

# Lonsec Active (FirstChoice Managed Account Range: Defensive)

## 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: Defensive)** 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 income and some 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 three years. The portfolio targets a return of 0.8% 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 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.

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: Defensive)	Minimum Allocation (%)	Maximum Allocation (%)
Australian Equities	0	10
<i>Australian Small Caps</i>	0	5
Global Equities	0	10
<i>Emerging Markets</i>	0	0
Alternative Assets	0	0
Diversified Real Return	0	5
Listed Property & Infrastructure	0	10
Fixed Interest & Cash	80	100
Cash	20	50

## 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.

**IMPORTANT NOTICE:** This document is published by Lonsec Investment Solutions Pty Ltd ACN 608 837 583, a Corporate Authorised Representative (CAR 1236821) (LIS) of Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec Research). LIS creates the model portfolios it distributes using the investment research provided by Lonsec Research but LIS has not had any involvement in the investment research process for Lonsec Research. LIS and Lonsec Research are owned by Lonsec Holdings Pty Ltd ACN: 151 235 406. Please read the following before making any investment decision about any financial product mentioned in this document.

**Disclosure at the date of publication:** Lonsec Research receives a fee from the relevant fund manager or product issuer(s) for researching financial products (using objective criteria) which may be referred to in this document. Lonsec Research may also receive a fee from the fund manager or product issuer(s) for subscribing to research content and other Lonsec Research services. LIS receives a fee for providing the model portfolios to financial services organisations and professionals. LIS' and Lonsec Research's fees are not linked to the financial product rating(s) outcome or the inclusion of the financial product(s) in model portfolios. LIS and Lonsec Research and their representatives and/or their associates may hold any financial product(s) referred to in this document, but details of these holdings are not known to the Lonsec Research analyst(s).

**Warnings:** Past performance is not a reliable indicator of future performance. Returns are prepared and reported using model asset allocations, actual returns may vary depending on platform fees or allocations, and individual holdings. Any express or implied rating or advice presented in this document is limited to general advice and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ("financial circumstances") of any particular person. Before making an investment decision based on the rating or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or should seek independent financial advice on its appropriateness. If the financial advice relates to the acquisition or possible acquisition of a particular financial product, the reader should obtain and consider the Investment Statement or the Product Disclosure Statement for each financial product before making any decision about whether to acquire the financial product.

**Disclaimer:** LIS provides this document for the exclusive use of its clients. It is not intended for use by a retail client or a member of the public and should not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by LIS. The information contained in this document is current as at the date of publication. Financial conclusions, ratings and advice are reasonably held at the time of publication but subject to change without notice. LIS assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, LIS and Lonsec Research, their directors, officers, employees and agents disclaim all liability for any error or inaccuracy in, misstatement or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it.

Copyright © 2021 Lonsec Investment Solutions Pty Ltd ACN: 608 837 583 (LIS). This document may also contain third party supplied material that is subject to copyright. The same restrictions that apply to LIS copyrighted material, apply to such third party content.