



**Our investment
philosophy and
portfolio construction
process – managed
portfolios**

Lonsec Investment Solutions

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Our solutions

Lonsec Investment Solutions provides financial advisers, dealer groups and wealth management institutions with access to the knowledge and expertise to construct high quality portfolios, offering our best ideas via our bespoke investment consulting service or encapsulated in Lonsec's managed portfolios and SMAs, to meet different client needs.

Investment research

Access market insights and portfolio construction tools from one of Australia's leading investment research houses.

Investment consulting

Harness our portfolio construction and research expertise within your own investment committee process.

Tailored portfolios

Leverage our experience in portfolio construction and managed account structures to develop your own managed account solutions.

Managed portfolios

Outsource the core elements of portfolio construction to tap into the expertise and resources of a leading research house.

Our investment philosophy

Lonsec's investment research driven approach to portfolio construction is underpinned by four key beliefs:

one

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

two

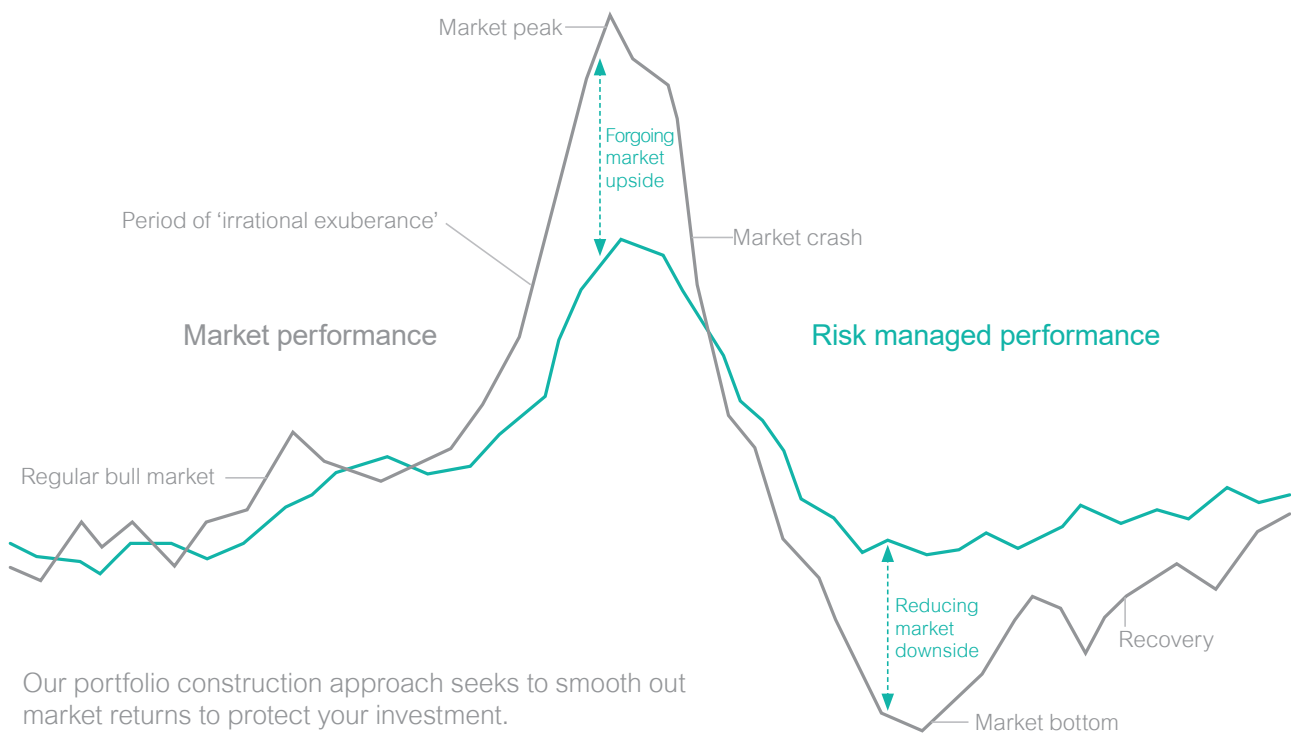
Investing in high quality investments underpinned by Lonsec's extensive research.

three

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

four

A diversified approach to portfolio construction.



Our portfolio construction approach seeks to smooth out market returns to protect your investment.

Smoothing out returns by forgoing some potential upside, whilst limiting the downside, will result in superior long-term performance. Philosophically aligned to this belief, our portfolios are designed to keep pace with market returns while outperforming the market during a downturn.

Our portfolio construction process

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

The flow chart below shows Lonsec's portfolio construction process:



Asset allocation

A key part of our portfolio construction process is to establish an asset allocation based on the objectives set for the portfolios.

Lonsec applies a dynamic approach to asset allocation designed to manage portfolio risk as well as enhance portfolio returns over the medium term. Lonsec's dynamic asset allocation process focuses on three key factors:



Asset class valuations

Lonsec utilises a range of valuation metrics to assess whether asset classes are expensive or offer value over the long term.



An assessment of the business cycle

Lonsec analyses whether the business cycle is in an expansionary or contractionary phase by assessing a range of macro-economic indicators.



Sentiment and momentum

Lonsec observes a range of indicators to determine short term market sentiment.

