.

The issuer of a managed portfolio is typically a platform provider. Managed portfolios on platforms are overseen by an appointed responsible entity (RE) or superannuation trustee.

Why managed portfolios?

Managed portfolios have seen a considerable rise in popularity and are rapidly becoming the investment structure of choice for many financial advisers.

A managed portfolio provides access to a single asset class or diversified portfolio overseen by investment professionals, with all the benefits of research, implementation and reporting.

Managed portfolios offer a scalable investment solution allowing financial advisers to concentrate on strategic advice, while outsourcing the day to day portfolio management to experienced investment consultants.

Significant benefits of managed portfolios for advisers

Improved efficiency

Once within the managed portfolio structure, no records of advice (ROAs) are required when portfolio changes are made, materially reducing administrative resources and time related to portfolio changes. The reduced time associated with portfolio implementation and management, creates more time for advisers to work on their business or growing their client base.

Stronger client relationships

Less paperwork and administration creating more time for advisers to focus on strategic advice and enhancing the value of their financial advice offering.

Improved risk management

The client's portfolio is underpinned by a professional investment process and remains within the required risk management obligations.

Best interest duty

Timely portfolio changes ensure best interest obligations are applied to all clients concurrently.

Significant benefits of managed portfolios for clients

Professional expertise

Expertise and services provided by investment professionals who manage and monitor the portfolios.

Rapid responsiveness

Efficient implementation of investment decisions, ensuring portfolio changes are made in a timely manner and the client is promptly aligned to the new portfolio structure.

Transparency

Ability to view the underlying assets and track performance of holdings, increasing client engagement with their portfolios.

Ownership of underlying assets

As the beneficial owner of the assets, your client's portfolio is portable without triggering a capital gains event when transferred into or out of a managed portfolio structure.

Lonsec's Investment Philosophy

Our philosophy underpins our investment research driven approach to portfolio construction and the processes we use to build quality investment solutions. At the core of our philosophy are our four beliefs:

one

A dynamic approach to portfolio management to achieve investment objectives while managing downside risk.

two

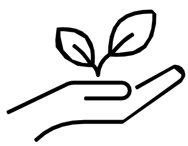
Investing in high quality investments underpinned by Lonsec's extensive research.

three

A strong risk management culture supported by a rigorous governance process.

four

A diversified approach to portfolio construction.



Specifically in relation to responsible investing, our beliefs are:

ESG integration can deliver superior returns and reduce risk

Environmental, social and governance (ESG) risks are financial risks for companies and portfolios. Incorporating ESG factors in investment decisions assists in better managing risk and generating long-term returns for investors.

Responsibility towards society and the environment

Investing responsibly can deliver sustainable, long-term value for clients while also having a positive impact on society and the environment.

Strategy Overview

The Lonsec Sustainable Managed Portfolios (the portfolios) are multi-manager, multi-asset portfolios that invest in underlying strategies that demonstrate strong environmental, social and governance (ESG) practices and where possible, deliver impact by contributing positively to the United Nation's Sustainable Development Goals (UN SDGs) agenda. The portfolios aim to balance the need to deliver a mix of income and growth while making an above benchmark contribution to the UN SDGs.

The SDGs are 17 individual goals agreed to by United Nations members, which are a 'universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity' (UN, 2016). The SDGs are interconnected and recognise that ending poverty must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. Further, none of these goals can be achieved without taking strong and decisive action to tackle climate change and preserve the biodiversity of our oceans and forests to ensure that future generations also have the resources available to meet their needs.

This interconnectedness of the SDGs is reflected in our portfolio construction approach where we seek out strategies that contribute positively to at least one of the broad environmental, societal or economic objectives of the SDGs. While seeking to 'do good' is a key pillar of our approach, the portfolios will also seek to 'avoid unnecessary harm' to the planet and society by excluding a range of business activities considered fundamentally misaligned to the objectives of the UN SDGs. These activities include thermal coal mining and exploration, controversial weapons manufacturing, the production of adult entertainment, owning and operating gambling establishments, alcohol and tobacco production. Further details can be found under 'Limits & Exclusions Policy'.

