



The rise of SMSFs and Direct investing

**Lonsec Equities
Research**

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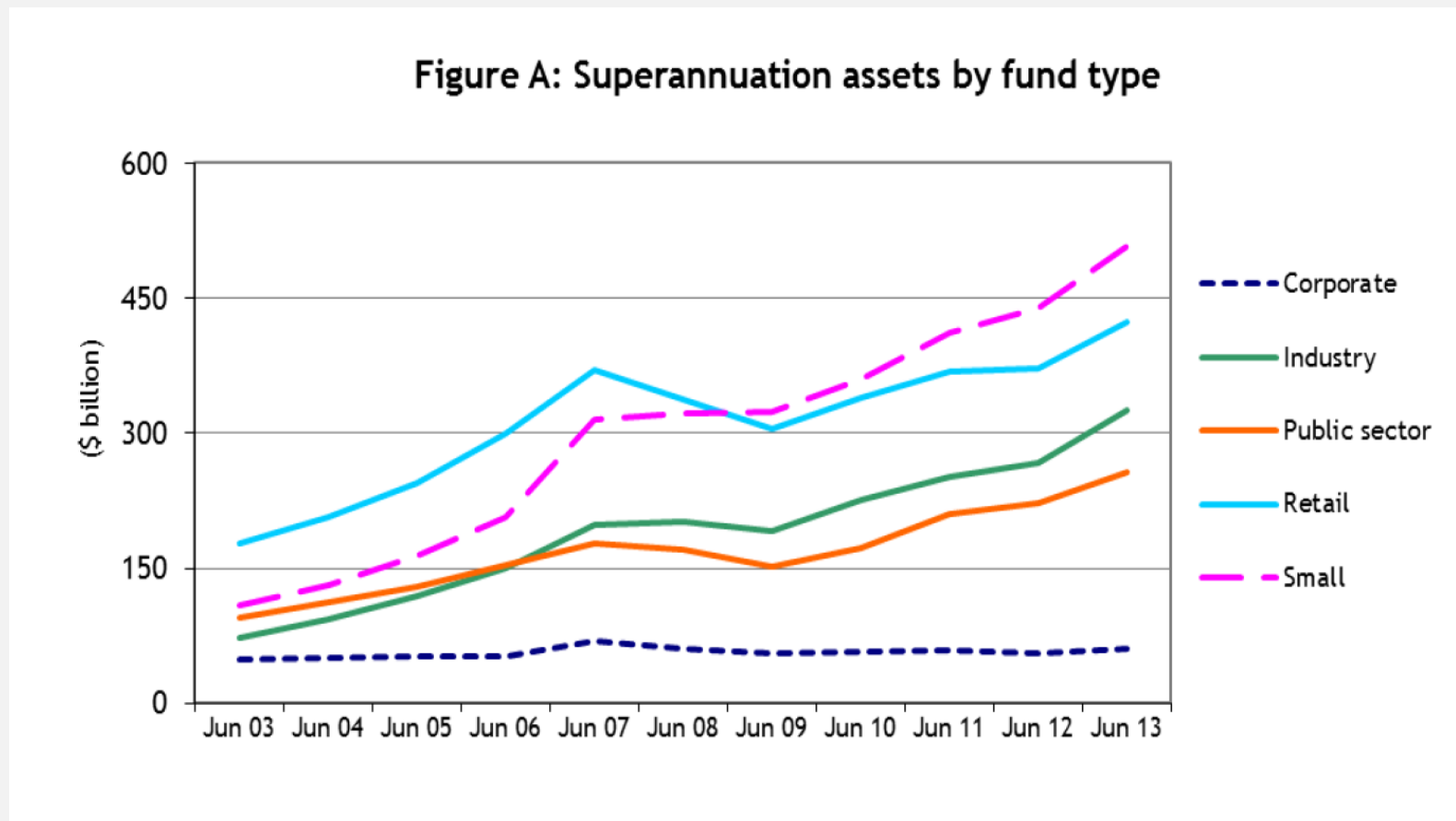
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About Lonsec

Lonsec Limited (Lonsec) is a leading investment research and stockbroking house that has been working in partnership with financial advisers for more than 20 years.

