

Lonsec



# Lonsec Active (FirstChoice Managed Account Range)

Adviser use only

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# 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, such as Colonial First State. 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 strategic approach to portfolio management to achieve investment objectives while managing downside risk.

## two

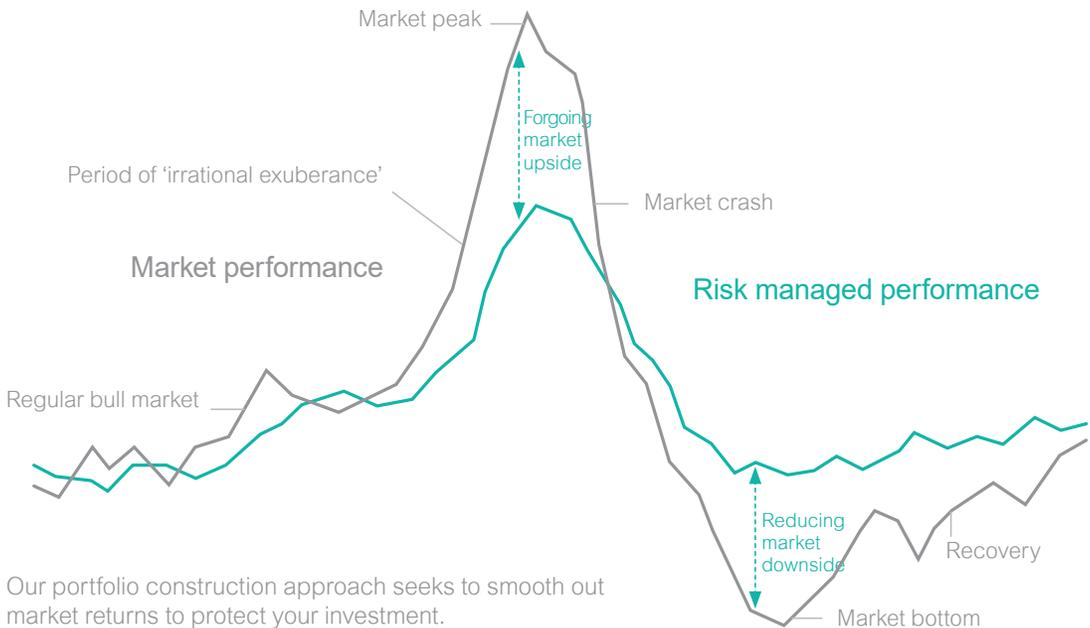
Investing in high quality investments underpinned by Lonsec's extensive research.

## 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.

# Portfolio construction process

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

The chart below shows Lonsec's portfolio construction process:



## Asset allocation

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

### **Long term risk return focus**

Designed to meet long term investment objectives within a defines risk and return framework.

### **Annual review of capital market assumptions**

Underlying capital market assumptions are reviewed annually.

### **Structure review every two years**

Comprehensive review conducted every 2 years.

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 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 manage 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.

## Reasons for changing an investment

Changes to the managed 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 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. 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 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 committee is 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

Director of Research

Head of Fixed Income Research

Portfolio Manager, Multi-Asset Products

Portfolio Manager, Listed Products

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. A formal review of the strategic asset allocation is held every two years.

## Mid-cycle portfolio reviews

If a material event occurs in between investment committee meetings, Lonsec will conduct a mid-cycle portfolio review and meet with the committee members to discuss what has occurred and the proposed portfolio changes.

Changes to the portfolios will typically be proposed in the following instances:

- A decline in Lonsec's qualitative conviction in an investment.
- The availability of a superior investment opportunity.
- Identification of increased risks impacting a sector or investment.

All manager decisions are discussed and ratified by Lonsec's Fund Manager Selection Committee.

Lonsec issues a portfolio change report with information on the reason for any investment changes, the impact on the portfolios and suitable alternative investments.

## Portfolio monitoring and review

In addition to the formal investment committee process, all funds are monitored on an ongoing basis and the Lonsec Investment Consulting 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. This is in addition to Lonsec's product review process, where all products are formally reviewed on an annual basis.

## 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, including Colonial First State, is to retain and reinvest the distributions in the portfolio.

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

# 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.



## Portfolio change reports

Our change reports provide advisers with an update of a change to Lonsec's portfolios, providing detailed information of the fund change, the portfolios impacted and the rationale for the change.



## Lonsec Active Portal

Our Lonsec Active Portal provides access to portfolio performance reports, SOA inserts and other resources to help advisers and their clients.

# Lonsec Active (FirstChoice Managed Account Range)

The Lonsec Active (FirstChoice Managed Account Range) portfolios provide investors with capital growth and income over the medium to long term through exposure to a range of asset classes and investment vehicles. The portfolios are designed to reduce overall portfolio risk by spreading investments across a number of specialist managers with complementary investment styles.

The portfolios have been designed for investors seeking a diversified portfolio aimed at generating growth.

