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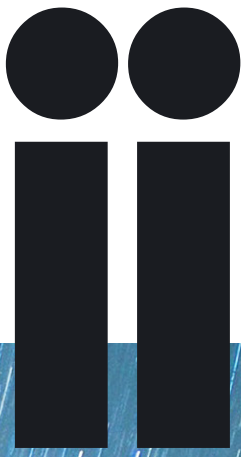
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Lonsec

Investment Insight provides a concise overview of Lonsec's short term macro-economic outlook and recommended tactical asset allocation. *Investment Insight* also contains information on Lonsec's equity model portfolios.

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**Performance Statistics: December 2014***Movement in key financial indicators***Performance Statistics — December 2014**

Markets	31 Dec 2014	Qrtly Change	Annual Change	Markets	31 Dec 2014	Qrtly Change	Annual Change
ALL ORDINARIES INDEX	5,389	1.7%	0.7%	HANG SENG	23,605	2.9%	1.3%
SMALL ORDINARIES INDEX	2,044	-4.4%	-6.8%	SHANGHAI COMP	3,235	36.8%	52.9%
BANKS	9,004	6.7%	3.1%	RBA CASH RATE	2.50	0.0%	0.0%
MATERIALS	8,728	-6.0%	-14.5%	90-DAY BILL RATE	2.77	8	17
INDUSTRIALS	4,322	7.8%	8.9%	10-YEAR BOND YIELD	2.73	-75	-150
REAL ESTATE	2,831	10.1%	22.2%	US 10-YEAR BOND YIELD	2.17	-32	-87
US S&P 500	2,059	4.4%	11.4%	AUD/USD	0.82	-6.7%	-8.5%
UK FTSE 100	6,566	-0.9%	-2.7%	OIL (WTI) SUS/BBL	54	-41.3%	-45.5%
GERMAN DAX	9,806	3.5%	2.7%	GOLD SUS/OZ	1,184	-2.3%	-1.5%
JAPAN NIKKEI	17,451	7.9%	7.1%	IRON ORE SUS/T	69	-10.4%	-47.3%

Volatility rose in the last quarter of 2014. The Australian share market suffered a 10% correction in September and October but a late rally saw the market finish flat (0.7%) on the calendar year. Materials (-14.5%) and Small Caps (-6.8%) were two key sectors that dragged on the market during the year. Interest rate sensitive sectors like Banks (+3.1%), Industrials (+8.9%) and Real Estate (+22.2%) outperformed the market.

The US market (+11.4%) continues to outperform the Australian market but a surprise outperformer over the year was the China market (+52.9%) which seems to be related to China opening up access to foreign investors, particularly Hong Kong.

The RBA has maintained the cash rate at 2.5% for over a year now and the broader yield curve has generally moved lower over the year. The AUD/USD succumbed to USD strength and weaker commodity prices to fall by 8.5% over the year. Commodities fell heavily during the year, with key Australian commodities (iron ore, coal, oil/LNG) all hit hard. Gold managed to buck the trend by remaining largely flat on the year.

Overview

Stars aligning

The 2014 year ended with a period of heightened volatility that included a 45% fall in the oil price, a 13% fall in the Australian dollar and a near 10% correction in the Australian share market. At the same time, interest rates generally continued to move lower.

Financial market conditions are now very accommodative for the broader economy

As we begin 2015, Lonsec believes that market conditions are now ripe for the Australian share market to continue to march higher. Why? In our assessment, the growth drivers for the Australian economy have multiplied from just one (low interest rates) to three (low interest rates, lower fuel prices and a lower currency). While the journey to this point has been a bumpy ride, financial market conditions are now very accommodative for the broader economy and many sectors of the share market.

When one considers a cash rate of 2.5%, falling inflation, falling fuel prices and a more competitive exchange rate, it is clear that consumers and producers alike should receive a boost from these conditions. Even mining, which has weathered a perfect storm in the past year will receive some benefit from lower fuel prices and a lower currency.

While we have adopted a positive outlook for the Australian share market there are always downside risks. Known risks in 2015 include: patchy conditions across the global economy, diverging central bank policies and economic challenges in Asia and Europe.



Overview

Global growth is being led by the US but Europe continues to wallow in low growth and the threat of deflation while most of Asia is in economic transition — particularly in China and Japan. As a result, central bank policy has begun to diverge; the US Federal Reserve (the Fed) is gradually tightening policy while the Bank of Japan (BOJ) has recently increased monetary stimulus and the European Central Bank (ECB) is considering re-igniting its monetary stimulus. Divergent central bank policy has been a key reason for increased currency volatility in recent months. At the same time, the fall in oil prices will pose a challenge for Russia, the Middle East and other oil exporting nations reliant on oil income.