Lonsec has developed a range of quality stockbroking, research, consulting and portfolio services tailored to provide investment solutions for financial advisers.

The rise of SMSFs

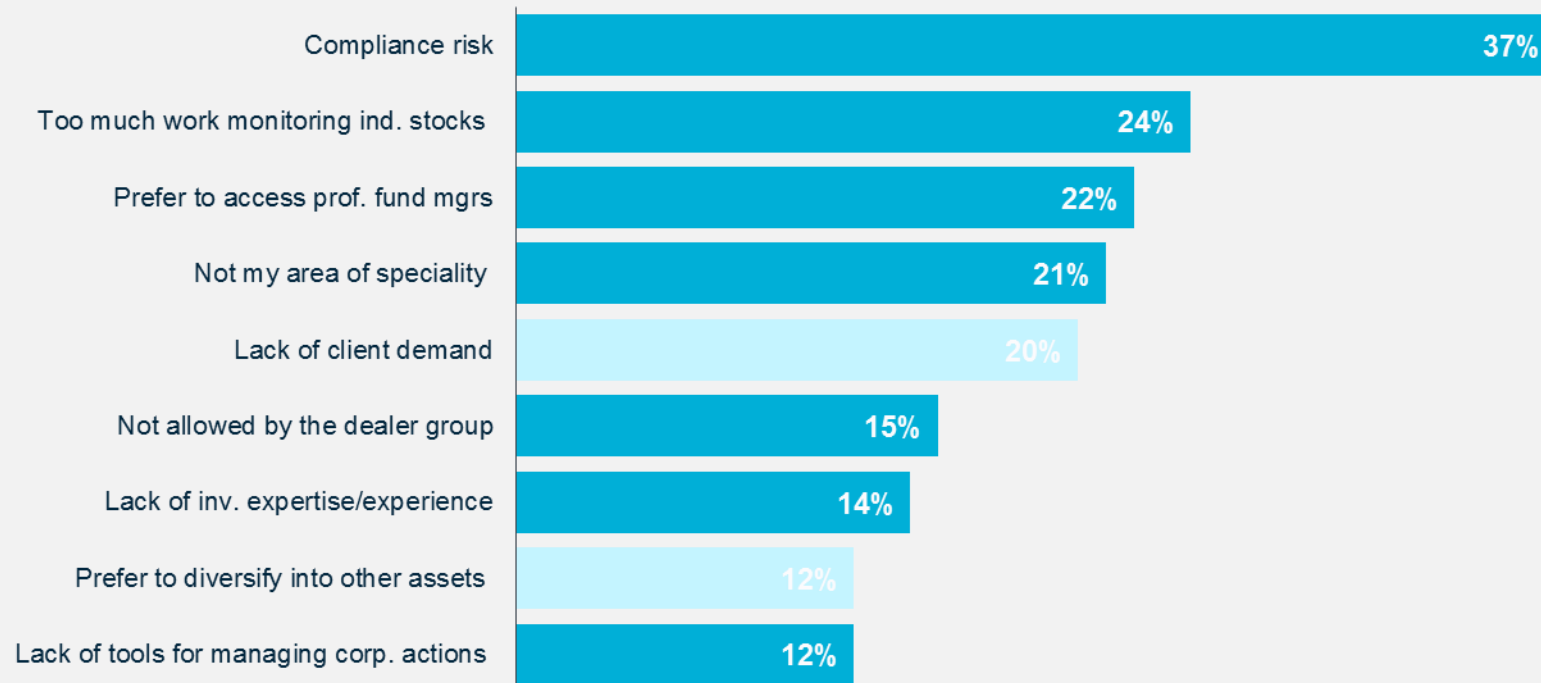


Source: APRA Annual Superannuation Bulletin, June 2013

Why SMSF and direct investment?