The portfolios typically invest in 12-30 active and passive managed funds and ETFs. Designed around a long-term strategic asset allocation, the portfolios are actively managed, incorporating dynamic asset allocation and active investment selection to manage risks and take advantage of opportunities.

Portfolio Objectives

The Sustainable Managed Portfolios provide investors with capital growth and income through exposure to strategies that demonstrate strong environmental, social and governance (ESG) practices and where possible, create impact by making an above benchmark contribution towards the United Nations' Sustainable Development Goals (UN SDGs) agenda.

Risk profile	Balanced	Growth	High Growth
Average exposure to growth assets	60%	80%	98%
Average exposure to defensive assets	40%	20%	2%
Minimum timeframe	5 years	6 years	7 years
Investment objective	2.4% p.a. above cash	3.2% p.a. above cash	4.0% p.a. above cash
Benchmark	Balanced	Growth	Aggressive

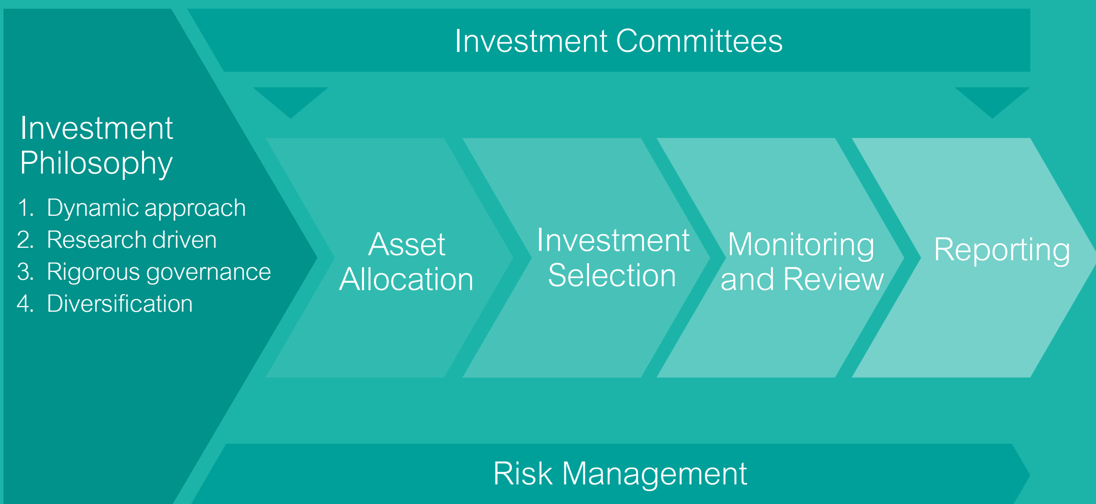
Benchmark: FE UT PG Multi-Asset Indices

The Lonsec Sustainable Managed Portfolios are available on various platforms and there might be some variations in the disclosed characteristics of the portfolios depending on the platform that is used to access them.

Portfolio Construction Process

Lonsec's investment process combines a dynamic approach to asset allocation with active investment selection.

The chart below shows Lonsec's portfolio construction process:



Lonsec's Investment Committees

Lonsec believes that a strong investment governance framework is critical in making effective portfolio decisions. Having an investment process governed by an investment committee charter and comprised of experienced investment professionals with diverse areas of expertise, reflects best practice in portfolio construction decision making.

Lonsec's Investment Committees are responsible for all investment decisions relating to Lonsec's managed portfolios including asset allocation and investment selection decisions.

Lonsec operates separate Asset Allocation and Fund Manager Selection committees, comprising experts from across the Lonsec Group as well as external experts, including:

- Lonsec's external experts – Macro Strategy and Asset Allocation
- Chief Investment Officer
- Head of Investment Consulting
- Senior members of the Lonsec Research Team
- Lonsec Portfolio Managers
- Senior Investment Consultants

All investment decisions are made by voting members of the investment committee, with the Chair of the committee having the ability to make a final call on any decision should there be a casting vote.