Divergent central bank policy has been a key reason for increased currency volatility in recent months

For Australia, key risks include: Asia continuing to slow; commodity prices staying lower for longer; consumer and business confidence remaining subdued; fiscal consolidation at all levels of government; and a housing market at risk of overheating.

On balance, we believe the positive factors (US led recovery, low interest rates, low inflation, cheaper energy, lower AUD) are likely to outweigh the negative factors, as we progress throughout the year.

Overview**Conclusion**

The period of volatility at the end of 2014 has led to a number of positive conditions for global and domestic growth. These include: lower interest rates, falling inflation, lower energy costs and, in Australia, a lower AUD.

Last quarter, Lonsec noted that conditions were favourable for growth assets but that we would like to see some weakness in equity markets before increasing our weightings. Subsequently, we did see weakness in global equity markets with the Australian market down 10%, at one stage, mainly on foreign selling. However, the US market has recovered quite quickly.

Accordingly, this quarter we are increasing our growth weightings to Australian assets, in particular Australian shares and listed property to Overweight. Our International Equity weighting (unhedged) remains at Neutral because we believe the benefit of a falling AUD has mostly played out and that the brisk recovery in the US market has left more value in the local market at the moment. To fund this increase in our growth weightings, cash levels have been drawn down to Neutral while our Bond weightings remain Underweight.



Global Economic Outlook

Global growth still patchy

Global growth has been disappointing in 2014, with market expectations lowered to 3.3% (from 3.6%) throughout the year. Weakness in Europe and Asia has been the main drag while the US has been leading the recovery. There is still hope for improved growth prospects in 2015, with the IMF forecasting 3.8% for 2015. Both developed and emerging economies are expected to gain some momentum, on the back of US strength.

The US economy: 25% of Global GDP at market exchange rates

A sustainable recovery seems to be taking hold in the US with the economy experiencing moderate annual growth of 2.7%. Household spending is rising gradually and business fixed investment is advancing, while the recovery in the housing sector remains slow. Fiscal policy remains a drag on economic growth, although policy is improving and the US will enter a presidential election year in 2016. New payrolls have improved to over 250,000 per month and the unemployment rate has dropped to 5.6%.

With the economy improving, the Fed has wound up its bond purchasing program otherwise known as 'quantitative easing'. The first interest rate hike is expected in 2015 but the Fed has said that it "can be patient when beginning to normalise monetary policy". In response to the Fed gradually tightening monetary policy, the US dollar has rallied 15% in the past six months.

Inflation remains benign at 1.3% and is likely to remain subdued with energy prices recently falling and wage growth still modest. Overall, US annual growth should accelerate from 2.2% in 2014 to 3.1% in 2015. The main downside risk is a rapidly rising US dollar which could hurt US exports.

Global Economic Outlook**The European economy including the UK: 23% of Global GDP**

The Euro-zone seems to be stuck in a state of low growth, near zero inflation and high unemployment. Growth is patchy across the Euro-zone reflecting the different levels of national competitiveness. Europe has benefited from low interest rates but the Euro remains relatively high and there remain structural barriers to productivity.

The ECB has become more vocal about heading off deflation by employing unconventional monetary policy tools

The ECB has become more vocal about heading off deflation by employing unconventional monetary policy tools (quantitative easing) but so far its actions have underwhelmed the market. Nonetheless, the Euro has declined somewhat in recent months which will provide some support to the economy and will help to keep inflation above zero (currently 0.30%).

The Russian / Ukraine conflict seems contained at this stage but remains a threat to Europe if it is called on to further protect Ukrainian interests. Russian and European trade remains at risk, with energy supply a key risk for Europe. That said, a major fall in the oil price will put increased pressure on the Russian economy.

Overall, it seems Europe is stable but the recovery remains fragile and growth prospects remain muted. The IMF expects the Euro-zone to experience modest growth of 1.3% in 2015. The main downside risks are an escalation in Ukraine tensions or Europe falling into a deflation trap (similar to Japan since 1990).



Global Economic Outlook

The Asian economy: 23% of Global GDP

Asia is a mix of developed and emerging economies. Japan is a developed economy that is facing similar growth constraints to Europe (public debt hangover, ageing population, structural problems and a deflation threat). Unlike Europe, Japan has adopted aggressive fiscal and monetary policy to kick-start inflation. So far the policy seems to be working with the Yen depreciating, the share market rallying and inflation on the rise. However, there is a general sense of unease amongst economists who worry that the recovery is not sustainable without structural change. The IMF expects Japan's economy to grow by 0.8% in 2015.