- **Control** – greater control of investment decisions
- **Transparency** – securities are in the members name
- **Liquidity** – ASX listing affords good liquidity and no fund lock-up
- **Choice** – more SMSF platforms and investment options than ever
- **Fees** – can be cost effective
- **Tax** – can be tax effective if tailored to members and low turnover

Top barriers to advisers adopting direct investment



Source: Investment Trends March 2014 Planner Direct Equities and SMA Report

The scalable solution: Direct Model Portfolios

- Professional portfolios that SMSFs replicate
- A professional direct model portfolio service **can solve most of the direct investment barriers**
- Direct model portfolios are a “DO IT WITH ME” solution when a planner contacts the client
- And a “DO IT FOR ME” solution when the client enters a SMA or MDA environment

Benefits of direct model portfolios

- **Professional management** – portfolio manager provides portfolios
- **Control** – Advisers/Clients gain greater control of the portfolios
- **Transparency** – all participants can see what is in the portfolio
- **Efficiency** – easy to implement and manage
- **Reporting** – regular performance reports v benchmark should be supplied by the manager
- **Support** – the portfolio manager should provide stock research and corporate action advice

How can Lonsec help?

- 14 years experience providing direct model portfolios
- Strong track record
- Independent stock picking not tied to broker research
- Simple investment philosophy and process tailored to SMSF
- Regular reporting to benchmark
- Full research support
- Experienced team
- Strong governance

Investment Philosophy & Process

To add value over the benchmark by constructing concentrated portfolios of quality stocks, with low portfolio turnover.

This philosophy recognises the needs of our financial adviser client base.

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.

Key portfolio top-down themes

Low growth and low real interest rate environment to persist

- Sectors offering 'yield with growth' attractive
- Our picks include: Banks, WOW, WES, TLS, TCL

Global population growing, ageing and becoming more mobile

- Health, Travel and Transport
- Our picks include: CSL, FLT, TCL, QUB

Asia will continue to develop over the long term

- Food, Energy, Services
- Our picks include: FSF, WPL, BHP, CSL, ANN

Quality companies at a reasonable price (QARP)

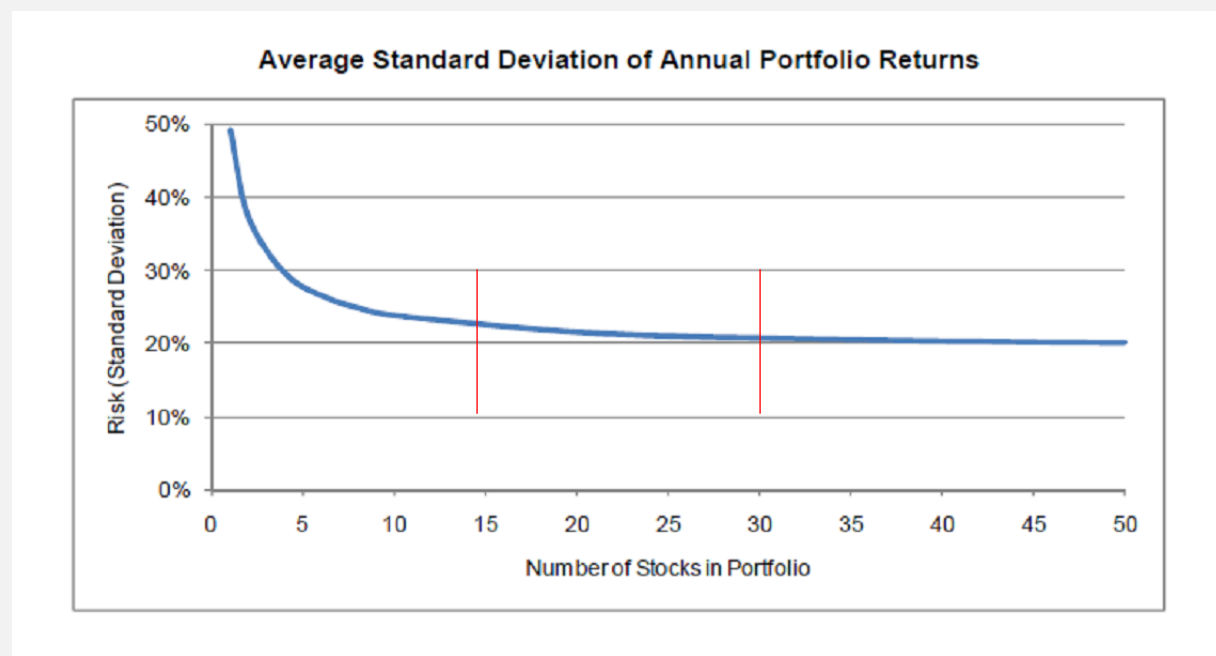
Our bottom-up approach aims to identify quality stocks trading at a reasonable price, using 10 stock investment filters.