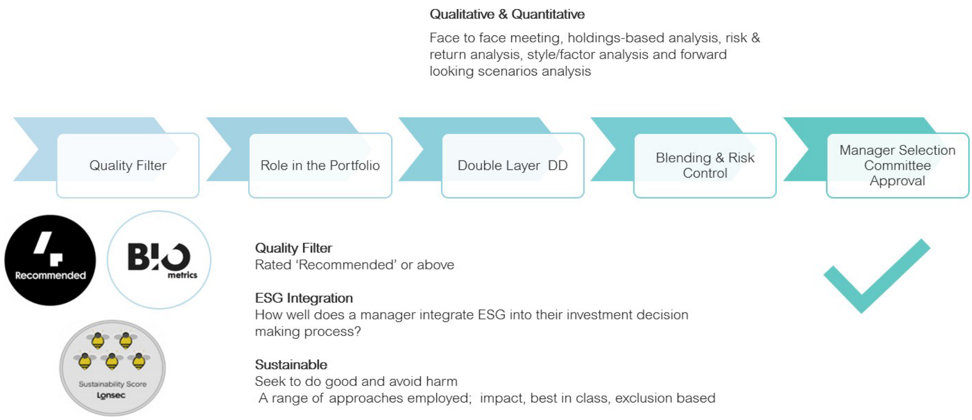
Our investment committees meet on a quarterly basis with the ability to meet intra-quarter as required.

Asset Allocation

Lonsec believes that a disciplined Strategic Asset Allocation (SAA) framework, based on our long-term capital market assumptions, will deliver a high likelihood of achieving portfolio objectives over the long-term (10+ years). However, over the medium-term (18 months to 3 years), we recognise that valuations can deviate significantly from their long-term fundamentals for a range of reasons. These disequilibria bring opportunities, as well as sources of risk, that we seek to actively manage via a robust dynamic asset allocation (DAA) process.

Our proprietary DAA models incorporate valuation, business cycle and technical/sentiment indicators to help us identify the most attractive and unattractive asset classes over the medium-term investment horizon. Our process incorporates a qualitative overlay from our Investment Committee members, harnessing their extensive bottom-up market insights and broader macro-economic expertise.

Investment Selection Process



Lonsec's Qualitative Rating

Starting with Lonsec's rated universe of 1300 investment products, we filter for quality, based on Lonsec's traditional investment ratings. Leveraging the knowledge and expertise of one of Australia's largest investment product research teams, Lonsec Research Pty Ltd (Lonsec Research) conducts comprehensive research across all asset classes including listed and unlisted investment structures. Investments are assessed on a forward-looking basis considering key factors such as people, philosophy, process, portfolio construction, ESG integration and risk management.

Investment products rated 'Recommended' or higher are believed to exhibit competitive advantages to peers in these factors and are also believed to have a high probability of achieving their investment objectives and are therefore our preferred entry point for the portfolios.

The Lonsec ESG BioMetric

Lonsec believes that the incorporation of Environmental, Social and Governance considerations into investment analysis by fund managers is likely to improve risk or return outcomes and should ultimately translate into a higher potential for a manager to achieve their investment objectives. Consequently, ESG considerations are heavily embedded in our investment selection process for the portfolios.

The Lonsec Research team qualitatively score fund managers on their approach and integration of ESG factors using a combination of analysis and direct meetings. This includes testing fund managers on their engagement with companies on specific ESG issues. Analysts score funds from Low to High with respect to ESG integration. ESG Leaders are defined as those funds that rank in the top scoring categories (moderate or above) according to Lonsec's ESG Biometric Score.