China, India, South Korea, Thailand, Malaysia and Indonesia are all emerging economies that are undergoing major transitions, although each have their own unique problems to navigate. China's traditional export and construction led economic model is now at risk from lower world trade and over-investment in property.

China's leaders recognize the need to slow the property market, reform the financial sector, tackle corruption and pollution and distribute more wealth to its citizens to encourage greater internal consumption. The transition will not be easy and there is a risk that growth will continue to slow in the short term. The IMF expects China to grow by 7.1% in 2015. The main downside risk for China is a hard landing in its property sector.

2015 Outlook (Lonsec)	Recession	Low growth	High growth
UNITED STATES		▼	
EURO-ZONE	▼		
CHINA			▼
JAPAN		▼	
INDIA			▼

Domestic Economic Outlook*Accommodative financial conditions*

The Australian economy slowed significantly in late 2014 with the last two quarterly growth figures being just 0.3% and 0.5%, implying that annual growth will fall to below 2% in early 2015. The main drag on the economy has been the mining slowdown with large falls in commodity prices reducing income and capital expenditure in the sector. With many commodities still in oversupply, it looks like the mining slowdown will continue to drag on economic growth (and government revenue) in the short to medium term.

The Australian economy now has three growth drivers being low interest rates, a lower currency and lower fuel costs

In anticipation of the mining slowdown, the RBA has held the cash rate at a record low of 2.5% for over a year now in an effort to encourage non-mining sectors like household consumption, housing construction and business investment. To date, only the housing market and residential building construction has really responded. Consumption and business investment growth remains patchy and as a result the market has started to price in another interest rate cut in 2015.

However, two new growth drivers are beginning to take shape in the form of a lower AUD, which makes Australian exports more competitive, and a 50% fall in the oil price, which lowers energy costs. So the Australian economy now has three growth drivers being low interest rates, a lower currency and lower fuel costs.



Domestic Economic Outlook

A key determinant of interest rates will be the unemployment rate which has been creeping higher and is currently at 6.1%. For the unemployment rate to improve, the recovery in non-mining sectors will need to compensate for the loss of jobs in the resources sector. This is one of the major transitions in the economy and it is unknown how smooth it will be.

Complicating the non-mining recovery has been Federal and State governments seeking to reduce budget deficits and return to surplus. This has generally led to tightening fiscal policy which is often blamed for the low levels of consumer and business confidence.

On a positive note, inflation has subsided to 2.3% after peaking at 3.0% in mid-2014. Inflation has retreated as the economy slows and wage growth remains subdued. Moving forward inflation should remain subdued on the removal of the carbon tax and lower energy prices, despite a lower AUD which increases the costs of imports.

As mentioned previously, the AUD/USD has fallen around 13% in the past six months, mainly on falling commodity prices and the strength in the USD. Lonsec believes that most of the damage from commodity prices has played out and that Australia's relatively high levels of growth and interest rates (compared to other developed economies in the northern hemisphere) should provide support for the currency in the \$0.80–0.90 range.

Domestic Economic Outlook

The Australian Economy

Key Positives	Key Negatives
LOW INTEREST RATES WITH ROOM TO GO LOWER	COMMODITY PRICES WEAK
LOWER AUD	MINING INVESTMENT TO DECLINE RAPIDLY
LOWER ENERGY COSTS	SUBDUED BUSINESS AND CONSUMER CONFIDENCE
LOW TO MODERATE PUBLIC DEBT	PRODUCTIVITY ISSUES IN VARIOUS SECTORS
RELATIVELY STRONG FINANCIAL SECTOR	GOVERNMENT POLICY IS ERRATIC
POPULATION GROWTH AROUND 1.7% P.A.	HIGH HOUSEHOLD DEBT AT 100% OF GDP

Overall, Australia is transitioning from mining-led growth to other sectors of the economy. The transition is supported by low interest rates but is complicated by governments seeking to consolidate budgets and patchy business and consumer confidence. The recent weakness in the currency, along with lower energy prices and continued population growth, should ensure the economy continues to grow at a moderate pace.

The RBA expects the economy to grow by 2.5–3.5% in 2015. The main downside risks are related to patchy global growth, particularly in Asia, weak commodity prices persisting and confidence remaining subdued.

