

Lonsec

A teal-colored graphic element consisting of a vertical bar with a diagonal cut at the top, positioned to the left of the main title.

Lonsec Retirement Managed Portfolios

Adviser use only

Contents

About Lonsec	3
What are managed portfolios?	3-4
Lonsec's investment philosophy	5
Portfolio construction process	6-10
Reporting and keeping you informed	11
Lonsec Managed Portfolios overview	12
Lonsec Retirement Managed Portfolios	13
Lonsec Retirement Managed Portfolio – Conservative	14
Lonsec Retirement Managed Portfolio – Balanced	15
Lonsec Retirement Managed Portfolio – Growth	16
Managing risk	17
Fees and other costs	18
Find out more	19

About Lonsec

The Lonsec Group has played a fundamental role in building the investment capabilities of financial advisers, fund managers, superannuation funds and individuals for over 20 years.

Our business encompasses managed investments and listed securities research, awards and ratings, portfolio consulting, managed accounts and data and analytics.

Supported by one of the largest research teams, the Lonsec Group is positioned at the nexus of Australia's financial advice and investment industry, enabling us to provide practical, actionable insights that add real value to our investment and advice solutions.

Lonsec Investment Solutions

Lonsec Investment Solutions Pty Ltd (Lonsec) is a specialist model portfolio manager with extensive expertise in portfolio construction, asset allocation and investment selection, with our best ideas encapsulated in a series of Lonsec managed portfolios to meet different client needs.

Drawing on Lonsec's in-depth investment product research, our portfolios invest in managed funds and listed structures, such as Exchange Traded Funds (ETFs), that are rated Recommended and higher.

What are managed portfolios?

A managed portfolio is an investment scheme managed by a professional investment manager, such as Lonsec, on an investor's behalf. The investment manager is responsible for the investment decisions relating to the portfolio including the underlying investments held within the portfolio, as well as the portfolio weights and portfolio rebalancing.

The issuer of a managed portfolio is typically a platform provider. Managed portfolios on platforms are overseen by an appointed responsible entity (RE) or superannuation trustee.

Why managed portfolios?

Managed portfolios have seen a considerable rise in popularity and are rapidly becoming the investment structure of choice for many financial advisers.

A managed portfolio provides access to a single asset class or diversified portfolio overseen by investment professionals, with all the benefits of research, implementation and reporting.

Managed portfolios offer a scalable investment solution allowing financial advisers to concentrate on strategic advice, while outsourcing the day to day portfolio management to experienced investment consultants.

Significant benefits of managed portfolios for advisers

Improved efficiency

Once within the managed portfolio structure, no records of advice (ROAs) are required when portfolio changes are made, materially reducing administrative resources and time related to portfolio changes. The reduced time associated with portfolio implementation and management, creates more time for advisers to work on their business or growing their client base.

Stronger client relationships

Less paperwork and administration creating more time for advisers to focus on strategic advice and enhancing the value of their financial advice offering.

Improved risk management

The client's portfolio is underpinned by a professional investment process and remains within the required risk management obligations.

Best interest duty

Timely portfolio changes ensure best interest obligations are applied to all clients concurrently.

Significant benefits of managed portfolios for clients

Professional expertise

Expertise and services provided by investment professionals who manage and monitor the portfolios.

Rapid responsiveness

Efficient implementation of investment decisions, ensuring portfolio changes are made in a timely manner and the client is promptly aligned to the new portfolio structure.

Transparency

Ability to view the underlying assets and track performance of holdings, increasing client engagement with their portfolios.

Ownership of underlying assets

As the beneficial owner of the assets, your client's portfolio is portable without triggering a capital gains event when transferred into or out of a managed portfolio structure.

