Lonsec Managed Account Service Investment Mandate

Investment Mandate issuer: Mason Stevens Limited
ABN 91 141 447 207 AFSL 351578

Investment Sub-Adviser:
Lonsec Investment Solutions ABN 95 608 837 583 (LIS) (CAR 1236821)

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Mason Stevens has appointed Lonsec Investments Services (CAR 1236821) of Lonsec Research Pty Ltd (AFSL 421 445), as Investment Sub-Adviser on the Managed Portfolios outlined in this Investment Mandate.

Important Information

This document has been issued by Mason Stevens Limited ABN 91 141 447 207, AFSL 351578 (Mason Stevens). Mason Stevens is the Managed Discretionary Account (MDA) Provider of the MDA Service. Mason Stevens has appointed Lonsec Investment Solutions (LIS) ABN 95 608 837 583 as Corporate Authorised Representative (CAR 1236821) of Lonsec Research Pty Ltd (ABN 11 151 658 561 AFSL 421 445) (Lonsec Research) as Investment Sub-Adviser on the Managed Portfolios outlined in this Investment Mandate. LIS and Lonsec Research are owned by Lonsec Holdings Pty Ltd (ABN 41 151 235 406).

In this document, MDA refers to a Managed Account provided by Mason Stevens which follows the investment strategy and parameters of the managed portfolios as defined in the Investment Guide section of this document.

This document is produced without consideration of the investment goals, needs or financial circumstances of any person who may read it. If you are a retail investor, you must obtain personal advice from a licensed financial adviser on whether a particular managed portfolios is appropriate for you given your personal goals, needs and financial circumstances. Investment involves risk, potentially resulting in (but not limited to) delays in payment of withdrawal proceeds and the loss of income and capital invested. Past performance is not necessarily indicative of future performance. Mason Stevens, LIS and their respective directors, officers, employees, subcontractors and associates do not assure or guarantee the capital value of your investments will be maintained, or the investment performance of any investments acquired through this MDA Service.

Where there are references to data provided by third parties, none of Mason Stevens, nor LIS has control over that data and nor do they accept any responsibility for verifying or updating that data. Mason Stevens, LIS and their respective directors, officers, employees and associates may from time to time hold interests in investments of, or earn fees and other benefits from, corporations or investment vehicles which may be held in your managed portfolio. LIS consent to statements in this document attributable to them or referring to them, and have not withdrawn their consent. LIS have confirmed the statements attributable to them or referring to them are not misleading or deceptive at the time of issue.

All amounts in this document are in Australian dollars and all fees are inclusive of GST net the effect of any reduced input tax credits. This document should be read in conjunction with the Mason Stevens Financial Services Guide (FSG), the Mason Stevens Global Investment Service Guide (Guide) including the Mason Stevens MDA Service Terms (which together form the Investment Mandate).

The FSG contains information on Mason Stevens and the MDA Service and is available at masonstevens.com.au/fsg. This document is incorporated by reference into the Guide which contains important information on the fees and costs you pay when you establish an account and use the MDA Service. It also contains information on how to operate your account and how to contribute into your account once it is opened as well as the risks of investing. It is available at masonstevens.com.au/investorguide. If you are unable to access the online information, your adviser or Mason Stevens can provide the information free of charge.

About the relevant parties 1

1.1 About Lonsec Investment Solutions

LIS is a specialist model portfolio manager that offers financial advisors access to a variety of managed portfolio solutions. LIS was established in 2015 and leverages the research and expertise of Lonsec Research, a leading provider of financial services research. LIS focuses on providing well-researched managed portfolios that invest in high-quality managed funds and ETFs. These portfolios are designed to meet different client needs, including single sector, multi-asset, and retirement strategies.

1.2 Investment committee

Lonsec 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.

Lonsec's Investment Committees are responsible for all investment decisions relating to Lonsec's managed portfolios including asset allocation and investment selection decisions.

Lonsec operates separate Asset Allocation, Portfolio Management and Security Selection committees, comprising of Lonsec's senior investment personnel along with external independent experts.

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.