2015 Outlook (Lonsec)	Recession	Low growth	High growth





Recommended Tactical Asset Allocation

Increasing growth weightings

Lonsec maintained a neutral asset allocation for most of 2014. We recognised that low interest rates and low inflation are supportive of growth assets but felt that market valuations were full for equities and property. Increased volatility in late 2014 has seen a correction in equity markets and a major fall in the AUD and commodity prices. On balance, the Australian equity market has fallen more than many global equity markets and we believe it is prudent to increase our Australian equity and listed property weightings this quarter. To fund the increased weighting to Australian equities we have reduced our cash weighting and trimmed our bond weightings.

Lonsec Tactical Asset Class Positions — March Quarter 2015

Asset Class	Underweight		Neutral	Overweight
CASH			▼	▽
AUSTRALIAN FIXED INTEREST		▼	▽	
INTERNATIONAL FIXED INTEREST	▽	▼		
A-REITS			▽	▼
AUSTRALIAN EQUITIES			▽	▼
INTERNATIONAL EQUITIES (UNHEDGED)			▽▼	

▽ = DECEMBER QUARTER 2014 ASSET ALLOCATION ▼ = MARCH QUARTER 2015 ASSET ALLOCATION

Cash: Reduce to Neutral

The cash rate has been held at a record low of 2.5% since August 2013, with the intent of sparking a recovery in non-mining sectors, as the mining boom fades. There has been a recovery in the housing and residential building sectors but other sectors remain patchy. The RBA seemingly believes that interest rates are low enough but the market has begun to price in another rate cut in 2015, and we note that the Australian yield curve continues to move lower. Lonsec is reducing its cash weighting to fund an increase in our equity and property weightings.

Recommended Tactical Asset Allocation
Australian Fixed Interest: Reduce to Slightly Underweight

The Australian yield curve has continued to move lower and therefore bond markets have continued to rally. Lonsec has maintained its Australian bond market weighting at neutral for some time but we now believe it is prudent to take profit on the asset class and reduce weightings to **Slightly Underweight**. The Australian yield curve is very low with the 3 year bond yield at 2.1% and the 10 year bond yield at 2.6%. When one considers that inflation is 2.3%, the real yield on bonds is now quite low. Inflation may continue to move lower in the short term but we expect it to remain within 2–3% over the medium to long term.

International Fixed Interest: Slightly Underweight

Bond yields have continued to move lower, even as the US economy improves and the Fed gradually tightens monetary policy. This has been a surprising trend and seems to be related to patchy global growth and the high levels of liquidity still being supplied by central banks in Asia and Europe. Low bond yields would seem to indicate that bond markets expect global growth and inflation to remain very low over the medium to long term. Lonsec remains reasonably positive on global growth prospects and does not expect deflation to become a major problem, particularly in the US and Asia. On that basis, we continue to see little value in international bonds at this juncture and accordingly we remain **Underweight**.

Australian Real Estate Investment Trusts (A-REITs): Increase to Slightly Overweight

Since the tumultuous GFC period, Australian property trusts have returned to their historic investment strategy of vanilla commercial property investment with moderate levels of gearing. Falling bond yields have provided a favourable environment for the sector in terms of cheaper equity and debt capital. While the A-REIT sector has had a good run since the GFC, many of the trusts still offer a yield between 5.0–6.0% with some modest growth prospects. With the cash rate at 2.5%, the 10-year bond yield at 2.6% and inflation expected to remain benign, A-REITs still offer reasonable value. We increase our weighting to **Slightly Overweight**.



Recommended Tactical Asset Allocation

Australian Equities: Increase to Slightly Overweight

The All Ordinaries Index finished flat on the calendar year and down 5% from its 2014 highs. The last four months of the year saw increased volatility as global growth was downgraded and central bank policy started to diverge. Commodities fell heavily, the USD rallied and interest rates continued to move lower.

As we enter 2015, Lonsec notes that financial market conditions have become more accommodative for the Australian economy. Interest rates continue to move lower, the AUD has fallen to US\$0.82 and energy prices have fallen. These conditions should encourage business and consumer confidence.

The growth outlook for the Australian market remains reasonable with market consensus expecting 8% earnings growth in FY15. While this growth rate is modest in comparison to previous bull markets, the very low yield curve makes equities particularly attractive given many sectors offer a good tax-effective yield and reasonable growth. In Table A below we can see that Financials and Resources look cheap while Industrials seem fair value.

Table A — Sector PERs

Sector	ASX 200 weight	FY15 PER*	FY16 PER*
FINANCIALS	36%	13.3X	13.0X
INDUSTRIALS	36%	17.3X	15.5X
RESOURCES	20%	12.0X	10.3X

* LONSEC/UBS ESTIMATES, 31 DECEMBER 2014

In Table B below, we can see that dividend yields remain quite attractive, particularly when considering the franking credits which are often attached to dividends.

