Lonsec Active (FirstChoice Managed Account Range: Balanced)

1.0 Reasons for Managed Accounts

The range of available investment options is continually evolving. In particular, there are now a wide range of Managed Portfolios and Separately Managed Accounts (SMAs) available from a variety of professional managers with different focuses and specialisations.

Diversification is the spread of funds across asset classes such as cash, fixed interest, Australian shares, international shares and property. The role of diversification is to gain exposure to all sectors so that if one sector suffers in the short term, then the monies held in other sectors should compensate. For example, if interest rates are low then the market is typically favourable for growth assets such as shares and property, whereas high interest rates can subdue growth assets.

Over the past 10 years diversification has become even more important however it is also possible to have too much, where investors spread their funds into so many non-correlated investments that they have diversified into an almost neutral position and therefore lost the real benefit. This means that decisions around what portion of a portfolio to allocate to each asset class, which investments to select and which types of asset to access (eg. managed funds, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs) or Listed Investment Trusts (LITs)) are more important than ever, requiring greater information and expertise.

Managed portfolios allow me to appoint a third party professional investment manager as my investment partner and tap into the resource and expertise on a continuous basis. It's important to be able to access the specific information that's necessary to help us understand where the economy and investment markets sit at the moment, as well as any indications of where the market is heading and what potential 'headwinds' are on the horizon. The portfolio managers use the resources at their disposal to construct and manage investment portfolios taking these factors into account.

I can select from a range of managed portfolios from leading asset consultants, research house and professional investment managers. I select and recommend the managed portfolio with the most appropriate investment programme for your needs, taking into account your investment goals, existing holdings, appetite for risk etc. The asset allocation and asset selection are then actively managed by the portfolio manager, with your portfolios automatically rebalanced and holdings adjusted when a manager makes a change, increasing the timeliness and efficiency of implementing investment recommendations, while you retain the benefits of directly owning the selected assets (as opposed to being invested in an opaque pooled investment).

I or the portfolio manager may also select from a range of SMAs from leading investment managers. SMAs provide you with portfolios of direct equities and other listed securities discretionarily managed by professional investment managers. SMAs enable you to access the strategy of the investment manager, while you have beneficial ownership of the underlying investments, providing complete transparency of your holdings. Your holdings are automatically adjusted when a manager makes changes to their portfolio, again increasing the timeliness and efficiency of managing your portfolio.

1.1 Lonsec Active (FirstChoice Managed Account Range)

Lonsec is one of Australia's leading investment research houses, providing market insights. Understanding that identifying future outperformance is an artform, not a science, Lonsec's seasoned analysts are able to have deeper conversations with investment managers, to look behind the numbers and provide meaningful insights.

Lonsec Investment Solutions has extensive expertise in portfolio construction, asset allocation, investment selection and risk management and leverages Lonsec's established expertise and resources in investment research to identify high quality investment managers, selected to perform a specific role in each portfolio.

The Lonsec Active (FirstChoice Managed Account Range: Balanced) is designed to achieve its stated objectives while seeking to reduce overall portfolio risk by spreading investments across a number of specialist investment managers with complementary investment management styles.

The portfolio aims to provide investors with a balance of income and capital growth over the medium term through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the performance benchmark, before fees, over a period of five years. The portfolio targets a return of 2.4% above cash over the relevant investment time horizon.

1.2 Investment Approach

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

1. A strategic approach to portfolio management to achieve investment objectives while managing downside risk.
2. Investing in high quality investments underpinned by Lonsec's extensive research.
3. A strong risk management culture supported by a rigorous governance process.
4. A diversified approach to portfolio construction.

The portfolio invests in a mix of income and growth assets and is designed to reduce overall portfolio risk by spreading investments across a number of specialist managers with complementary investment management styles.

In general, the portfolio will have a long-term average exposure of around 60% to growth and alternative assets and around 40% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

The portfolio invests across a diversified range of Australian equities, global equities, property and infrastructure, fixed interest assets and alternative assets.

1.3 Key Benefits

An investment solution:

- Where all underlying investments must meet a minimum quality criteria of a Recommended or Highly Recommended financial product rating.
- Where updates to both asset allocation and underlying security allocations are implemented automatically through time.
- With oversight via the investment committee, ongoing research and portfolio review process.

A diversified multi-asset implemented strategy that incorporates:

- Strategic asset allocation – designed to maximise return and minimise risk over the long term.
- Active manager selection – seeking well regarded strategies and investment managers across a range of asset classes and investment strategies.

1.4 Asset Allocation

The table below shows the long-term indicative target asset allocation:

Lonsec Active (FirstChoice Managed Account Range: Balanced)	Minimum Allocation (%)	Maximum Allocation (%)
Australian Equities	15	30
Australian Small Caps	0	10
Global Equities	15	30
Emerging Markets	0	5
Alternative Assets	0	15
Diversified Real Return	0	15
Listed Property & Infrastructure	0	20
Fixed Interest & Cash	30	50
Cash	10	30

1.5 Key Risks

- **Model manager risk:** Model risks associated with particular managed models. These include risks associated with the level of diversification in particular models, the subjective nature of investment decisions made by the model manager, potential changes to the model manager such as, the loss of key staff and the model manager failing to effectively implement their stated investment philosophy.

- **Operational risk:** Risks associated with the operation of your managed account. These include that: the actual asset holdings in your managed account are unlikely to exactly match the holdings of your chosen models, the amount of trading associated with rebalances will have an impact on your trading costs and investment performance, if rebalances are suspended, then your managed account may not reflect the most recent investment decisions made by your chosen model managers and, during the rebalance

process it is possible that the completion of a trade may be delayed. Also, there are systems risks. The operation of your managed account relies on the investment platform's systems and processes operating effectively and efficiently to establish and rebalance managed models and on the model manager providing updated information regarding the investments of the models on a regular basis.

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

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