Lonsec's investment philosophy

Our philosophy underpins our investment research driven approach to portfolio construction and the processes we use to build quality investment solutions. At the core of our philosophy are our four beliefs:

one

A dynamic approach to portfolio management to achieve investment objectives while managing downside risk.

two

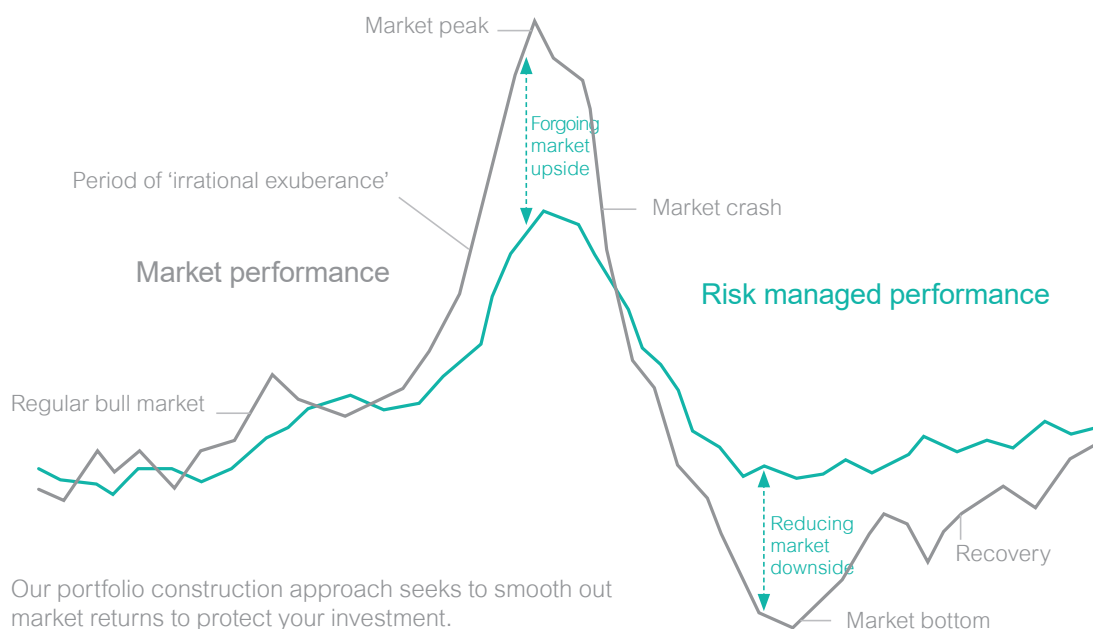
Investing in high quality investments underpinned by Lonsec's extensive research.

three

A strong risk management culture supported by a rigorous governance process.

four

A diversified approach to portfolio construction.



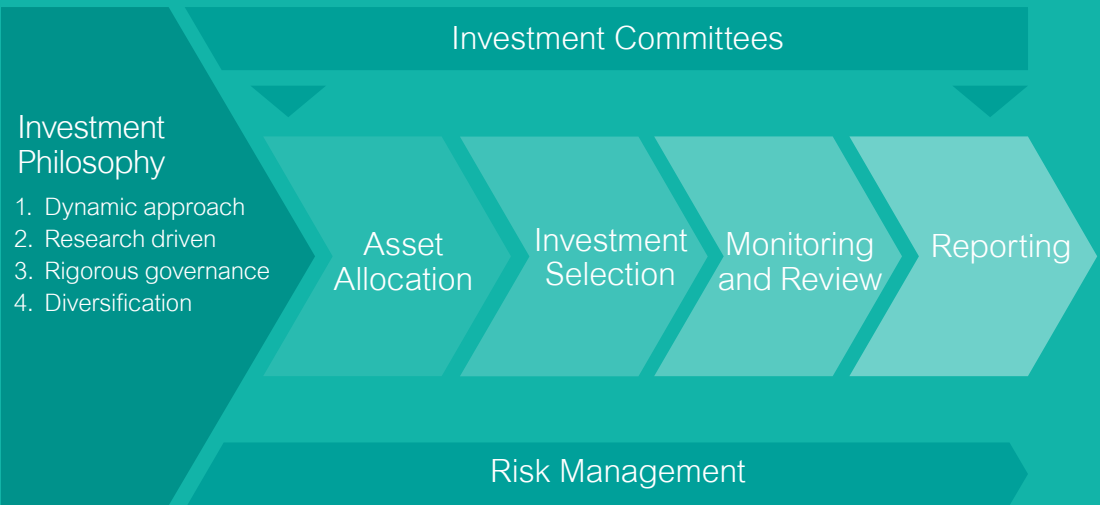
Our portfolio construction approach seeks to smooth out market returns to protect your investment.