Table B — Sector Dividend Yields

Sector	ASX 200 weight	FY15 Div Yield*	FY16 Div Yield*
FINANCIALS	36%	5.9%	6.1%
INDUSTRIALS	36%	4.8%	5.1%
RESOURCES	20%	4.7%	5.0%

* LONSEC/UBS ESTIMATES, 31 DECEMBER 2014, BEFORE FRANKING CREDITS

Recommended Tactical Asset Allocation

The negatives we have identified are: weak commodity prices, tightening fiscal policy, patchy consumer and business confidence and productivity issues (related to high costs and regulation). In consideration of these negatives, we continue to prefer Financials and Industrials over Resources and we are also trying to avoid government intervention where we can. In regards to soft consumer and business confidence, this seems to be related to government policy, but a combination of low interest rates, a lower AUD and cheaper fuel costs should be enough to spark a recovery during 2015.

Overall, we believe conditions remain favourable for equities and that the Australian market now offers better value after undergoing a correction in late 2014. We are taking the opportunity to increase our Australian equity weighting to **Slightly Overweight**.

International Equities (unhedged): Neutral

The S&P 500 underwent a 10% correction in September and October but managed a brisk recovery to hit record levels (2,093) by December 2014. The US market (+11.4%) continues to outperform most European markets but the Chinese market (+52.9%) was a surprise stronger performer in 2014. With the AUD falling 8.5% during 2014, International Equities (unhedged) put in another strong performance (+15.4%).

The US market is entering its 7th year of a bull run in 2015, so an investor must consider whether the run can continue. Financial market conditions remain very accommodative for the US economy and companies. Interest rates remain very low, inflation is benign and now fuel costs have fallen. At the same time, the US economy seems to be on the road to recovery with growth improving and the unemployment rate down to 5.6%. So conditions still seem quite favourable for US growth and equities.

On the valuation front, the S&P 500 trades on a CY15 PER of 16.4x falling to 14.6x in CY16. The US market does not seem to be overvalued when one considers that market consensus is expecting around 8% growth in 2015 and the 10 year bond yield is only 1.72%. Equities still look quite attractive relative to cash and bonds.

The key risks to international equities seem to be: the Fed gradually tightening US monetary policy, global growth continuing to be patchy (particularly in Europe and Asia) and pressure on some emerging economies from a rising USD and a major fall in the oil price. On balance, Lonsec believes the outlook remains favourable for International equities but we note that much of the fall in the AUD has probably already played out. We retain a **Neutral** position.



Lonsec Direct Model Portfolios

Investment philosophy and process

Investment Philosophy

Lonsec focuses on generating strong returns above benchmark, over the medium to long term, through concentrated, low-turnover portfolios.

Investment Process

1. Top-Down

Macro-economic and industry fundamentals are given equal weight to company fundamentals.

2. Quality Companies At A Reasonable Price

After selecting preferred industry sectors, Lonsec then looks for quality companies trading at a reasonable price.

3. High Conviction

Portfolios are concentrated at between 10-20 stocks.

4. Low Turnover

Lonsec takes a long-term view, thus portfolio turnover is low at 20 – 30% p.a. on average.

5. Risk Management

Portfolio risk is mitigated via team experience, portfolio construction rules, stock selection criteria and risk measurement tools.

Lonsec investment filters (example)

	LOW	MODERATE	HIGH
INDUSTRY POSITION			●
BARRIERS TO ENTRY			●
CORPORATE STRATEGY		●	
TRACK RECORD			●
MANAGEMENT		●	
FORECAST GROWTH RATE	●		
EARNINGS QUALITY		●	
VALUATION	●		
BALANCE SHEET		●	
LIQUIDITY			●

1. “Big picture” top down themes drive sector and industry preferences.
2. Once preferred industries are identified, we use 10 stock filters to identify quality companies trading at a reasonable price.
3. Concentrated portfolios of our highest conviction are constructed.
4. We hold for an average of three to five years hence portfolio turnover ranges between 20 – 30%.
5. Portfolio risk is mitigated via combination of team experience, portfolio rules, stock filters and risk measurement tools.