metrics

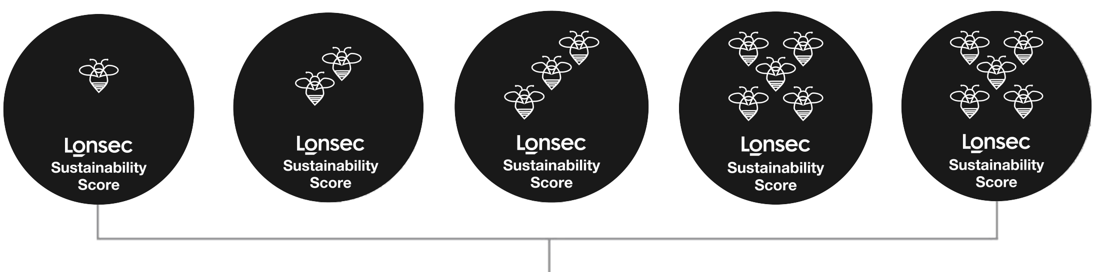
For the purpose of managing risks within the portfolios (concentration risk, diversification, liquidity risk), passive solutions that do not incorporate ESG factors may be employed (currently below 10% of the portfolios) where the risk to sustainability is deemed to be low (i.e. harm to society or the planet is limited).

While ESG integration is important for understanding and managing risk, identifying ESG leaders does not in itself lead to a portfolio that is sustainable. Some strategies may rank highly with respect to ESG integration; however, they may still invest in companies that are widely considered to have a detrimental impact on society or the environment such as tobacco or coal miners under certain investment approaches.

Therefore, once we have identified the ESG leaders in each asset class, we turn our attention to tilting the portfolio to strategies that have a net positive impact on society or the environment.

The Lonsec Sustainability Score or ‘Bee Score’

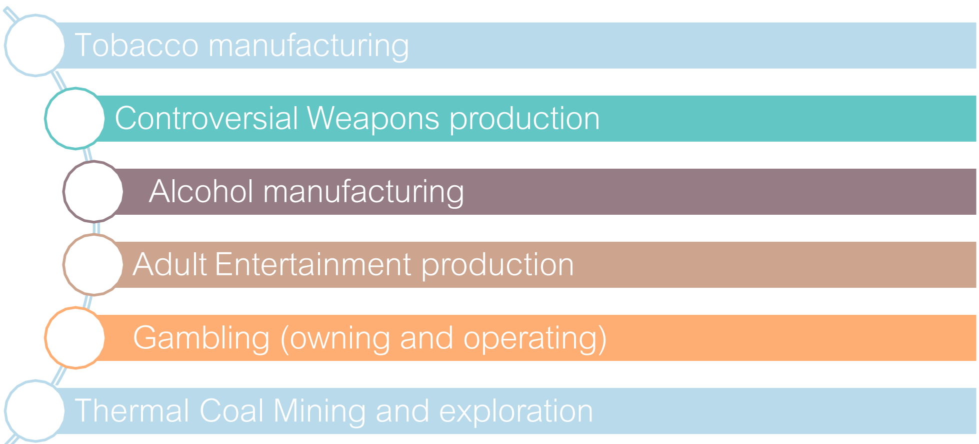
Lonsec’s proprietary Sustainability Score or ‘Bee Score’ assists us in identifying funds that are delivering a net positive impact. The Score quantitatively assesses funds against the UN’s Sustainable Development Goals (SDG) framework. The Score looks at the goods and services a company produces and nets the positive contributions to the 17 SDGs against the negative impact of exposures to controversial industries from the activities of the companies held in a fund’s portfolio. For asset classes where Lonsec Sustainability Scores are not available (such as fixed income and cash) we may use qualitative judgement to determine a fund’s net positive impact (40% of the Balanced portfolio, 20% of the Growth portfolio and 2% of the High Growth portfolio).



The Score is a peer relative assessment of a fund at a point in time. In constructing the portfolio, we include funds that score 3 Bees or above with a preference for 4 or 5 Bees.