Smoothing out returns by forgoing some potential upside, whilst limiting the downside, will result in superior long-term performance. Philosophically aligned to this belief, our portfolios are designed to keep pace with market returns while outperforming the market during a downturn.

Portfolio construction process

Lonsec's investment process combines a dynamic approach to asset allocation with active investment selection.

The chart below shows Lonsec's portfolio construction process:



Portfolio construction process for the Retirement portfolios

The Lonsec Retirement Managed Portfolios have been uniquely constructed so that they manage risks that are specifically relevant to investors in the retirement phase. They have been designed to mitigate risks such as capital drawdown risk, which can materially impact the longevity of a retirement portfolio, particularly in the early stages of transitioning from superannuation to the pension phase of investing. This is achieved by diversifying the portfolios by asset class, investment strategy, fund manager and sources of return.

The portfolios are designed for investors in the retirement phase seeking a sustainable income and some capital growth, while limiting risks that are particularly relevant to retirees, such as market and inflation risk. This is reflected in the underlying exposures to certain asset classes, as well as the types of products that have been selected for the construction of the portfolios.

The portfolios have a bias to domestic assets. The rationale for this bias is the favourable yield and tax treatment of domestic assets, particularly Australian equities, which is aligned to the overall objectives of the portfolios. The bias to domestic assets does result in decreased geographical diversification within the portfolios.

Portfolio construction approach

The Retirement portfolios have been constructed using a range of funds that meet the following criteria:

- Each fund meets Lonsec's minimum quality criteria of a Recommended rating.
- Each fund is designed to play a specific role within the portfolio, such as income generation, growth or risk control, or a combination of these.
- The final portfolio has a focus on meeting specific income and capital objectives, with a focus on limiting capital loss.

The objectives-based nature of the Retirement portfolios means that they have a focus on absolute rather than relative performance.

The three key building blocks of the portfolios are:

- **Yield**

The yield component of the portfolios includes investments ranging from equities through to cash. These investments have a focus on generating yield, or a certain level of income.

- **Capital growth**

The capital growth component of the portfolios is designed to generate long-term capital growth, with limited focus on income.

- **Risk control**

The risk control component of the portfolios is designed to reduce some of the risks associated with being exposed to the market through the yield and capital growth components, as well as managing other risks such as inflation risk. Risk control will not eliminate all risks but will assist in managing them.

The portfolios' allocation to each building block will vary over time depending on the risk and return profiles of the portfolios. Asset allocation and diversification are also important in managing the overall volatility of the portfolios.

Asset allocation

Lonsec applies a dynamic approach to asset allocation designed to manage portfolio risk as well as enhance portfolio returns over the medium term. Lonsec's dynamic asset allocation process focuses on three key factors:

Asset class valuations

Lonsec utilises a range of valuation metrics to assess whether asset classes are expensive or offer value over the long term.

An assessment of the business cycle

Lonsec analyses whether the business cycle is in an expansionary or contractionary phase by assessing a range of macro-economic indicators.

Sentiment and momentum

Lonsec observes a range of indicators to determine short-term market sentiment.

Lonsec will tilt the portfolio asset allocation away from Lonsec's neutral strategic asset allocation within the allowable asset class ranges based on Lonsec's assessment of these key factors.