Australian Equity Core Model Portfolio

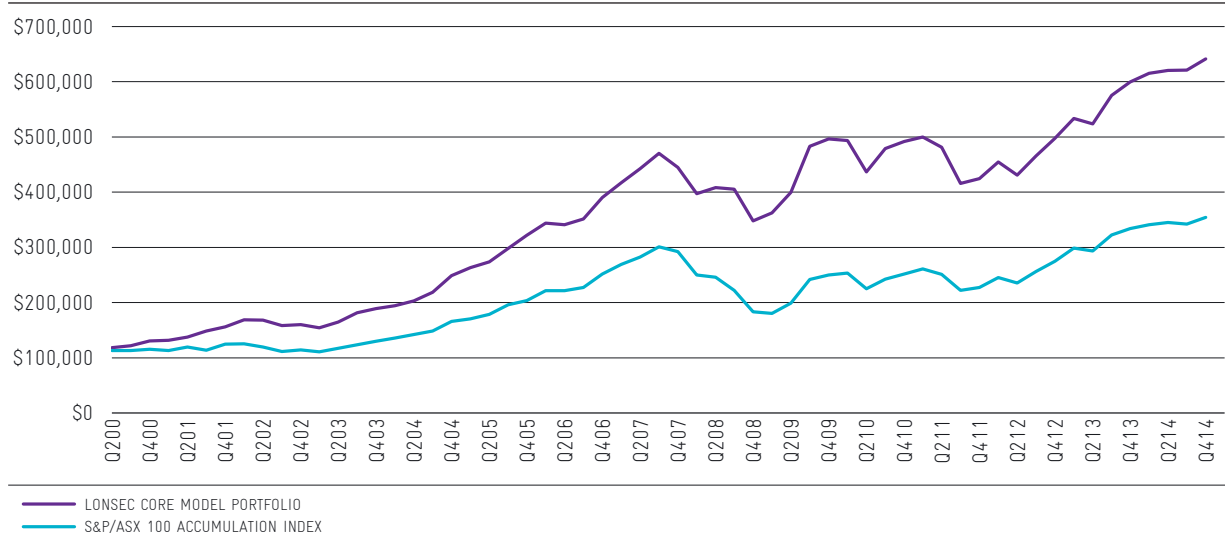
Portfolio profile

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 good dividend yield over a holding period of at least three years.

Portfolio Performance



A \$100,000 investment in the Core portfolio at inception (17 April 2000) would now be worth around \$640,000.

A similar investment in the S&P/ASX 100 Accumulation Index would now be worth around \$355,000.

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



Australian Equity Core Model Portfolio

Portfolio Snapshot

Investment philosophy	• Top-down, quality companies at a reasonable price, high conviction, low turnover
Investment universe	• ASX 150 stocks excluding A-REITS
Benchmark	• S&P/ASX 100 Accumulation Index
Inception date	• April 2000
Min/max no. of stocks	• 12 – 20
Typical no. of stocks	• 14
Stock rules	• Maximum stock target weight 15% • Stocks weighted at 10% or more must be selected from the ASX 50 • At least 80% of the portfolio must be invested in the ASX 100 • Minimum diversification of 8 GICS industries must be maintained
Average turnover	• 20 – 30% (3 – 4 Changes per annum)

The Core portfolio currently has a bias to sectors that offer a combination of yield and growth.

Our main underweight positions are Materials and A-REITs (not included in our universe). We have been progressively increasing our Industrial weightings.

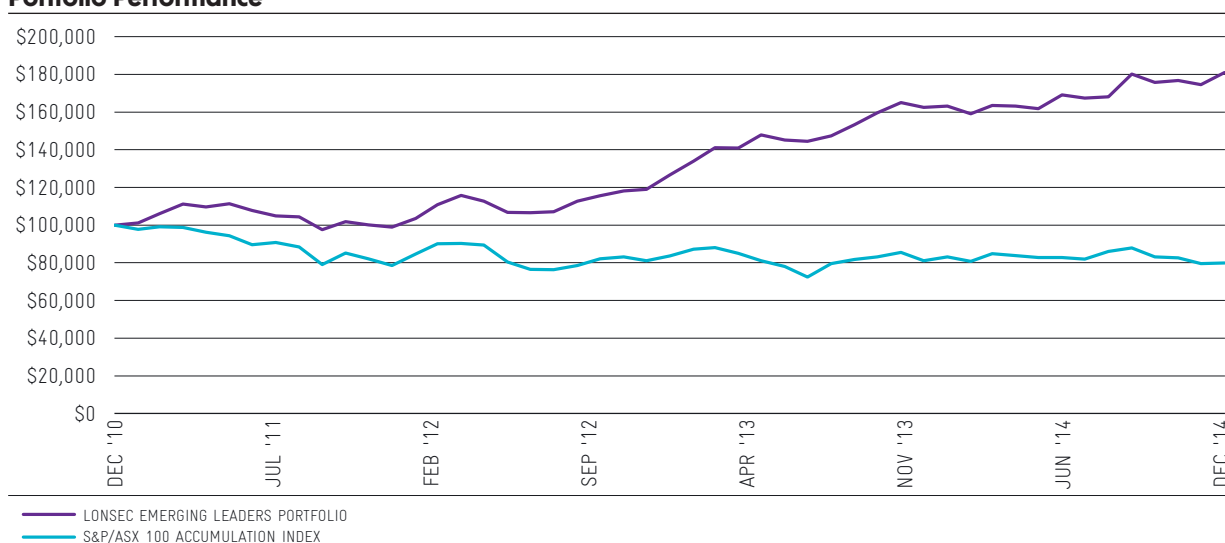
Australian Equity Emerging Leaders Model Portfolio

