

Model Portfolio Performance Update Lonsec Listed Managed Portfolio – Emerging Leaders

Portfolio Performance

MARCH 2017	1 MTH	3MTH	1 YR	2 YR ¹	3 YR ¹	4 YR ¹	5 YR ¹	SINCE INCEPTION ¹	SINCE INCEPTION ²
LONGSEC EMERGING LEADERS MODEL PORTFOLIO³ (%)	1.1	-1.2	5.3	5.4	8.9	10.6	12.7	12.7	110.6
S&P/ASX SMALL ORDS ACCUMULATION INDEX (%)	2.7	1.5	13.7	8.6	6.4	4.4	2.3	0.2	1.1
EXCESS RETURN (%)	-1.6	-2.7	-8.5	-3.3	2.4	6.1	10.4	12.5	109.5

¹ Performance greater than 12 months is annualised. ² Total return since inception December 2010 ³Gross 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)	16.0	PORTFOLIO YIELD (% P.A.)	3.7	PORTFOLIO TRACKING ERROR (%)	10.2
PORTFOLIO FY17 EPS GROWTH	14.3	FRANKING (%)	67	PORTFOLIO VOLATILITY (%)	12.1
PORTFOLIO TURNOVER (% P.A.)	25-35	PORTFOLIO BETA	0.6	BENCHMARK VOLATILITY (%)	14.9

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.

The Small Ordinaries Index rose +2.7% in March, underperforming the ASX100 (+3.3%). The Small Resources sector (-3.2%) reversed its recent trend of outperformance, underperforming Small Industrials (+4.2%) in March.

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 Emerging Leaders portfolio returned -1.2% in the March quarter, lagging the benchmark by 2.7%. From a portfolio perspective, CGC (28%), VOC (+14%) and AUB (+11%) were the leading contributors to performance over the quarter, whilst ISD (-46%), HSN (-12%) and LOV (-5%) were the main underperformers. VOC and ISD were removed from the portfolio effective 1st March, 2017. We are currently reviewing the constituents and the sector weightings of the portfolio following the February reporting season and will issue a portfolio update shortly.

As at 31 March 2017, the portfolio had delivered a rolling 12-month total return of 5.3% and an annualised return of 12.7% over the last five years (before franking credits), outperforming the benchmark by 10.4%p.a. Despite the relative underperformance over the past year, the portfolio's long term returns remain strong with annual returns of 12.7% p.a. since inception. We expect the short-term underperformance of the portfolio to neutralise as commodity prices stabilise over 2017.

Key contributors for the month: MTR (+8%), CGC (+8%) and ALU (+7%). Key detractors for the month: LOV (-7%), PSQ (-6%) and FSF (-6%).

Portfolio strategy

Our main strategy is to invest in quality companies with a sustainable business model, clear earnings visibility, strong balance sheet and sustainable dividend yield, as we believe this strategy will provide superior investment returns in the long run. Accordingly, the portfolio retains an overweight exposure to a number of businesses with relatively defensive earnings streams, which is deemed prudent in the current low growth environment.

Given the lack of quality companies to invest in the small resources universe (and their speculative nature), we continue to retain an underweight position in the portfolio with the understanding that from time to time this will lead to periods of underperformance versus the benchmark.

Last Portfolio activity

SAI GLOBAL LIMITED (SAI)	-10%
QUBE HOLDINGS LIMITED (QUB)	-5%
ARDENT LEISURE GROUP (AAD)	-5%
SKYCITY ENTERTAINMENT GROUP (SKC)	+10%
EVOLUTION MINING LIMITED (EVN)	+5%
ISENTIA GROUP LIMITED (ISD)	+5%

Last change: 28 March 2016

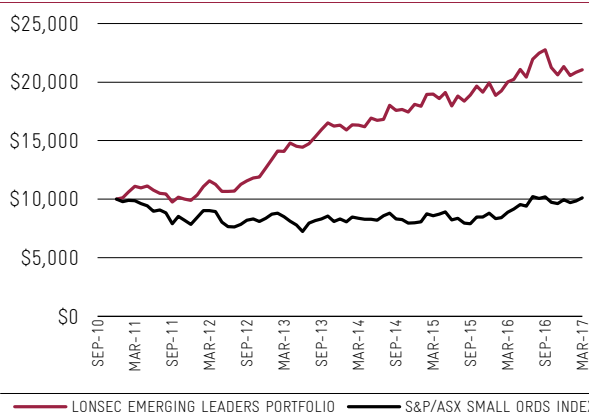
We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Investment Solutions Pty Ltd • ACN 608 837 583 • A Corporate Authorised Representative (CAR 1236821) of Lonsec Research Pty Ltd • ABN 11 151 658 561 • AFSL 421 445 • This information must be read in conjunction with the Warning, Disclaimer, and Disclosure at the end of this document. This report supersedes all prior reports.