1.3 Asset Allocation

Lonsec believes that a disciplined Strategic Asset Allocation (SAA) framework, based on our long-term capital market assumptions, will deliver a high likelihood of achieving portfolio objectives over the long-term (10+ years). However, over the medium-term (12 months to 3 years), we recognise that valuations can deviate significantly from their long-term fundamentals for a range of reasons. These disequilibria bring opportunities, as well as sources of risk, that we seek to actively manage via a robust dynamic asset allocation (DAA) process.

Our proprietary DAA models incorporate valuation, business cycle and technical/sentiment indicators to help us identify the most attractive and unattractive asset classes over the medium-term investment horizon. Our process incorporates a qualitative overlay from our Investment Committee members, harnessing their extensive bottom-up market insights and broader macroeconomic expertise.

2.1 Portfolios available under this Mandate

The following pages contain description for each of the Managed Portfolios that are available through this Investment Mandate.

With advice from your financial adviser, you may choose to invest in the following Managed Portfolios:

Lonsec Sustainable portfolios

» Lonsec Sustainable Managed Portfolio – Balanced
» Lonsec Sustainable Managed Portfolio – Growth
» Lonsec Sustainable Managed Portfolio – High Growth

2.2 Sustainable Portfolios - Investment Philosophy, approach and governance

Securities Selection Process

Environmental, social and governance (ESG) considerations inform decision making for the purpose of selecting, retaining or realising investments for the Sustainable investment portfolios, excluding investments in cash which are not subject to such considerations. Lonsec takes into account these considerations by adopting a two-stage approach:

1. Lonsec qualitatively scores fund managers on their approach to and integration of ESG considerations in their investment process, as well as their overall ESG policy framework and disclosures.
2. Lonsec seeks to identify funds which are managed by in-scope managers that are delivering a net positive impact on the United Nation's Sustainable Development Goals (e.g. inequality reduction, environmental protection etc.). Lonsec does not take into account labour standards in the selection, retention or realisation of investments in this portfolio.

ESG scoring of underlying fund managers

The ESG review scoring is not a measure of the impact of either the companies in the portfolio or the portfolio itself but is an assessment of the process the fund manager undertakes to assess the degree to which ESG factors are considered when assessing investment opportunities. Factors considered are:

- The process the fund manager undertakes to assess ESG factors when assessing investment opportunities,
- How ESG data is employed within a fund manager's investment process,
- How ESG risks are monitored and managed by the fund manager,
- Engagement activities undertaken by the fund manager,
- The fund manager's proxy voting activities,
- Degree of clarity, measurability and reporting of the fund manager's nonfinancial objectives.

The ESG score is a peer relative assessment, with strategies rated above, in-line with or below peers.

Lonsec considers that there are a range of approaches that could be taken by a manager seeking to integrate ESG considerations into their investment process. Lonsec does not have a predetermined view as to what constitutes a good approach to the integration of ESG considerations into a manager's investment process, nor does Lonsec rely on explicit scoring methodologies for assessing a manager's approach to integrating ESG considerations into its investment process.

Sustainability scoring of underlying funds

Lonsec's Sustainability Score (available for equity strategies) assists in identifying funds that are delivering a net positive, when measured having regard to the United Nation's Sustainable Development Goals (UN SDGs). Lonsec, powered by third-party provider, maps the products and services delivered by the underlying portfolio companies, down to business activity level, to determine how those products and services contribute to each of the UN SDGs.

Wherever Sustainability Scores are not available, Lonsec will use qualitative judgement and specialist third party data to determine a fund’s net positive impact on the UN SDGs.

Formal reviews of Sustainability and ESG scores for each investment strategy are taken annually. Where an investment strategy falls below the eligibility threshold, it will generally be removed from the portfolio within three months.

Investments limits and exclusions

The portfolio also aims to limit or exclude (subject to certain revenue thresholds) its exposure to business activities considered fundamentally misaligned to the objectives of the UN SDGs. These activities are: tobacco manufacturing (zero direct exposure), alcohol manufacturing (max 2% exposure), owning and operating gambling establishments & services (max 2% exposure), controversial weapons manufacturing (zero exposure), production of adult entertainment (max 2% exposure), mining or exploration of thermal coal (zero direct exposure), and mining and exploration of fossil fuels (max 5% exposure).