Portfolio profile

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 three years.

Portfolio Performance



A \$100,000 investment in the Emerging Leaders portfolio at inception (31 December 2010) would now be worth around \$181,000. A similar investment in the S&P/ASX 100 Small ordinaries Accumulation Index would now be worth around \$80,000.

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



Australian Equity Emerging Leaders Model Portfolio

Portfolio Snapshot

Investment philosophy	• Top-down, quality companies at a reasonable price, high conviction, low turnover
Investment universe	• Stocks outside of the ASX 100 with a minimum market capitalisation of \$150m
Benchmark	• S&P/ASX Small Ordinaries Accumulation Index (XSOAI)
Inception date	• December 2010
Min/max no. of stocks	• 12–20
Typical no. of stocks	• 15
Stock rules	• Maximum stock target weight 15% • Minimum market cap of \$150m minimum diversification of 8 GICS industries must be maintained
Average turnover	• 20–35% (3–5 changes per annum)

The portfolio currently has a bias to Industrials, Telecommunications and Consumer Staples. We expect these sectors to outperform the broader market over FY15. Our main underweights are Energy and Materials.

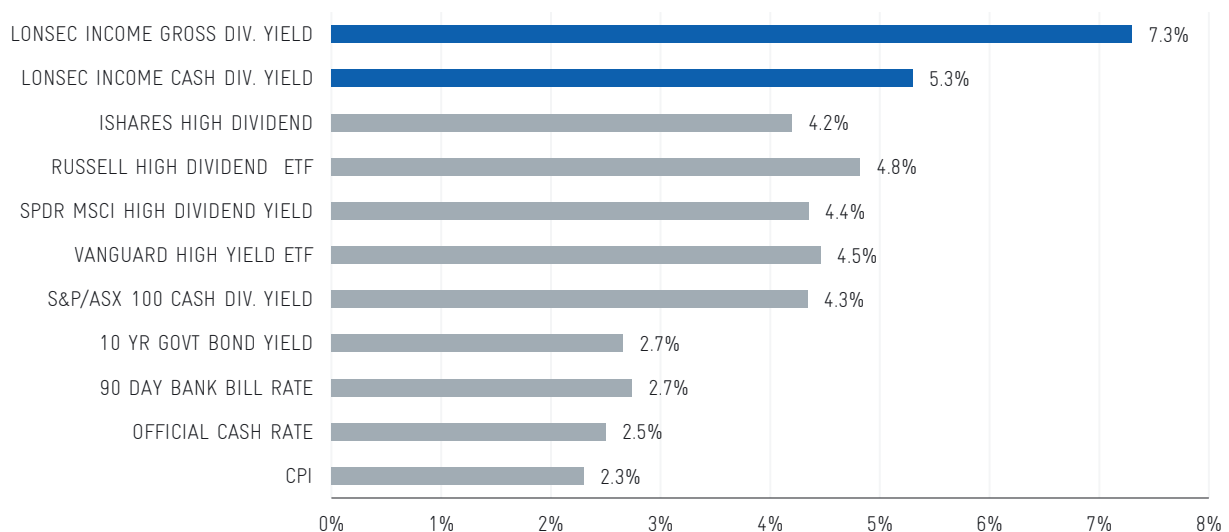
Australian Equity Income Model Portfolio

Portfolio profile

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 a relatively high tax-advantaged income stream, and capital growth at least in-line with inflation, over a holding period of at least three years.