Lonsec's neutral strategic asset allocation process seeks to determine a neutral asset allocation framework designed to maximise return and minimise risk over the long term. Lonsec incorporates both quantitative and qualitative inputs in determining the strategic asset allocation target weights including Lonsec's proprietary forward-looking capital market assumptions, an assessment of risks, such as volatility and liquidity risk, and correlations between asset classes.

Lonsec conducts a formal review of the strategic asset allocation every two years and reassesses the inputs on an annual basis. The objective of the formal review is to ensure that the Lonsec strategic asset allocation framework remains robust and continues to be effective in achieving the stated investment objectives of the respective risk profiles in the long term.

Investment selection

Lonsec's investment selection process has a focus on quality, diversification and risk. To be eligible for portfolio inclusion, fund managers must meet Lonsec's minimum quality criteria which includes funds rated Recommended or higher by Lonsec's investment research team.

Leveraging the knowledge and expertise of one of Australia's largest investment product research teams, Lonsec Research Pty Ltd (Lonsec Research) conducts comprehensive research across all asset classes including listed and unlisted investment structures. Investments are assessed on a forward-looking basis considering key factors such as people, philosophy, process, portfolio construction and risk management.

Investment products rated Recommended or higher are believed to exhibit competitive advantages to peers in these factors and are also believed to have a high probability of achieving their investment objectives.

Portfolio allocations take into account the role each fund will play within the portfolio.

Lonsec builds portfolios using three key building blocks:

Market exposure

Exposure to market returns either via long-only active management or passive strategies.

Risk control

Exposure to strategies that have the ability to manage downside risk. These strategies are designed to act as a 'shock absorber' for the portfolios.

Value add

Strategies that are designed to generate strong relative long-term growth or diversification from traditional asset classes.

Lonsec's qualitative investment selection process is supported by rigorous quantitative analysis including holdings-based analysis, risk and return based analysis and forward-looking scenario analysis. Lonsec uses a range of quantitative tools including Lonsec's iRate portfolio analytics tools, Financial Express, Style Research and Bloomberg.

Reasons for changing an investment

Changes to the managed portfolios' underlying investment will be made when there is a clear catalyst to make a change. Key reasons for when Lonssec will make changes include:

- An investment falls below Lonssec's minimum product quality criteria, i.e. an investment product rating falls below the minimum Recommended rating.
- An investment is approaching their stated capacity, in terms of their funds under management.
- An investment is not performing in-line with the intended objective it was included in the portfolios to perform. For example, when a fund manager has been included to provide downside risk management, but the manager's risk and return outcomes are not consistent with the desired characteristics over the medium to long term.
- When Lonssec is reconfiguring the composition of the portfolio based on a medium-term view of risks in the market.

Lonssec aims to keep portfolio turnover below 40% per annum. All portfolio changes are made via Lonssec's investment committee process.

Lonssec's investment committees

Lonssec believes that a strong investment governance framework is critical in making effective portfolio decisions. Having an investment process governed by an investment committee charter and comprised of experienced investment professionals with diverse areas of expertise, reflects best practice in portfolio construction decision making.

Lonssec's investment committee is responsible for all investment decisions relating to Lonssec's managed portfolios including asset allocation and investment selection decisions.

Lonssec operates separate Asset Allocation and Fund Manager Selection committees, comprising experts from across the Lonssec Group as well as external experts, including:

Lonssec's external experts – Macro Strategy and Asset Allocation

Chief Investment Officer

Head of Investment Consulting

Head of Research and Sector Manager, Australian Equities

Head of Fixed Income Research

Portfolio Manager, Multi-Asset Products

Portfolio Manager, Listed Products

Senior Investment Consultants

All investment decisions are made by voting members of the investment committee, with the Chair of the committee having the ability to make a final call on any decision should there be a casting vote.

Our investment committees meet on a quarterly basis with the ability to meet intra-quarter as required.