Portfolio limits and exclusions are monitored quarterly. Where an exclusion is breached the underlying fund will be removed from the portfolio within three months. Where a limit is breached, the underlying fund will be removed or the weight adjusted to bring the overall exposures within the overall portfolio back within the set threshold within three months.

Portfolio Parameters

Lonsec Sustainable Managed Portfolio – Balanced

Feature	Description	
Investment Sub-Adviser	Lonsec Investment Solutions Pty Ltd	
Inception date	December 2020	
Investment objective	The portfolio aims to provide investors with a balance of income and growth over the suggested minimum investment timeframe of 5 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 2.4% after fees over a rolling five-year period.	
Investment strategy and approach	The portfolio invests in a mix of income and growth assets across all asset classes. In general, the portfolio will have a long-term average exposure of around 60% to growth assets and alternative assets and around 40% to defensive assets, with a portfolio of 10 – 30 securities. The portfolio aims to balance the need to deliver a mix of income and growth while creating a positive impact by investing in securities that are making an above-benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs).	
Benchmark return	RBA Cash rate +2.4% p.a	
Investment universe	Australian equities, Managed funds, ETFs, Listed managed funds, LICs/ LITs.	
Minimum number of holdings	10	
Maximum number of holdings	30	
Asset allocation	**Allocation range**	**Target weight**
Australian shares	10% - 40%	23%
International shares	10% - 45%	28%
Australian fixed income	5% - 35%	23%
International fixed income	5% - 25%	12%
Alternatives	0% - 30%	0%
Property	0% - 12%	3%
Infrastructure	0% - 12%	6%
Cash (minimum 1%)	1% - 15%	5%
Minimum single holding weighting	1%	
Maximum single holding weighting	25%	
Suggested investment timeframe	5+ years	
Minimum initial investment	$10,000	
Minimum additional investment	$10,000	
Minimum redemption	$10,000	
Rebalance frequency	Sub-Adviser discretion	
Investment management fee	0.2255%	
Indirect Cost Ratio (ICR)	0.83%	
Performance fee	Nil	

Lonsec Sustainable Managed Portfolio – Growth

Feature	Description	
Investment Sub-Adviser	Lonsec Investment Solutions Pty Ltd	
Inception date	December 2020	
Investment objective	The portfolio aims to provide investors with capital growth and some income over the suggested minimum investment timeframe of 6 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 3.2% after fees over a rolling six-year period.	
Investment strategy and approach	The portfolio invests in a mix of income and growth assets across all asset classes. In general, the portfolio will have a long-term average exposure of around 80% to growth assets and alternative assets and around 20% to defensive assets, with a portfolio of 10 – 30 securities. The portfolio aims to balance the need to deliver a mix of income and growth while creating a positive impact by investing in securities that are making an above-benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs).	
Benchmark return	RBA Cash rate + 3.2% p.a	
Investment universe	Australian equities, Managed funds, ETFs, Listed managed funds, LICs/ LITs.	
Minimum number of holdings	10	
Maximum number of holdings	30	
Asset allocation	**Allocation range**	**Target weight**
Australian shares	20% - 50%	31%
International shares	20% - 60%	40%
Australian fixed income	3% - 20%	13%
International fixed income	0% - 15%	5%
Alternatives	0% - 30%	0%
Property	0% - 15%	3%
Infrastructure	0% - 15%	6%
Cash (minimum 1%)	1% - 10%	2%
Minimum single holding weighting	1%	
Maximum single holding weighting	25%	
Suggested investment timeframe	6+ years	
Minimum initial investment	$10,000	
Minimum additional investment	$10,000	
Minimum redemption	$10,000	
Rebalance frequency	Sub-Adviser discretion	
Investment management fee	0.2255%	
Indirect Cost Ratio (ICR)	0.95%	
Performance fee	Nil	

