

# Lonsec Core mandate (LC)

31 December 2009



## Investment manager

Lonsec Limited

## Mandate objective

To deliver strong absolute returns, over the medium to long-term, through a diversified 'blue-chip' portfolio invested across a number of industries. The stock universe is the S&P/ASX Top 150 companies.

## Designed for Investors who:

- A fully invested active manager of "blue-chip" stocks.
- Mainly capital growth with some income.
- To invest for the medium to long-term.

## Lonsec Core

Lonsec Limited is a leading equities and managed funds research house, providing equities and managed funds research to stockbrokers and financial planners. Lonsec has assembled a team of around 29 analysts.

## Investment process and strategy

Lonsec takes an active approach to investing and focuses on generating absolute returns, over the medium to long-term, through concentrated portfolios. Lonsec employs a four-step investment process. Portfolios are heavily influenced by 'top-down' themes at the Portfolio Construction level. They then employ four stock filters (industry, company quality, valuation and risk) to select their stocks at the Stock Selection level. Risk is managed at both the Portfolio Construction level and the Stock Selection level. The final step involves managing the portfolios and regularly reviewing their top-down themes and stock selections.

## Inception date

11 November 2006

## Mandate commentary

### Relative Portfolio Performance

Markets tumbled in January on concerns over debt levels in the European PIIGS (Portugal, Ireland, Italy, Greece and Spain) and the projected \$1.6 trillion US budget deficit. The Core portfolio was down in line with the benchmark, with WPL and BHP dragging the portfolio down. Lonsec remains comfortable with these holdings on a long term view. The Core portfolio remains well ahead of the S&P/ASX Top 100 Accumulation index over most timeframes.

The key top-down industry themes are: Materials, Energy, Australian Banking, Australian Wealth Management and Private Healthcare.

### Stocks contributing to relative performance

- **Toll - TOL (-1.6%)** has been a strong performer over 2009. Toll delivered an excellent FY09 result given the difficult trading conditions over the year. It grew revenues, maintained profit margins and increased profit during the period. It also managed working capital well with cashflow improving markedly and the balance sheet is in pristine condition. Toll estimates it has about \$1.6bn in acquisition firepower and sees plenty of opportunities in Australia and Asia.
- **Commonwealth Bank - CBA (-3.0%)** recently announced it expects to report unaudited cash net profit after tax (NPAT) for 1H10 of approximately \$2.9 billion. This result is significantly above the prior comparative period and well ahead of current analysts' consensus of approximately \$2.7 billion. The 1H10 forecast implies a FY10 result of at least \$6.0bn or \$3.91 EPS. CBA trades on forward PER of 13.2x and yield of 5.6% ff (based on 75% payout ratio).

### Stocks detracting from relative performance

- **Woodside Petroleum - WPL (-10.3%)** retreated in January on a fall in the oil price from US\$79 bbl to US\$73 bbl and increased equity supply from a recent \$2.5bn equity raising. WPL is the operator and 90% owner of a major new LNG project called Pluto which is situated in WA. WPL capital expenditure will peak at \$6bn in 2009 before falling to around \$3.6bn in 2010.
- **BHP - BHP (-8.6%)** BHP and Rio have now signed a binding agreement on the WA iron ore joint venture but still have to pass a significant hurdle in European Union regulatory approval. EU concerns over a lack of competition in the highly consolidated global iron ore market was a key factor in BHP's failed bid for Rio more than a year ago. BHP and Rio now hope the production JV, which they estimate will generate synergies of US\$10 billion, won't face the same level of regulatory scrutiny as a merger because the sales and marketing of the iron ore will remain separate. The iron ore JV is not expected to be completed until the second half of 2010.