Australian Equity Income Model Portfolio

Portfolio Snapshot

Investment philosophy	• Top-down, quality companies at a reasonable price, high conviction, low turnover
Investment universe	• ASX 200 stocks
Benchmark	• S&P/ASX 100 Accumulation Index
Inception date	• August 2002
Min/max no. Of stocks	• 10–15
Typical no. Of stocks	• 10
Stock rules	• Target portfolio income franking level of at least 70% • Max stock target weight 15% • At least 70% of the portfolio must be invested in the ASX 100 • Minimum diversification of 6 GICS industries
Average turnover	• 20–30% (2–3 changes per annum)

The Income portfolio currently has a bias to defensive industries that offer a combination of yield and growth.

Relative to the benchmark, the portfolio's main underweights are Materials, Consumer Discretionary and Healthcare.

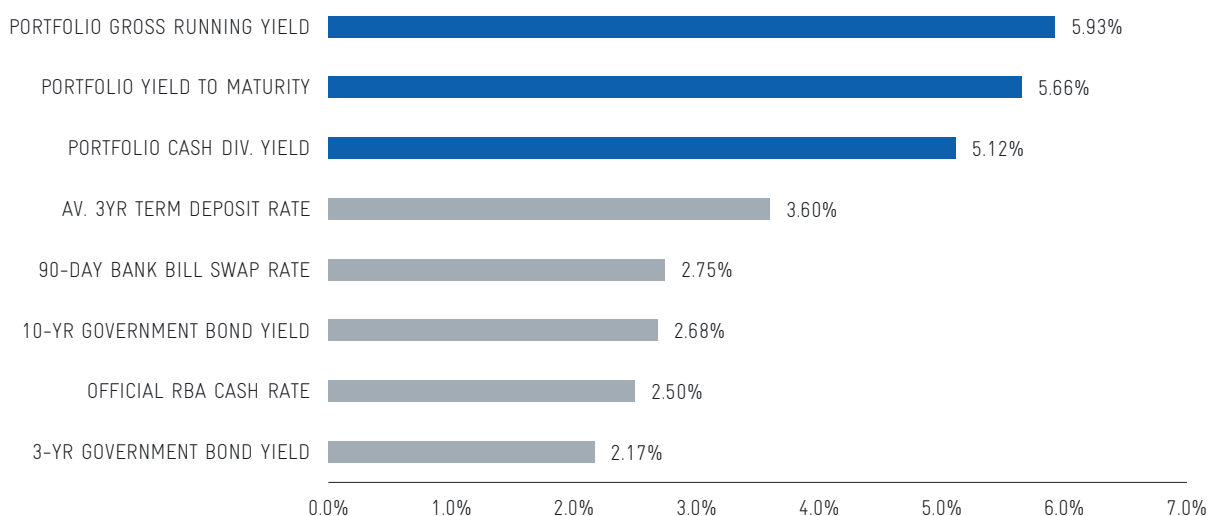
Listed Income Securities (Hybrids) Model Portfolio

Portfolio profile

Objective

The objective of the portfolio is to deliver a sustainable income stream, greater than cash and inflation, which exceeds the benchmark (UBS Bank Bill Index) by +1.5%p.a., while maintaining capital stability over the medium to long term.

Portfolio Yield





Listed Income Securities (Hybrids) Model Portfolio

Portfolio Snapshot

Investment objective	• Deliver a sustainable income stream, which exceeds the benchmark (UBS bank bill index) by +1.5%P.A, while maintaining capital stability over the medium to long term
Investment universe	• ASX listed debt securities, with a minimum market capitalisation of \$150m
Benchmark	• UBS Bank Bill Index
Inception date	• June 2012
Min/max no. of securities	• 5–10
Typical no. of securities	• 7
Typical portfolio weights	• 4 x 15%; 4 x 10%
Stock rules	• Maximum security target weight 20% • Minimum market cap of \$150m
Average turnover	• 20–30% (1–2 changes per annum)

Lonsec Stockbroking**Lonsec Investment Insight**

Quarterly macro-economic outlook and tactical asset allocation

Lonsec Income Security Research

Quarterly hybrids and listed income journal, weekly income table update and new issue research

Lonsec Direct Model Portfolios

Core, Income, Emerging Leaders and Listed Income Securities model portfolios with monthly performance reports, regular email updates and corporate action advice

Lonsec Diversified Direct Model Portfolios

Fully listed, diversified Defensive, Balanced and Growth portfolios utilising ETFs, with quarterly performance reports

Lonsec Stock Research

ASX 200+ stock research, daily bulletin and corporate action advice

Lonsec Portfolio Services**Separately Managed Accounts (SMAs)**

Lonsec model portfolios on leading SMAs

Managed Discretionary Accounts (MDAs)

Lonsec model portfolios available for MDAs

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