Lonsec investment filters (example only)

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

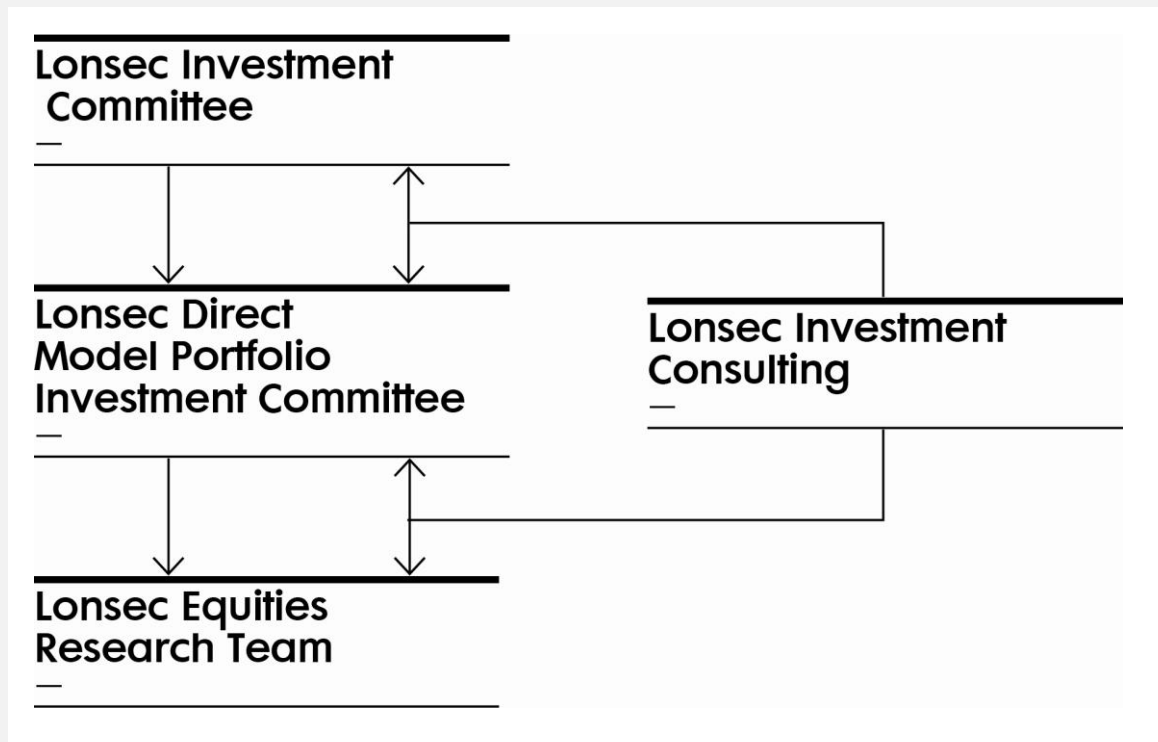
High conviction

- Experience and academic research concludes that concentrated portfolios improve the potential to generate high excess returns.
- But we also need to ensure the portfolio is adequately diversified to mitigate portfolio risk. Academic research shows that a stock portfolio can be well diversified with between 15 to 30 stocks - there is little diversification benefit after 30 stocks.