Limits & Exclusions Policy

Our approach to responsible investing leads us to actively seek out strategies that contribute positively to at least one of the broad environmental, societal or economic objectives of the UN SDGs. While seeking to 'do good' is a key pillar of our approach, we will also seek to 'avoid unnecessary harm' to the planet and society by excluding and/or minimizing exposure to a range of business activities considered fundamentally misaligned to the objectives of the UN SDGs. We consider these activities to be; tobacco & alcohol manufacturing, the production of controversial weapons, the production of adult entertainment, owning and operating gambling establishments and thermal coal mining and exploration.



When appointing investment managers/strategies, we consider the underlying exclusion policy of the manager (including any applicable revenue thresholds) to ensure it aligns to our overall philosophy and approach to responsible investing. Most managers appointed will have explicit exclusions in place around these activities, however we may also invest in strategies where there are no such exclusions in place. This typically occurs when the underlying manager is unlikely to be invested in these activities from the outset (for example, an Australian REIT manager is unlikely to invest in a coal miner or tobacco manufacturer given its mandate).

Exclusions and/or limits are set and managed at the overall portfolio level. Thresholds are set for each activity and will vary across activities. These are set out in more detail in Table 1 below.

We monitor the portfolios' exposure to excluded activities using third party data providers as part of our ongoing monitoring process. Exclusions are considered 'soft' in that any breach of a set threshold will result in LIS engaging with managers to discuss the position in the first instance and/or a reduction in our portfolio exposures to bring the exposure within range.

Table 1. Investment Exclusions and Limits – Lonsec Sustainable Managed Portfolios

Business Activity	Exclusion Threshold
Tobacco	Zero direct exposure to companies involved in tobacco and nicotine-alternatives production.
Controversial Weapons	Zero direct exposure to companies involved in controversial weapons manufacturing (cluster munitions, anti-personnel mines, biological or chemical weapons. and nuclear weapons)
Alcohol	Below benchmark exposure and a maximum of 2% total portfolio revenues derived from the manufacturing of alcoholic beverages.
Adult Entertainment XXX	Below benchmark exposure and a maximum of 2% total portfolio revenues derived from the production of adult entertainment (sex shops, producers of adult movies, magazines, strip clubs etc).
Gambling	Below benchmark exposure and a maximum of 2% total portfolio revenues derived from owning and operating a gambling establishment and/or offers gambling services (casinos, lotteries, bookmaking, online gambling).
Coal Mining	Zero direct exposure to companies which generate more than 30% of their revenues (cumulative) from the mining or exploration of thermal coal.
Fossil Fuels	Below benchmark exposure and a maximum of 5% total portfolio revenues derived from the mining and exploration of fossil fuels (thermal coal, natural gas, and oil).

Blending and Risk Control

Lonsec's qualitative investment selection process is supported by rigorous quantitative analysis including holdings-based analysis, risk and return based analysis, style analysis and forward-looking scenario analysis. Lonsec uses a range of quantitative tools including Lonsec's iRate portfolio analytics tools, Financial Express, Style Research and Bloomberg. We employ a range of quantitative tools and third-party data providers to measure the contribution the portfolio makes to the UN SDGs and the portfolios' exposure to controversial industries.

Changes to the portfolios' underlying investment will be made when there is a clear catalyst to make a change. Key reasons for when Lonsec will make changes include:

- An investment falls below Lonsec's minimum product quality criteria, i.e. an investment product rating falls below the minimum Recommended rating.
- An investment falls below Lonsec's minimum BioMetric or Sustainability Score.
- An investment is approaching their stated capacity, in terms of their funds under management.
- An investment is not performing in-line with the intended objective it was included in the portfolios to perform.
- When Lonsec is reconfiguring the composition of the portfolio based on a medium-term view of risks in the market (including ESG risks).
- A superior investment opportunity becomes available.

Lonsec aims to keep portfolio turnover below 40% per annum. All portfolio changes are made via Lonsec's investment committee process.

Advisers are notified of a portfolio change, with information on the reason for any investment changes, the impact on the portfolios and suitable alternative investments.

Portfolio monitoring and review

All funds are monitored on an ongoing basis and the Lonsec Investment Solutions team meets with the underlying investment managers as part of the formal product review process. The team also meets with existing and prospective investment managers for portfolio updates.

