

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

### Portfolio Performance

DECEMBER 2019	1 MTH	3 MTH	1 YR	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>
<b>CORE MODEL PORTFOLIO<sup>2</sup> (%)</b>	<b>-1.7</b>	<b>4.0</b>	<b>24.2</b>	<b>12.7</b>	<b>9.8</b>	<b>10.8</b>	<b>7.5</b>	<b>9.9</b>	<b>12.5</b>
S&P/ASX 200 ACC. INDEX (%)	-2.2	0.7	23.4	10.3	9.0	10.0	7.9	8.8	8.4
EXCESS RETURN (%)	0.5	3.3	0.8	2.4	0.8	0.8	-0.4	1.1	4.1

<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). Actual portfolio performance may vary from these numbers and between individual investors in the portfolio. Refer to page 3 for important disclosures regarding Lonsec's equity model portfolios.

### Portfolio characteristics

FORECAST PORTFOLIO PER (X)	25.1	PORTFOLIO FY20 YIELD (% P.A.)	3.1	TRACKING ERROR (5-YR)	3.8
FORECAST ROE (%)	18.9	FRANKING (%)	76	PORTFOLIO VOL. (5-YR %)	10.9
PORTFOLIO TURNOVER (% P.A.)	20-30	PORTFOLIO BETA	0.9	BENCHMARK VOL. (5-YR %)	10.9

### Monthly Commentary

#### Market review

The S&P/ASX 200 Accumulation Index gained 0.7% over the December quarter, capping of a stellar year with a total return of 23.4%, the strongest calendar year performance since 2011. The Healthcare (43.4%), IT (33.3%) and Consumer Discretionary (32.4%) sectors lead the gains over 2019, whilst Financials (7.4%) and the major Banks were the main laggards. Whilst not amongst the strongest performers in percentage terms, the Materials sector provided the strongest sector contribution to the benchmark, driven by gains in iron ore (+28.1%), crude oil (+22.7%) and gold (+18.3%).

Despite the strong returns from equity markets over 2019, company earnings growth remains muted, with lower interest rates and an increased appetite for risk assets driving valuations higher. This was particularly evident in the relative performance of value and growth stocks over 2019, with the latter continuing to outperform for the third consecutive year.

On the monetary policy front, the US Fed kept the funds rate steady at 1.50–1.75% in December while the latest FOMC dot plot shows the Fed has downgraded its projections for the funds rate, which is now expected to remain on hold through 2020 and to rise to 1.90% by the end of 2021. Through 2019 the yield on the Australian 10-year Treasury fell from 2.32% to 1.37%, reflecting weakening economic conditions and a reversal in monetary policy as the RBA shifted into an easing cycle with three rate cuts.

The Australian economy enters 2020 growing well below historical growth rates, with excess capacity in the labour market and inflation below the RBA target at around 1.0%. This suggests the RBA is likely to retain its easing bias in 2020, with the market expecting further rate cuts in the first half of the year.

#### Portfolio review

The portfolio gained 4.0% over the December quarter, outperforming the benchmark by 3.3%. The outperformance was driven by the portfolio's Healthcare exposure and strong returns from a number of recent additions to the portfolio including JHX (+12.7%), ALL (+11.1%) and AMC (+10.7%), whilst the major banks, CGC (-28.9%) and REA (-4.3%) were the main underperformers. For the year ended 31 December 2019, the portfolio has delivered a total return of 24.2%, 80bps ahead of the benchmark, whilst exhibiting a lower level of volatility. Long term performance remains ahead of the benchmark.

Aristocrat Leisure (ALL) was amongst the strongest contributors over the December quarter after reporting a better than expected result in November, with net profit for the year growing by 23%. FY20 should be another strong year for the Group on the back of further gains in North America, particularly in adjacencies where ALL should be able to increase market share off a low base. Growth in ALL's Digital revenues will be driven by new games and increased efficiency of UA spend by implementing a common platform management tool, Go Game, based on clear return metrics. Looking ahead, we expect revenue and EPS to grow by 8.5% and 12.0%, respectively, over the next three years. Additionally, ALL's strong free cash flow generation and balance sheet has given them optionality for more acquisition and/or capital returns, which can provide another avenue of EPS growth. As such we have increased our valuation to \$39.28/share to reflect the macro and micro tailwinds.