Source: EJ Elton & MJ Gruber, Risk Reduction and Portfolio Size: An Analytic Solution, Journal of Business, Oct 1977

Strong governance

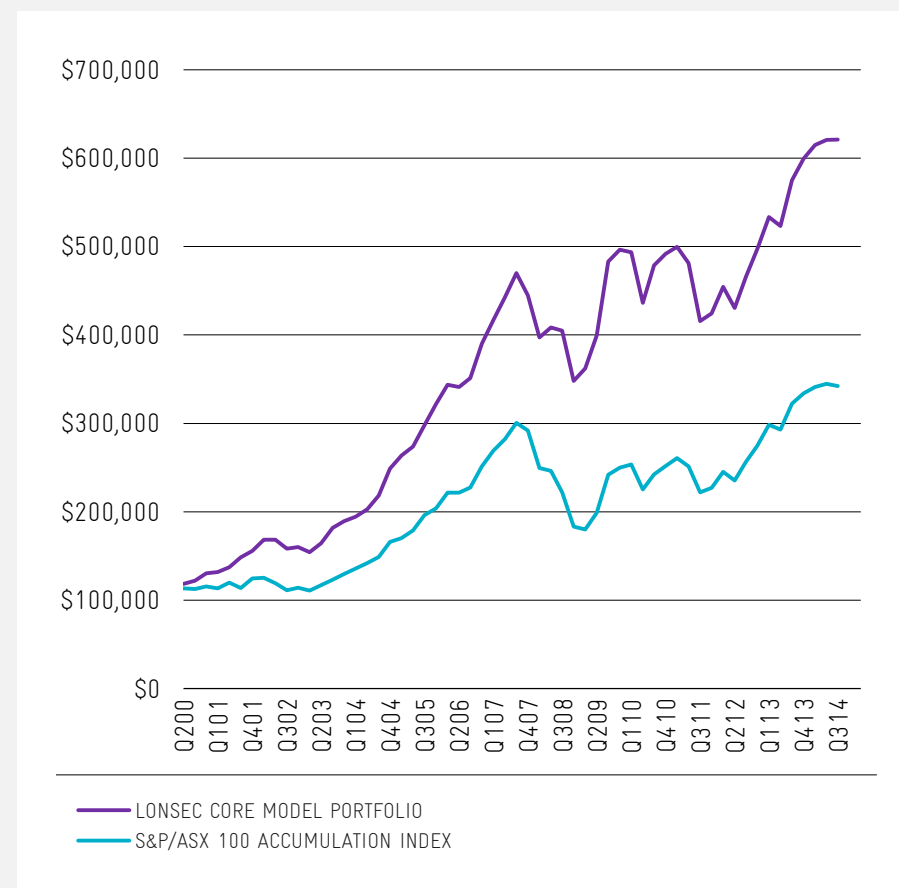


Portfolios

- **Core** – concentrated ASX 100 focused portfolio (14 stocks)
- **Income** – concentrated ASX 100 focused fully-franked income portfolio (10 stocks)
- **Emerging Leaders** – concentrated ex-ASX 100 focused portfolio (15 stocks)
- **Listed Income Securities** – concentrated hybrid portfolio (8 securities)
- **Diversified Direct** – x5 portfolios utilising ETFs, equities and hybrid

Lonsec Core Portfolio

- Inception: April 2000
- Benchmark: S&P/ASX 100 Acc Index
- Total Return: 521% (13.5% p.a.)
- Benchmark: 242% (8.9% p.a.)
- Alpha: 4.6% p.a.
- Beta: 0.9
- Turnover: 20-30% p.a.
- Stocks: 12-15



