Lonsec Investment Solutions

Model Portfolio Performance Update
Lonsec Listed Managed Portfolio — Income

ISSUE DATE: 27-04-2017

Portfolio Performance

MARCH 2017	1 MTH	3 MTH	1 YR[1]	2 YR[1]	3 YR[1]	5 YR[1]	7 YR[1]	10 YR[1]	SINCE INCEPTION[1]	SINCE INCEPTION[2]
LONSEC INCOME MODEL PORTFOLIO[3] (%)	4.6	4.5	13.7	2.0	6.1	10.2	9.0	2.5	7.4	182.4
S&P/ASX 200 ACCUMULATION INDEX (%)	3.3	4.8	20.5	4.4	7.5	11.1	7.4	4.3	9.1	257.8
EXCESS RETURN (%)	1.3	-0.3	-6.8	-2.4	-1.4	-0.9	1.6	-1.8	-1.7	-75.4

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

Portfolio characteristics

PORTFOLIO FY17 PER (X)	19.0	PORTFOLIO YIELD (% P.A.)	5.2	PORTFOLIO BETA	0.9
PORTFOLIO FY17 EPS GROWTH	4.0	GROSSED-UP YIELD (%)	6.9	PORTFOLIO VOLATILITY (%)	13.8
PORTFOLIO TURNOVER (% P.A.)	20-30	FRANKING (%)	75	BENCHMARK VOLATILITY (%)	13.0

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 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 portfolio returned 4.6% in March, outperforming the benchmark by 1.3%. For the March quarter, the portfolio returned 4.5%, lagging the benchmark by 0.3%. The Telco and Realestate sectors where the main underperforming sectors during the quarter. From a bottom up perspective, SYD (+12%), WOW (+11%) and WES (+10%) were the leading contributors to performance over the March quarter, whilst TLS (-6%), SCG (-5%) and TTS (+1%) were the main underperformers.

The overall yield of the portfolio has remained relatively stable at 5.2% or 6.9% grossed-up for franking credits. This is expected to improve to 5.3% or 7.0% grossed-up in FY18.

Whilst portfolio performance on the rolling year remains strong in absolute terms (+13.7%), it remains behind the benchmark return of +20.5%. We expect this gap to narrow as valuations start to moderate in the Resources sector.

Looking ahead, we expect market sentiment to continue to remain negative towards bond-proxy stocks and sectors, accordingly, we are reviewing our defensive exposures with a view of reducing exposure to these sectors over 2017.

Key contributors for the month: SYD +11.7%, TTS +11.7% and TAH +11.5%.

Key detractors for the month: SGP -1.7%, SCG -1.6% and TLS -0.1%.

Portfolio strategy

The Income portfolio's primary objective is to deliver an attractive, sustainable, tax-effective dividend yield, in addition to steady capital growth over the long term. Accordingly, the portfolio usually has a very low exposure to the Resources, cyclical and low yielding stocks.

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

Our current top-down themes include: 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.

Last portfolio activity

REMOVE	IOOF HOLDINGS (IFL) -10.0%
INCLUDE	SYDNEY AIRPORT (SYD) +10.0%

Last change: 24 March 2016

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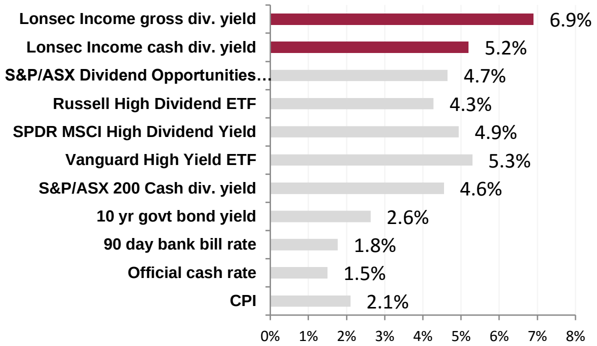
Portfolio Objective

To deliver an above-benchmark, tax-effective income stream and reasonable capital growth, over the medium to long term, by investing in a concentrated portfolio of large-cap Australian listed companies.

Suitable for investors seeking an above benchmark, tax-advantaged income stream, and capital growth at least in-line with inflation, over a holding period of at least 3 years.

Portfolio Profile



The Lonsec Income portfolio currently offers a forecast FY17 cash yield of 5.2 % or 6.9% grossed-up for the value of franking credits (75%). This compares favourably against various income benchmarks and other income focused securities and funds listed on the ASX.

Sector Allocation

GICS SECTOR	ASX 200 (%)	IP (%)	ACTIVE WEIGHT (%)
FINANCIALS	35.5	27.5	-8.0
MATERIALS	16.5	15.0	-1.5
REAL ESTATE	6.7	17.5	+10.5
HEALTH CARE	8.2	0.0	-8.2
CONSUMER STAPLES	7.1	20.0	+12.9
INDUSTRIALS	6.7	10.0	+3.3
CONSUMER DISC.	4.8	0.0	-4.8
ENERGY	4.4	5.0	+0.6
TELECOMMUNICATION	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**	

The Income portfolio currently has a bias to defensive industries that offer a combination of yield and growth. This is reflected in overweight positions in AREITs, Consumer Staples, Telecommunications and Gaming.

The portfolio's main underweight positions are Materials, Energy, Healthcare and Utilities.

Lonsec will continue to monitor its sector weighting in the portfolio over 2017 and implement changes as required.

MARKET CAP BREAKDOWN	PORTFOLIO (%)
ASX 20	60.0
ASX 21-50	15.0
ASX 51-100	20.0
ASX 101-150	5.0
TOTAL	**100.0**

The portfolio retains its bias to the ASX20 with 60% of the portfolio invested in companies included in this index.

Portfolio style and construction rules

INVESTMENT PHILOSOPHY	QARP,HIGH CONVICTION, LOW TURNOVER
INVESTMENT UNIVERSE	ASX200 CONSTITUENTS
BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX
INCEPTION DATE	AUGUST 2002
TYPICAL NO. OF STOCKS	15-25
MIN. STOCK WEIGHT LIMIT	2.5%
MAX. STOCK WEIGHT LIMIT	15.0%
ACTIVE STOCK LIMIT	STOCK WEIGHT +10%
GICS SECTOR LIMIT	SECTOR WEIGHT +20%
NON-INDEX LIMIT	0-10%
CASH LIMIT	0-10%
FRANKING	MINIMUM 70% ACROSS PORTFOLIO
AVERAGE TURNOVER	20-30%

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 model portfolio section on iRate.

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Analyst Disclosure and Certification

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Date prepared

26 April 2017

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Release authorised by

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