<b>Risk profile</b>	<b>Defensive</b>	<b>Conservative</b>	<b>Moderate</b>	<b>Balanced</b>	<b>Growth</b>	<b>High growth</b>
Average exposure to growth assets	20%	40%	50%	60%	80%	100%
Average exposure to defensive assets	80%	60%	50%	40%	20%	0%
Minimum timeframe	2 years	3 years	4 years	5 years	6 years	7 years
Investment objective	0.8% p.a. above cash	1.6% p.a. above cash	2.0 % p.a. above cash	2.4% p.a. above cash	3.2% p.a. above cash	4.0% p.a. above cash
Benchmark	Conservative	Moderate	Balanced	Balanced	Growth	Aggressive

Benchmark: Financial Express UT Peer Group Multi-Asset Indices

## Investment universe

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

# Lonsec Active (FirstChoice Managed Account Range: Defensive)

## Designed for

The portfolio is designed to provide investors with income and some capital growth over the medium term through exposure across a range of asset classes and investments.

## Investment objective and timeframe

The portfolio aims to generate income and some capital growth over the suggested minimum investment timeframe of 2 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Conservative Index, before fees.

## Investment strategy

The portfolio seeks to generate income and some capital returns with lower downside risk than the market. This is achieved by diversifying the portfolio by asset class, investment strategy, fund manager and sources of return. In general, the portfolio will have a long-term average exposure of around 20% to growth and alternative assets and around 80% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	0	10
Australian Small Caps	0	5
Global Equities	0	10
Emerging Markets	0	0
Alternative Assets	0	0
Diversified Real Return	0	5
Listed Property & Infrastructure	0	10
Fixed Interest & Cash	80	100
Cash	20	50

# Lonsec Active (FirstChoice Managed Account Range: Conservative)

## Designed for

The portfolio is designed to provide investors with income and some capital growth over the medium term through exposure across a range of asset classes and investments.

## Investment objective and timeframe

The portfolio aims to generate income and some capital growth over the suggested minimum investment timeframe of 3 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Conservative Index, before fees.

## Investment strategy

The portfolio seeks to generate income and some capital returns with lower downside risk than the market. This is achieved by diversifying the portfolio by asset class, investment strategy, fund manager and sources of return. In general, the portfolio will have a long-term average exposure of around 40% to growth and alternative assets and around 60% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	5	20
Australian Small Caps	0	10
Global Equities	5	20
Emerging Markets	0	5
Alternative Assets	0	10
Diversified Real Return	0	10
Listed Property & Infrastructure	0	15
Fixed Interest & Cash	60	80
Cash	20	50

# Lonsec Active (FirstChoice Managed Account Range: Moderate)

## Designed for

The portfolio is designed to provide investors with a balance of income and capital growth over the medium term through exposure across a range of asset classes and investments.

## Investment objective and timeframe

The portfolio aims to generate a balance of income and capital growth over the suggested minimum investment timeframe of 4 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Moderate Index, before fees.

## Investment strategy

The portfolio seeks to generate a balance of income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolio by asset class, investment strategy, fund manager and sources of return. In general, the portfolio will have a long-term average exposure of around 50% to growth and alternative assets and around 50% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	10	25
Australian Small Caps	0	10
Global Equities	10	25
Emerging Markets	0	5
Alternative Assets	0	15
Diversified Real Return	0	10
Listed Property & Infrastructure	0	20
Fixed Interest & Cash	40	60
Cash	10	30

# Lonsec Active (FirstChoice Managed Account Range: Balanced)

## Designed for

The portfolio is designed 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.

## Investment objective and timeframe

The portfolio aims to generate a balance of income with moderate capital growth over the suggested minimum investment timeframe of 5 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Balanced Index, before fees.

## Investment strategy

The portfolio seeks to generate competitive income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolio by asset class, investment strategy, fund manager and sources of return. 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 allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	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

# Lonsec Active (FirstChoice Managed Account Range: Growth)

## Designed for

The portfolio is designed to provide investors with capital growth with some income over the medium to long term through exposure across a range of asset classes and by using several investment managers.

## Investment objective and timeframe

The portfolio aims to generate capital growth with some income over the suggested minimum investment timeframe of 6 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Growth Index, before fees.

## Investment strategy

The portfolio seeks to generate competitive income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolio by asset class, investment strategy, fund manager and sources of return. 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 allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	15	40
Australian Small Caps	0	15
Global Equities	15	40
Emerging Markets	0	10
Alternative Assets	0	20
Diversified Real Return	0	15
Listed Property & Infrastructure	0	20
Fixed Interest & Cash	20	40
Cash	0	10

# Lonsec Active (FirstChoice Managed Account Range: High Growth)

## Designed for

The portfolio is designed to provide investors primarily with capital growth over the long term through exposure across a range of asset classes and by using several investment managers.

## Investment objective and timeframe

The portfolio aims to primarily generate capital growth over the suggested minimum investment timeframe of 7 years through exposure across a range of asset classes and by using several investment managers. The portfolio aims to outperform the active peer group as measured by the Financial Express UT Peer Group Multi-Asset Aggressive Index, before fees.

## Investment strategy

The portfolio invests predominantly in growth assets, which may include Australian and global equities as well as property and infrastructure. The portfolio 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 100% to growth assets and alternative assets and around 0% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

## Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	25	50
Australian Small Caps	0	20
Global Equities	25	60
Emerging Markets	0	15
Alternative Assets	0	20
Diversified Real Return	0	15
Listed Property & Infrastructure	0	20
Fixed Interest & Cash	0	20
Cash	0	10

# 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.

# 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.

The Lonsec Active (FirstChoice Managed Account Range) are currently available via Colonial First State.

Call us on **1300 826 395** or email **[info@lonsec.com.au](mailto:info@lonsec.com.au)**

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

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