Mid-cycle portfolio reviews

If a material event occurs in between investment committee meetings, Lonsec will conduct a mid-cycle portfolio review and meet with the committee members to discuss what has occurred and the proposed portfolio changes.

Changes to the portfolios will typically be proposed in the following instances:

- A decline in Lonsec's qualitative conviction in an investment.
- The availability of a superior investment opportunity.
- Identification of increased risks impacting a sector or investment.

All manager decisions are discussed and ratified by Lonsec's Fund Manager Selection Committee.

Advisers are notified of a portfolio change, with information on the reason for any investment changes, the impact on the portfolios and suitable alternative investments.

Portfolio monitoring and review

In addition to the formal investment committee process, all funds are monitored on an ongoing basis and the Lonsec Investment Consulting team meets with the underlying investment managers as part of the formal product review process.

The team also meets with existing and prospective investment managers for portfolio updates. This is in addition to Lonsec's product review process, where all products are formally reviewed on an annual basis.

Distribution methods

Distribution is the income earned by the underlying investments within a managed portfolio and paid to investors. Distributions generated by managed portfolios are paid differently depending on the platform provider.

The default option offered by many platforms is to retain and reinvest the distributions in the portfolio. However, some platforms will allow clients and their advisers to amend their preference to redirect the income to be paid to the client's cash account.

Investors should check their platform provider's Product Disclosure Statement (PDS) for more information about their distribution methods.

Reporting and keeping you informed



Monthly performance reports

Performance reports for the managed portfolios are issued monthly and include information on the performance of the portfolios against the relevant benchmark, contribution to returns and market commentaries.



Lonsec Portfolio Update

Sent to advisers monthly, the Lonsec Portfolio Update includes performance reports, investment insights, a summary of all portfolio changes made over the month and Lonsec's Investment Outlook Report.



Portfolio change reports

Advisers are notified with an update when a change has been made to Lonsec's portfolios, providing detailed information of the stock or fund change, the portfolios impacted and the rationale for the change.



Adviser Portal on iRate

Our Adviser Portal on iRate provides access to portfolio performance reports, SOA inserts and other resources to help advisers and their clients.



Platform reporting

As part of Lonsec's managed portfolios reporting process, Lonsec provides regular reports to our partner platform providers, including performance, risk and attribution analysis. This forms part of the responsible entity (RE) and superannuation trustee platform reporting and monitoring process.

Lonsec Managed Portfolios overview

Our diversified portfolios reflect our best investment ideas, incorporating dynamic asset allocation combined with an active approach to investment selection. The portfolios leverage Lonsec’s extensive research capabilities investing in funds and listed structures that are rated Recommended and higher. Our three sets of multi-sector portfolios provide a range of exposures designed to suit different investment objectives, time horizons and a choice of underlying investment vehicles to cater for different client goals.

Risk profile options

Lonsec’s portfolios are implemented within a standard risk profile methodology. While the underlying asset class exposures and fund selection reflect each portfolio’s objectives, the overall long-term weightings to growth and defensive assets are aligned to Lonsec’s risk profiles.



Lonsec Retirement Managed Portfolios

The Retirement Managed Portfolios are objectives-based portfolios focusing on delivering a sustainable level of income in retirement, as well as generating capital growth. These portfolios have been constructed to provide advisers flexibility in terms of meeting retirees' income and capital objectives, which will vary depending on individual circumstances and lifestyle goals.

The objectives-based nature of the portfolios means that they have a greater focus on absolute rather than relative performance. They are also designed to reduce risks that are particularly relevant to retirees, such as capital drawdown risk, which can materially impact the longevity of a retirement portfolio, particularly in the early stages of transitioning from superannuation to pension phase of investing.