Reporting and keeping you informed

Monthly performance reports

Performance reports for the managed portfolios are issued monthly and include information on the performance of the portfolios against the relevant benchmark, contribution to returns and market commentaries.

Lonsec Portfolio Update

Sent to advisers monthly, the Lonsec Portfolio Update includes performance reports, investment insights, a summary of all portfolio changes made over the month and Lonsec's Investment Outlook Report.

Portfolio change reports

Advisers are notified with an update when a change has been made to Lonsec's portfolios, providing detailed information of the stock or fund change, the portfolios impacted and the rationale for the change.

Adviser Portal on iRate

Our Adviser Portal on iRate provides access to portfolio performance reports, SOA inserts and other resources to help advisers and their clients.

Platform reporting

As part of Lonsec's managed portfolios reporting process, Lonsec provides regular reports to our partner platform providers, including performance, risk and attribution analysis. This forms part of the responsible entity (RE) and superannuation trustee platform reporting and monitoring process.

Lonsec Sustainable Managed Portfolios

Lonsec Sustainable Managed Portfolio – Balanced

Designed for

The portfolio is designed for investors seeking a diversified portfolio encompassing ESG and sustainable investment principles to generate growth with some income over the medium term.

Investment objective and timeframe

The portfolio aims to provide investors with a balance of income and growth over the suggested minimum investment timeframe of 5 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 2.4% after fees over a rolling five-year period.

Investment strategy

The portfolio invests in a mix of income and growth assets, which may include Australian and global equities, property and infrastructure, fixed interest and income securities, alternative assets and cash. In general, the portfolio will have a long-term average exposure of around 60% to growth assets and alternative assets and around 40% to defensive assets, however the allocation will be actively managed within the allowable ranges depending on market conditions. The portfolio aims to balance the need to deliver a mix of income and growth while creating impact by making an above benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs) agenda.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	10	45
Global Equities	10	45
Australian Listed Property	0	15
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	5	40
Global Fixed Interest	5	35
Cash	0	25
Alternative Assets	0	30

The Lonsec Sustainable Managed Portfolios are available on various platforms and there might be some variations in the disclosed characteristics of the portfolios depending on the platform that is used to access them.

Lonsec Sustainable Managed Portfolio – Growth

Designed for

The portfolio is designed for investors seeking a diversified portfolio encompassing ESG and sustainable investment principles aimed at primarily generating growth over the medium term.

Investment objective and timeframe

The portfolio aims to provide investors with capital growth and some income over the suggested minimum investment timeframe of 6 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 3.2% after fees over a rolling six-year period.

Investment strategy

The portfolio invests in a mix of income and growth assets, which may include Australian and global equities, property and infrastructure, fixed interest and income securities, alternative assets and cash. In general, the portfolio will have a long-term average exposure of around 80% to growth assets and alternative assets and around 20% to defensive assets, however the allocation will be actively managed within the allowable ranges depending on market conditions. The portfolio aims to balance the need to deliver a mix of income and growth while creating impact by making an above benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs) agenda.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	15	60
Global Equities	15	65
Australian Listed Property	0	15
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	0	30
Global Fixed Interest	0	25
Cash	0	20
Alternative Assets	0	30

The Lonsec Sustainable Managed Portfolios are available on various platforms and there might be some variations in the disclosed characteristics of the portfolios depending on the platform that is used to access them.

Lonsec Sustainable Managed Portfolio – High Growth

Designed for

The portfolio is designed for investors seeking a diversified portfolio encompassing ESG and sustainable investment principles aimed at generating growth over the long term.

Investment objective and timeframe

The portfolio aims to provide investors primarily with capital growth over the suggested minimum investment timeframe of 7 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 4.0% after fees over a rolling seven-year period.