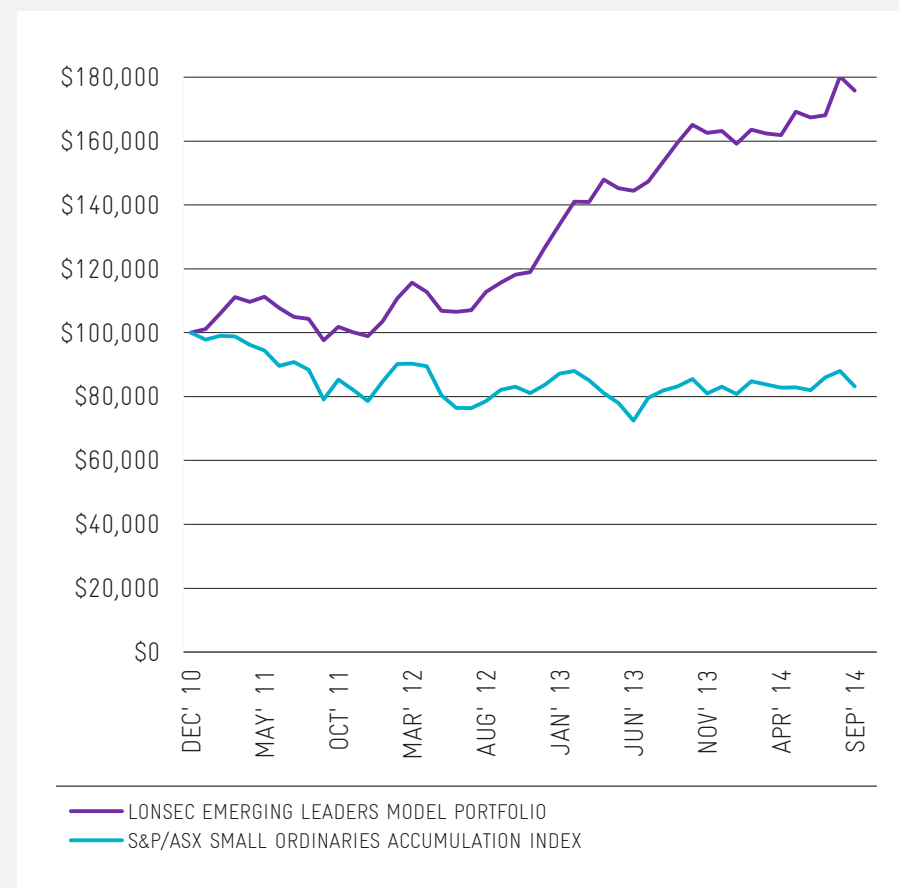
Source: Lonsec Investment Consulting

Core portfolio rules

- Universe – ASX 150 stocks ex-AREITs
- Max stock weight – 15%
- Stocks weighted 10%+ must come from ASX 50
- At least 80% of the portfolio must be in the ASX 100
- Minimum diversification of 8 GICS industries

Lonsec Emerging Leaders Portfolio

- Inception: December 2010
- Benchmark: S&P/ASX Small Ords Acc Index
- Total Return: 76% (16.2% p.a.)
- Benchmark: -17% (-4.8% p.a.)
- Alpha: 21.0% p.a.
- Beta: 0.5
- Turnover: 20-30% p.a.
- Stocks: 15