Risk profile	Conservative	Balanced	Growth
Average exposure to growth assets	40%	60%	80%
Average exposure to defensive assets	60%	40%	20%
Minimum timeframe	3 years	4 years	5 years
Investment objective	4.0% p.a. long-term income objective with some capital growth	4.0% p.a. long-term income objective with moderate capital growth	4.0% p.a. long-term income objective with high capital growth
Benchmark	Moderate	Balanced	Growth

Benchmark: Financial Express UT Peer Group Multi-Asset Indices

Investment universe

The Retirement portfolios invest across a diversified range of Australian equities, global equities, property and infrastructure, and fixed interest assets. The portfolios may also invest in alternative assets. The portfolios can invest in managed funds, listed securities, managed portfolios, Exchange Traded Funds (ETFs) and cash.

Lonsec Retirement Managed Portfolio – Conservative

Designed for

The portfolio is designed for investors focused on income and some capital growth. The portfolio is constructed to generate income and growth, while at the same time manage for risks such as market and inflation risk.

Investment objective and timeframe

The portfolio aims to generate 4% income with some capital growth over the suggested minimum investment timeframe of 3 years. Although the portfolio is largely 'benchmark unaware', comparison of its returns against the Financial Express UT Peer Group Multi-Asset Moderate Index before fees is considered adequate for the purpose of assessing the portfolio's relative performance.

Investment strategy

The portfolio seeks to generate competitive income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolios by asset class, investment strategy, fund managers and sources of return. In general, the portfolio will have a long-term average exposure of around 40% to growth assets and around 60% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	10	35
Global Equities	0	30
Australian Listed Property	0	20
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	10	50
Global Fixed Interest	5	45
Cash	0	30
Alternative Assets	0	30

Lonsec Retirement Managed Portfolio – Balanced

Designed for

The portfolio is designed for investors focused on income and a moderate level of capital growth. The portfolio is constructed to generate income and growth, while at the same time managing for risks such as market and inflation risk.

Investment objective and timeframe

The portfolio aims to generate 4% income with moderate capital growth over the suggested minimum investment timeframe of 4 years. Although the portfolio is largely 'benchmark unaware', comparison of its returns against the Financial Express UT Peer Group Multi-Asset Balanced Index before fees is considered adequate for the purpose of assessing the portfolio's relative performance.

Investment strategy

The portfolio seeks to generate competitive income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolios by asset class, investment strategy, fund managers and sources of return. In general, the portfolio will have a long-term average exposure of around 60% to growth assets and around 40% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	10	50
Global Equities	5	35
Australian Listed Property	0	20
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	5	40
Global Fixed Interest	0	35
Cash	0	25
Alternative Assets	0	30

Lonsec Retirement Managed Portfolio – Growth

Designed for

The portfolio is designed for investors focused on income with a high level of capital growth. The portfolio is constructed to generate income and growth, while at the same time managing for risks such as market and inflation risk.

Investment objective and timeframe

The portfolio aims to generate 4% income with high capital growth over the suggested minimum investment timeframe of 5 years. Although the portfolio is largely 'benchmark unaware', comparison of its returns against the Financial Express UT Peer Group Multi-Asset Growth Index before fees is considered adequate for the purpose of assessing the portfolio's relative performance.

Investment strategy

The portfolio seeks to generate competitive income and capital returns with lower downside risk than the market. This is achieved by diversifying the portfolios by asset class, investment strategy, fund managers and sources of return. In general, the portfolio will have a long-term average exposure of around 80% to growth assets and around 20% to defensive assets, however the allocations will be actively managed within the allowable ranges depending on market conditions.

Asset allocation ranges

Asset class	Minimum allocation (%)	Maximum allocation (%)
Australian Equities	15	70
Global Equities	10	45
Australian Listed Property	0	20
Global Listed Property	0	15
Global Listed Infrastructure	0	15
Australian Fixed Interest	0	30
Global Fixed Interest	0	25
Cash	0	20
Alternative Assets	0	30

Managing risk

The following summary is a guide to key risks associated with managed portfolios.