Investment strategy

The portfolio invests predominantly in growth assets, which may include Australian and global equities, property and infrastructure and cash. In general, the portfolio will have a long-term average exposure of around 98% to growth assets and alternative assets and around 2% to defensive assets, however the allocation will be actively managed within the allowable ranges depending on market conditions. The portfolio aims to balance the need to deliver growth while creating impact by making an above benchmark contribution to the United Nation’s Sustainable Development Goals (UN SDGs) agenda.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	15	70
Global Equities	20	75
Australian Listed Property	0	15
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	0	0
Global Fixed Interest	0	0
Cash	0	20
Alternative Assets	0	30

The Lonsec Sustainable Managed Portfolios are available on various platforms and there might be some variations in the disclosed characteristics of the portfolios depending on the platform that is used to access them.

Managing risk

The following summary is a guide to key risks associated with managed portfolios.

Portfolio manager risk

This risk is associated with the actual managed portfolio. This includes risks associated with the level of diversification in the portfolios, the subjective nature of investment decisions made by the portfolio manager, potential changes to the manager such as the loss of key staff and the manager failing to effectively implement their stated investment philosophy.

Operational risk

This is the risk associated with the operation of the managed portfolio. This includes:

- The risk that the actual asset holdings in the managed portfolio is unlikely to exactly match the holdings of the chosen portfolios.
- The risk that the amount of trading associated with rebalances will have an impact on the trading costs and investment performance. If rebalances are suspended, the managed portfolio may not reflect the most recent investment decisions made by the chosen portfolio managers and, during the rebalance process, it is possible that the completion of a trade may be delayed.

There are also systems risks to consider. The operation of a managed portfolio relies on the investment platform's systems and processes operating effectively and efficiently to establish and rebalance the managed portfolios. It also relies on the portfolio manager providing updated information regarding the investments of the portfolios on a regular basis.

Investment risk

Investment markets are affected by numerous factors. This includes market risk, currency risk and interest rate risk. There is a risk that the selected investment options may experience negative investment returns, and generally the higher the expected return, the more likely that negative returns may be experienced in the short term.

How Lonsec manages risks

We analyse, research, manage and aim to reduce the impact of risks on investments by actively monitoring investment markets and our Lonsec portfolios and we use carefully considered investment and risk management guidelines.

Fees and other costs

This section outlines the types of fees and costs related to investing in Lonsec's managed portfolios.

Responsible entity (RE) fee

A managed portfolio is a non-unitised managed investment scheme structure governed by a PDS and regulated under Chapter 5C of the Corporations Act 2001. Under this structure the RE will be appointed to oversee and manage the investment scheme. This is typically a platform provider. The RE and platform administration fees may vary between platform providers.

Management fee

This is the fee charged by the appointed portfolio manager and includes services related to the management of the portfolio, such as asset allocation, investment selection, risk management, implementation and reporting. Lonsec Investment Solutions is the manager for Lonsec's managed portfolios.

Underlying investment ICRs (Indirect Cost Ratios)

The individual underlying investments, such as managed funds or Exchange Traded Funds (ETFs), selected by the portfolio manager will have an ICR. The aggregate ICR of the portfolio will vary over time as a result of portfolio changes, as well as other factors, such as the underlying fund manager triggering a performance fee if relevant.

For information about the fees and costs of your managed portfolio, you should read the PDS provided by the relevant platform.

Distribution methods

Distribution is the income earned by the underlying investments within a managed portfolio and paid to investors. Distributions generated by managed portfolios are paid differently depending on the platform provider.

The default option offered by many platforms is to retain and reinvest the distributions in the portfolio. However, some platforms will allow clients and their advisers to amend their preference to redirect the income to be paid to the client's cash account.

Investors should check their platform provider's Product Disclosure Statement (PDS) for more information about their distribution methods.

Want to find out more

Get in touch today to find out how we can help you start implementing managed portfolio solutions for your clients. Lonsec's managed portfolios are available through a number of major platforms including AMP MyNorth, BT Panorama, HUB24, Macquarie Wrap, Netwealth and Praemium.

Call us on **1300 826 395** or email your BDM.

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