

## Model Portfolio Performance Update Lonsec Listed Managed Portfolio – Core

### Portfolio Performance

MARCH 2017	1 MTH	3 MTH	1 YR	2 YR <sup>1</sup>	3 YR <sup>1</sup>	5 YR <sup>1</sup>	7 YR <sup>1</sup>	10 YR <sup>1</sup>	15 YR <sup>1</sup>	SINCE INCEPTION <sup>1</sup>	INCEPTION DATE <sup>2</sup>
<b>CORE MODEL PORTFOLIO<sup>3</sup> (%)</b>	<b>5.2</b>	<b>6.2</b>	<b>18.2</b>	<b>3.4</b>	<b>7.3</b>	<b>10.8</b>	<b>6.3</b>	<b>6.2</b>	<b>10.6</b>	<b>12.7</b>	<b>659.4</b>
S&P/ASX 200 ACC. INDEX (%)	3.3	4.8	20.5	4.4	7.5	11.1	7.4	4.3	8.3	8.3	285.7
EXCESS RETURN (%)	1.9	1.4	-2.3	-1.0	-0.2	-0.3	-1.1	1.9	2.3	4.4	373.7

<sup>1</sup> Performance greater than 12 months is annualised. <sup>2</sup> Total return since inception April 2000 <sup>3</sup> Gross performance including dividends (but not franking credits). Refer to page 3 for important disclosures regarding Lonsec's equity model portfolios.

### Portfolio characteristics

PORTFOLIO FY18 PER (X)	18.3	PORTFOLIO YIELD (% P.A.)	3.9	PORTFOLIO TRACKING ERROR	4.6
PORT. FY18 EPS GROWTH (%)	9.4	FRANKING (%)	66	PORTFOLIO VOLATILITY (%)	13.6
PORTFOLIO TURNOVER (% P.A.)	20-25	PORTFOLIO BETA	0.9	BENCHMARK VOLATILITY (%)	14.3

### Monthly Commentary

#### Market review and outlook

The Australian market continued to move higher in the March quarter with the All Ordinaries Index approaching the elusive 6,000 level - a level not exceeded since 2008. Much of the rally, over the past year, has been led by the dominant Financial and Resources sectors which have benefited from the 'Trump Trade' being a switch into stocks that benefit from a rising yield curve and a bounce in commodity prices.

As we move into the June quarter, we see evidence that the 'Trump Trade' is fading in that commodity prices (except Gold), the USD and bond yields have all been retreating.

Our base-case view is that it is prudent to expect a gradual rise in inflation and interest rates but we remain sceptical about global growth prospects recovering materially. In Australia to date, only the resources sector has seen a recovery in growth (off a very low base) and this may not be sustainable, if commodity prices retreat. Other sectors are generally experiencing tough conditions with outlook statements remaining cautious.

#### Portfolio review

The Core portfolio gained 5.2% in March and 6.2% over the quarter, outperforming the benchmark. The rolling year total return is quite strong at 18.2% and the level of underperformance to the benchmark has narrowed to 2.3%.

As in previous performance reports, the strong rally in Financials and Resources over the past year has led to a period of short term underperformance but we expect to 'claw' our way back to outperformance as the Quality and Reasonable Price fundamentals of the portfolio begin to reassert themselves as superior long term wealth drivers to short term trades, as witnessed with the 'Trump Trade' since the US election.

It was pleasing to see some strong stock-specific performance in March with ANN (+13.1%) and QUB (+12.1%) leading portfolio gains.

We also note that TLS has fallen significantly since we removed the stock in December and that CPU and CGF are performing very well. On the negative side, BXB was costly over the March quarter but we are seeing signs of stabilisation in April and expect a rebound in the stock in the June quarter.

Key contributors in the March quarter include: CSL +25.7%, CPU +14.3% and CGF +13.3%.

Key detractors in the March quarter include: BXB -23.4%, BHP -1.9% and ANN -1.4%.

#### Portfolio strategy

Lonsec combines top-down themes with bottom-up stock selection of quality stocks, trading at a reasonable price (QARP).

Top down themes: global inflation and interest rates to gradually rise; global growth outlook to gradually increase, led by the US; Asian growth in transition; global population ageing, middle class growing & becoming more mobile; and competition increasing from globalisation and technology disruption.