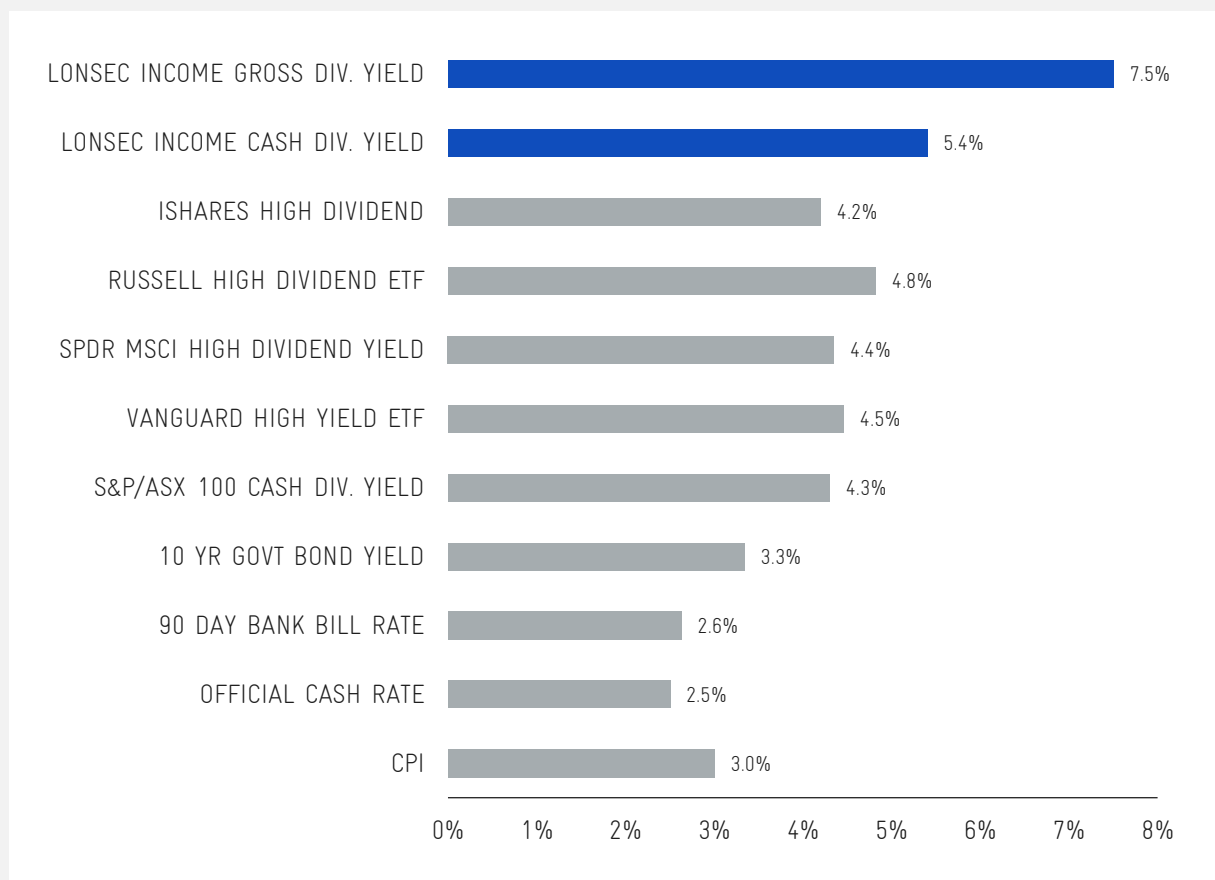
Source: Lonsec Investment Consulting

Emerging Leaders rules

- Universe – Stocks outside ASX 100 with min. market cap \$150m
- Max stock weight – 15%
- Minimum diversification of 8 GICS industries

Lonsec Income Portfolio

- Inception: August 2002
- Benchmark: S&P/ASX 100 Acc Index
- 5 yr return: 9.8% p.a.
- Benchmark: 7.2% p.a.
- Alpha: 2.6% p.a.
- Beta: 0.9
- Turnover: 20-30% p.a.
- Stocks: 12