Portfolio manager risk

This risk is associated with the actual managed portfolio. This includes risks associated with the level of diversification in the portfolios, the subjective nature of investment decisions made by the portfolio manager, potential changes to the manager such as the loss of key staff and the manager failing to effectively implement their stated investment philosophy.

Operational risk

This is the risk associated with the operation of the managed portfolio. This includes:

- The risk that the actual asset holdings in the managed portfolio is unlikely to exactly match the holdings of the chosen portfolios.
- The risk that the amount of trading associated with rebalances will have an impact on the trading costs and investment performance. If rebalances are suspended, the managed portfolio may not reflect the most recent investment decisions made by the chosen portfolio managers and, during the rebalance process, it is possible that the completion of a trade may be delayed.

There are also systems risks to consider. The operation of a managed portfolio relies on the investment platform's systems and processes operating effectively and efficiently to establish and rebalance the managed portfolios. It also relies on the portfolio manager providing updated information regarding the investments of the portfolios on a regular basis.

Investment risk

Investment markets are affected by numerous factors. This includes market risk, currency risk and interest rate risk. There is a risk that the selected investment options may experience negative investment returns, and generally the higher the expected return, the more likely that negative returns may be experienced in the short term.

How Lonsec manages risks

We analyse, research, manage and aim to reduce the impact of risks on investments by actively monitoring investment markets and our Lonsec portfolios and we use carefully considered investment and risk management guidelines.

Fees and other costs

This section outlines the types of fees and costs related to investing in Lonsec's managed portfolios.

Responsible entity (RE) fee

A managed portfolio is a non-unitised managed investment scheme structure governed by a PDS and regulated under Chapter 5C of the Corporations Act 2001. Under this structure the RE will be appointed to oversee and manage the investment scheme. This is typically a platform provider. The RE and platform administration fees may vary between platform providers.

Management fee

This is the fee charged by the appointed portfolio manager and includes services related to the management of the portfolio, such as asset allocation, investment selection, risk management, implementation and reporting. Lonsec Investment Solutions is the manager for Lonsec's managed portfolios.

Underlying investment ICRs (Indirect Cost Ratios)

The individual underlying investments, such as managed funds or Exchange Traded Funds (ETFs), selected by the portfolio manager will have an ICR. The aggregate ICR of the portfolio will vary over time as a result of portfolio changes, as well as other factors, such as the underlying fund manager triggering a performance fee if relevant.

For information about the fees and costs of your managed portfolio, you should read the PDS provided by the relevant platform.

Want to find out more

Get in touch today to find out how we can help you start implementing managed portfolio solutions for your clients. Lonsec's managed portfolios are available through a number of major platforms including AMP MyNorth, BT Panorama, HUB24, Macquarie Wrap, Netwealth and Praemium.

The Lonsec Retirement Managed Portfolios are currently available via AMP MyNorth, BT Panorama, HUB24, Macquarie Wrap and Netwealth.

Call us on **1300 826 395** or email **info@lonsec.com.au**

[Lonsec.com.au](https://lonsec.com.au)

Publication date: May 2021

Important Notice: This document is published by Lonsec Investment Solutions Pty Ltd ACN 608 837 583 (LIS), a Corporate Authorised Representative (CAR 1236821) 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 does not have any involvement in the Lonsec Research investment research process. LIS and Lonsec Research are owned by Lonsec Holdings Pty Ltd ABN 41 151 235 406. 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 managers or product issuers 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 managers or product issuers for subscribing to research content and other Lonsec Research services. LIS receives fees for providing investment consulting advice, approved product lists and other advice to clients, and for providing the model portfolios to financial services 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 analyst(s).

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 (express or implied) is given or made as to its accuracy, reliability or to the 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 but is subject to change without notice. LIS assumes no obligation to update this document following publication. To the maximum extent permitted by law, neither LIS, LR or any other Lonsec Group company (and their representatives) will be liable to any party in contract, tort (including for negligence) or otherwise for any loss or damage arising either directly or indirectly 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 ABN 608 837 583