Lonsec Listed Managed Portfolio – Emerging Leaders

Portfolio Objective

To deliver strong returns above benchmark, over the medium to long term, by investing in a diversified portfolio of emerging Australian listed companies. The portfolio is suitable for investors seeking capital growth over a holding period of at least 3 years.

Portfolio Profile



A \$10,000 investment in the Emerging Leaders portfolio at inception (31 December 2010) would now be worth \$21,061. A similar investment in the S&P/ASX 100 Small Ordinaries Accumulation Index would now be worth \$10,110. Both figures include dividends (but not franking credits) and are gross of fees.

GICS SECTOR	BENCHMARK (%)	PORTFOLIO (%)	ACTIVE POSITION (%)
1 ENERGY	6.1	0.0	-6.1
2 MATERIALS	16.3	5.0	-11.3
3 INDUSTRIALS	11.4	0.0	-11.4
4 CONSUMER DISC.	18.3	30.0	11.7
5 CONSUMER STAPLES	7.4	15.0	7.6
6 FINANCIALS	9.3	5.0	-4.3
7 REALESTATE	13.1	10.0	-3.1
8 HEALTHCARE	7.6	5.0	-2.6
9 IT	4.8	20.0	15.2
10 TELECOMMUNICATION	4.3	0.0	-4.3
11 UTILITIES	0.5	0.0	-0.5
TOTAL	100.0%	90.0%	

- Following the recent changes, the portfolio remains underweight Materials, Energy and Industrials
- Following the removal of VOC, we have no exposure to the Telecommunication sector
- We have reduced the underweight position in Materials through the addition of EVN (Gold producer) to the portfolio
- Consumer staples, Consumer Discretionary and IT are the portfolio's main overweight positions

Portfolio style and construction rules

INVESTMENT PHILOSOPHY	QARP, HIGH CONVICTION, LOW TURNOVER
INVESTMENT UNIVERSE	EX-ASX100. MINIMUM MARKET CAPITALISATION OF \$150M
BENCHMARK	S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX
INCEPTION DATE	DECEMBER 2010
TYPICAL NO. OF STOCKS	15-25
AVERAGE TURNOVER	25-35%
MIN. STOCK WEIGHT LIMIT	2.5%
MAX. STOCK WEIGHT LIMIT	15.0%
GICS SECTOR LIMIT	SECTOR WEIGHT +25%
NON-INDEX LIMIT	0-20%
CASH LIMIT	0-10%

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 of the Lonsec website.

Lonsec Listed Managed Portfolio – Emerging Leaders

Analyst Disclosure and Certification

Analyst remuneration is not linked to the recommendations or advice. The analyst(s) may hold securities (or any other beneficial interest) in the companies referred to in this document. Lonsec considers any holdings not to be sufficiently material to compromise the recommendation or advice. Analyst(s) holdings may change during the life of this document. The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the securities to which this document refers.

Date prepared

27 April 2017

Portfolio Manager

Danial Moradi

Release authorised by

Lukasz de Pourbaix

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 Fiscal 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's equity model portfolios are fully invested and are re-balanced every six months (31 March and 30 Sept) to maintain model portfolio weights. Physical portfolio results will differ depending on cash levels, inception date, fees and adherence to the model portfolio weights. 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 may hold any financial product(s) referred to in this document. LIS and Lonsec Research's 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. Any express or implied rating or advice presented in this document is limited to "general advice" (as defined in the Corporations Act 2001 (Cth)) 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. Financial conclusions, ratings and advice are reasonably held at the time of completion (refer to the date of this report) 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 © 2017 Lonsec Investment Solutions Pty Ltd ACN: 608 837 583 (LIS), a corporate authorised representative (CAR number: 1236821) of Lonsec Research Pty Ltd ABN: 11 151 658 561 AFSL: 421 445 (Lonsec Research). This report is subject to copyright of LIS. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this report may, in any form or by any means (electronic, mechanical, micro-copying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of LIS. This report may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to LIS copyrighted material, applies to such third party content.