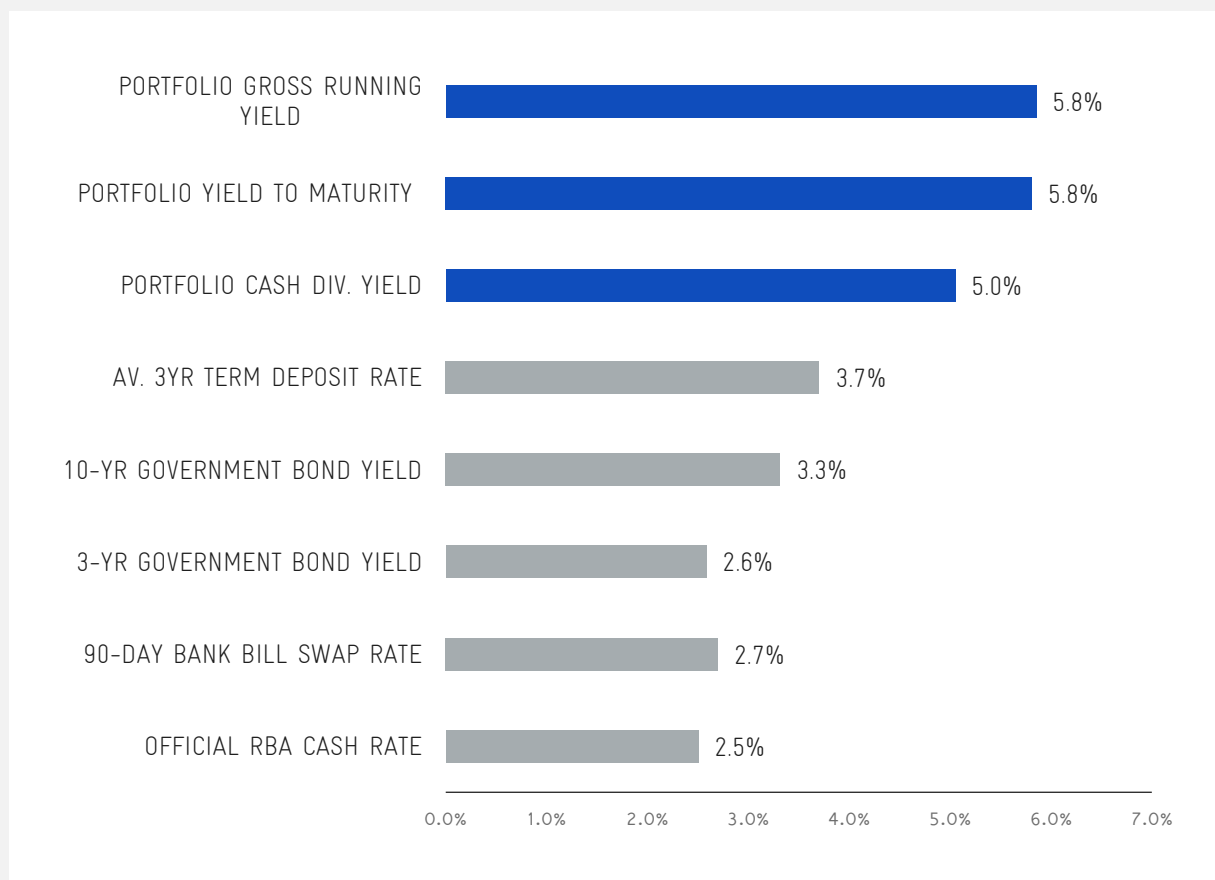
Source: Lonsec Investment Consulting

Income portfolio rules

- Universe – ASX 200 stocks
- Max stock weight – 15%
- Target portfolio yield franking level of >70% (currently 90% franked)
- At least 70% of the portfolio must be in the ASX 100

Lonsec Hybrid Portfolio

- Inception: June 2012
- Benchmark: Bloomberg Ausbond Bank Bill Index + 1.5%
- Total Return: 5.7% p.a.
- Benchmark: 2.9% p.a.
- Alpha: 2.8% p.a.
- Turnover: 20% p.a.
- Stocks: 7



Source: Lonsec Investment Consulting

Hybrid portfolio rules

- Universe – ASX listed hybrid securities with min. market cap of \$150m
- Max stock weight – 20%
- Typical number of securities – 5-10 (currently 7)

Client value proposition

- Follow a professional model portfolio with an established track record
- Get full support in terms of reporting, research and corporate actions
- See the portfolio in your name
- Control the income and turnover, if necessary

Adviser value proposition

- Solve your compliance and APL concerns
- Outsource your direct portfolio management requirements to a professional manager
- Leverage off the track record and brand of a professional manager
- Get the support you need in terms of reporting, research and corporate actions
- But maintain control of income, tax and turnover, if necessary

Thank You

Lonsec contacts

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