Lonsec will tilt the portfolio asset allocation away from Lonsec's neutral strategic asset allocation within the allowable asset class ranges based on Lonsec's assessment of these key factors.

Lonsec's neutral strategic asset allocation process seeks to determine a neutral asset allocation framework designed to maximise return and minimise risk over the long term. Lonsec incorporates both quantitative and qualitative inputs in determining the neutral strategic asset allocation target weights, including Lonsec's proprietary forward-looking

capital market assumptions, an assessment of risks such as volatility and liquidity risk, and correlations between asset classes.

Lonsec conducts a formal review of the strategic asset allocation every two years and reassesses the inputs on an annual basis. The objective of the formal review is to ensure that the Lonsec strategic asset allocation framework remains robust and continues to be effective in achieving the stated investment objectives of the respective risk profiles in the long term.

Investment selection

Lonsec's investment selection process has a focus on quality, diversification and risk. To be eligible for portfolio inclusion, fund managers must meet Lonsec's minimum quality criteria which includes funds rated Recommended or higher by Lonsec's investment research team.

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 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.

Portfolio allocations take into account the role each fund will play within the portfolio.

Lonsec builds portfolios using three key building blocks:

Market exposure

Exposure to market returns either via long only-active management or passive strategies.

Risk control

Exposure to strategies that have the ability to reduce downside risk. These strategies are designed to act as a 'shock absorber' for the portfolios.

Value add

Strategies that are designed to generate strong relative long-term growth or diversification from traditional asset classes.

Lonsec's qualitative investment selection process is supported by rigorous quantitative analysis including holdings-based analysis, risk and return based 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.

Changes to the portfolio's underlying investment will be made when there is a clear catalyst to make a change. Some examples 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 is approaching their stated capacity, in terms of their funds under management.
- An investment is not performing in-line with the intended objective the product was included in the portfolios to perform. For example, when a fund manager has been included to provide downside risk management, but the manager's risk and return outcomes are not consistent with the desired characteristics over the medium to long-term.
- When Lonsec is reconfiguring the composition of the portfolio based on a medium-term view of risks in the market.

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

Lonsec's investment committees

Lonsec believes that a strong governance framework is critical in making effective portfolio decisions. Having an investment committee 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 committee is responsible for all investment decisions relating to Lonsec's managed portfolios including asset allocation and investment selection decisions. Lonsec operates an Asset Allocation and Fund Manager Selection committees, with membership comprising of Lonsec's CIO, the Heads of asset classes and investment consulting as well as external experts.

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

Asset Allocation Investment Committee

The Asset Allocation Investment Committee is responsible for the provision of our dynamic and strategic asset allocation recommendations.

Lonsec's external experts – Macro Strategy and Asset Allocation

Chief Investment Officer

Head of Investment Consulting

Head of Research and Sector Manager, Australian Equities

Head of Fixed Income Research

Portfolio Manager, Multi-Asset Products

Portfolio Manager, Listed Products

External experts

Having input from external experts into an investment committee encourages diversity of views and brings additional expertise to the investment committee framework.

Lonsec has a minimum standard of two external experts within our investment committee process. Each external expert brings a wealth of knowledge to the Asset Allocation Investment Committee.

Lonsec's external experts – Macro Strategy and Asset Allocation

Provide independent and objective macro strategy and asset allocation views to the investment committee on a quarterly basis, as well as global economic, geopolitical and financial markets recommendations.

Manager Selection Investment Committee

Lonsec's Manager Selection Investment Committee approves all fund manager allocation decisions. The Committee is made up of managed fund experts from across the Lonsec Group and is responsible for setting the objectives, strategy and rules for each model portfolio, monitoring performance and approving any manager changes to the model portfolios.

Title	Responsibility
Head of Investment Consulting	Chairperson
Chief Investment Officer	Portfolio construction and manager selection
Head of Research and Sector Manager, Australian Equities	Portfolio construction and listed security selection
Head of Fixed Income Research	Portfolio construction and manager selection
Portfolio Manager, Multi-Asset Products	Portfolio construction and manager selection
Portfolio Manager, Listed Products	Portfolio construction and listed security selection
Senior Investment Consultant	Portfolio construction and manager selection
Senior Investment Consultant	Portfolio construction and manager selection

Portfolio review and reporting

Our investment committee process is the forum for overseeing Lonsec's managed portfolios. In addition to the formal investment committee process, Lonsec meets with the underlying investment managers used within Lonsec's managed portfolios, as part of the formal product review process. Additionally, the investment consulting team meets with existing and prospective investment managers for portfolio updates.

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 RE (Responsible Entity) and superannuation trustee platform monitoring process.

We provide regular reporting to financial advisers using Lonsec's managed portfolios. This includes quarterly performance reports with information on the performance of the portfolios against the relevant benchmark, contribution to returns and portfolio and market commentaries. The performance reports are included in Lonsec's Monthly Portfolio Update which also includes Lonsec's investment insights, updates on portfolio changes and upcoming events. Our advisers are also immediately notified with a portfolio update when a change has been made to Lonsec's portfolios, providing detailed information of the change and the rationale.

Lonsec's Monthly Portfolio Update includes performance reports, Lonsec's investment insights, updates on portfolio changes and upcoming events.

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. Call us on **1300 826 395** or email **info@lonsec.com.au**

[Lonsec.com.au](https://lonsec.com.au)

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