Recent portfolio changes seek to reduce defensive exposure and increase exposure to growth and/or higher interest rates. See the Portfolio Change document on iRate for further information.

As mentioned above, we see the switch out of quality and growth stocks as an opportunity to make some adjustments to the portfolio during 2017.

#### Last portfolio activity

REMOVE	TELSTRA (TLS)	-10.0%
REDUCE	TRANSURBAN (TCL)	-5.0%
INCLUDE	BRAMBLES (BXB)	+7.5%
INCLUDE	COMPUTERSHARE (CPU)	+5.0%
INCREASE	CHALLENGER (CGF)	+2.5%

Last change: 23 December 2016

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## Lonsec Listed Managed Portfolio – Core

### Portfolio Objective

To deliver strong returns above benchmark, over the medium to long term, by investing in a concentrated portfolio of large-cap Australian listed companies.

Suitable for investors seeking capital growth, and a solid dividend yield, over a holding period of at least three years.

### Portfolio Profile



A \$10,000 investment in the Core portfolio at inception (April 2000) would now be worth around \$76,000.

A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around \$38,500.

Both figures include dividends (but not franking credits) and are gross of fees.

GICS SECTOR	ASX 200 (%)	CORE (%)	ACTIVE WEIGHT (%)
FINANCIALS	35.5	27.5	-8.0
MATERIALS	16.5	15.0	-1.5
INDUSTRIALS	6.7	17.5	+10.5
REAL ESTATE	8.2	0.0	-8.2
HEALTHCARE	7.1	20.0	+12.9
CONSUMER STAPLES	6.7	10.0	+3.3
TELECOMMUNICATIONS	4.8	0.0	-4.8
ENERGY	4.4	5.0	+0.6
CONSUMER DISC.	5.9	0.0	-5.9
UTILITIES	2.4	0.0	-2.4
IT	1.3	5.0	+3.7
TOTAL	100.0	100.0	

Post the December 2016 changes, the Financials weighting has increased to 27.5%, IT has increased to 5.0% and the Industrial exposure has increased to 17.5%. The Telco weighting has been removed.

### Key overweight positions:

Healthcare +12.9%, Industrials +10.5%, IT + 3.7% and Consumer Staples +3.3%.

We note that the Healthcare overweight is large at 13% but investors should note that it reduces to 8% if we remove ANN, which is really a manufacturer rather than a healthcare company.

### Key underweight positions:

Resources -8.5% (10.0% vs 18.5%), AREITs -8.2%, Financials -8.0%, Consumer Disc. -5.9% and Telco's -4.8%.

The portfolio is likely to remain underweight Resources and Financials as the ASX 200 index weighting in these two sectors (circa 55%) is considered excessive from a both a quality investment approach and prudent risk management perspective.

MARKET CAP BREAKDOWN	CORE (%)
ASX 20	52.5
ASX 21-50	10.0
ASX 51-100	37.5
ASX 101-200	0.0
TOTAL	100.0

The portfolio's exposure to the ASX 20 has been reduced over the past two years to 52.5%, while the ex-ASX 20 weighting has been increased to 47.5%. This is a result of many of the ASX 20 stocks lacking growth in the short term.

### Portfolio style and construction rules

INVESTMENT PHILOSOPHY	QUALITY COMPANIES AT A REASONABLE PRICE, HIGH CONVICTION, LOW TURNOVER
INVESTMENT UNIVERSE	ASX 200 STOCKS
BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
INCEPTION DATE	APRIL 2000
TYPICAL NO. OF STOCKS	15-25
MINIMUM/MAXIMUM STOCK TARGET WEIGHT	2.5%/15.0%
STOCK LIMIT	STOCK WEIGHT +10.0%
SECTOR LIMIT	GICS SECTOR WEIGHT +20.0%
NON-INDEX LIMIT	10%
CASH LIMIT	10%
TYPICAL TURNOVER	20-30% (3-5 CHANGES PER ANNUM)

For further information on Lonsec's investment philosophy and process for the equity model portfolios, please [click here](#). For further information and research on model portfolio stocks, please see the ASX 200 and equity model portfolio section on iRate.

## **Lonsec Listed Managed Portfolio – Core**

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#### **Date prepared**

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#### **Analyst**

William Keenan

#### **Release authorised by**

Lukasz de Pourbaix

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