#### Last portfolio activity

REMOVE	CHALLENGER LTD (CGF) -7.5%
INCLUDE	AMCOR PLC (AMC) +5.0%
	OZ MINERLS LTD (OZL) +2.5%

Last change: 27 June 2019

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## Lonsec Listed Managed Portfolio – Core

### Portfolio strategy

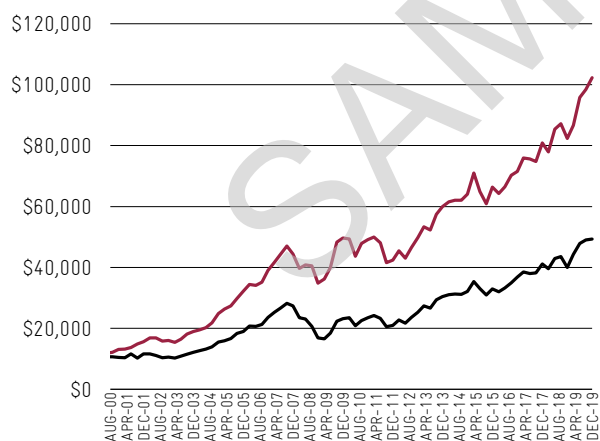
Lonsec believes that higher quality companies will outperform lower quality companies over time. Lonsec also believes that markets tend to be inefficient over the short term, leading to such higher quality companies trading at a discount to their intrinsic valuation from time-to-time. Lonsec considers that a detailed 'bottom-up' investment process implemented by an experienced investment team can exploit such opportunities as they occur to add alpha over a market cycle. Combined, this focus on quality and value forms the back-bone of Lonsec's 'Quality-at-a-Reasonable-Price' or QARP investment style.

### Portfolio Objective

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

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

### Portfolio Profile



— LONSEC CORE MODEL PORTFOLIO TOTAL RETURN SINCE INCEPTION (APRIL 2000)

A \$10,000 investment in the Core portfolio at inception (April 2000) would now be worth around \$102,297. A similar investment in the S&P/ASX 200 Accumulation Index would now be worth around \$49,315. Both figures include dividends (but not franking credits) and are gross of fees.

MARKET CAP BREAKDOWN	PORTFOLIO (%)
ASX 20	55.0
ASX 21-50	12.5
ASX 51-100	30.0
ASX 101-200	2.5
TOTAL	100.0

GICS SECTOR	ASX 200 (%)	PORTFOLIO (%)	ACTIVE WEIGHT (%)
COMMUNICATION SERVICES	4.5	2.5	-2.0
CONSUMER DISC.	7.1	5.0	-2.1
CONSUMER STAPLES	5.5	10.0	4.5
ENERGY	5.5	5.0	-0.5
FINANCIALS	28.0	20.0	-8.0
HEALTH CARE	10.5	22.5	12.0
INDUSTRIALS	8.4	10.0	1.6
IT	2.9	0.0	-2.9
MATERIALS	17.9	25.0	7.1
REAL ESTATE	7.4	0.0	-7.4
UTILITIES	1.8	0.0	-1.8
CASH	0.0	0.0	0.0
TOTAL	100.0	100.0	

- The main overweight positions in the portfolio are: Healthcare; Materials and Consumer Staples.
- The main underweight positions in the portfolio are: Financials; Real Estate; IT; Communication Services and Utilities.
- Investors should note that JHX, ORA and AMC are ranked under Materials when widely viewed as Industrial exposures (Building materials and Packaging).
- The portfolio is likely to retain an underweight exposure to the Financials and Metals & Mining sectors, as the benchmark weighting in these two sectors (circa 50%) is considered excessive from a both a quality investment approach and prudent risk management perspective.

### 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)

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

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### **Date prepared**

Tuesday, January 21, 2020

### **Report prepared by**

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### **Release authorised by**

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