Lonsec Sustainable Managed Portfolio – High Growth

Feature	Description	
Investment Sub-Adviser	Lonsec Investment Solutions Pty Ltd	
Inception date	December 2020	
Investment objective	The portfolio aims to provide investors primarily with capital growth over the suggested minimum investment timeframe of 7 years through exposure across a range of asset classes, by investing in listed vehicles and managed funds that incorporate ESG and sustainable principles within their investment processes. The portfolio aims to outperform the Reserve Bank of Australia's cash rate + 4.0% after fees over a rolling seven-year period.	
Investment strategy and approach	The portfolio invests in a mix of income and growth assets across all asset classes. In general, the portfolio will have a long-term average exposure of around 98% to growth assets and alternative assets and around 2% to defensive assets, with a portfolio of 10 – 30 securities. The portfolio aims to balance the need to deliver a mix of income and growth while creating a positive impact by investing in securities that are making an above-benchmark contribution to the United Nation's Sustainable Development Goals (UN SDGs).	
Benchmark return	RBA Cash rate +4.0% p.a	
Investment universe	Australian equities, Managed funds, ETFs, Listed managed funds, LICs/ LITs.	
Minimum number of holdings	10	
Maximum number of holdings	30	
Asset allocation	**Allocation range**	**Target weight**
Australian shares	25% - 65%	46%
International shares	20% - 75%	45%
Australian fixed income	0% - 0%	0%
International fixed income	0% - 0%	0%
Alternatives	0% - 30%	0%
Property	0% - 15%	3%
Infrastructure	0% - 15%	4%
Cash (minimum 1%)	1% - 5%	2%
Minimum single holding weighting	1%	
Maximum single holding weighting	25%	
Suggested investment timeframe	7+ years	
Minimum initial investment	$10,000	
Minimum additional investment	$10,000	
Minimum redemption	$10,000	
Rebalance frequency	Sub-Adviser discretion	
Investment management fee	0.2255%	
Indirect Cost Ratio (ICR)	1%	
Performance fee	Nil	

Risk of investing 3

Before you make an investment decision, it is important that you understand the risks that can affect your investment. You must be prepared for the risk that your investment does not meet your investment objectives or you lose your money on your investment.

Specific risks apply to all investments that may have an effect of the value of your Managed Portfolio. The risks of investing in the Managed Portfolios may include, but are not limited to, the following factors:

- Market Risk - Unexpected conditions (i.e. economic, technological or political) can have a negative impact on the returns of all investments within a particular market. General movements in local and international stock markets, prevailing and anticipated economic conditions, investor sentiment, interest rates and exchange rates could all affect the value of listed securities and the investment returns.
- Company or security specific risk - Risks which could affect the value of a specific security, such as a fall in the profit performance of a company may impact adversely on its share price and may also affect the interest rate it has to pay to borrow funds, which in turn, can affect the value of its debt securities.
- Currency risk - If the Managed Portfolio's investments in international assets are unhedged, a rise in the Australian dollar relative to other currencies will negatively impact investment values and returns. Currency markets can be extremely volatile and are subject to a range of unpredictable forces. It is not the Investment Sub-Advisers intention to hedge the foreign currency exposure of the underlying assets arising from investments in overseas markets.

Other risks of investment include:

- Interest rate risk - Changes in interest rates can influence the value of returns of investment in the Managed Portfolio.
- Credit risk - Any change in the market perception of the credit worthiness of a security or the credit rating of the issues of the security may affect the security's value.
- Liquidity risk - The risk that the Managed Portfolio may experience difficulty in realising its assets.
- Time horizon risk - There is no assurance that in any time period, particularly in the short term, a Managed Portfolio will achieve its investment objectives. Many of the underlying assets may be volatile particularly over the short term. The Managed Portfolio is suitable for long term investors and is not designed for short term investment.
- Income risk - The level of income generated on the Managed Portfolio's investments can fall as well as rise and the tax status of such income can change.
- Asset risk - Asset risk is the risk that a particular asset or asset class in which the Managed Portfolio invests may fall in value, which may have an impact on the value of the Managed Portfolio.
- Diversification/Concentration risk - If your managed Portfolio is concentrated into one investment or sector, a fall in that investment or sector may have a significant adverse effect on your overall Managed Portfolio. The Managed Portfolio will have a relatively higher concentration over time of listed securities but it is not possible to advise in advance the levels of concentration or diversification of issuers, types of investments in the future as you could now.
- Investment risk - All investments have an inherent level of risk. The general expectation is that a high risk investment offers a higher expected return on investment. Investment risk may result in performance less than you expect or the loss of all of the capital invested or reduction in or no income and possible delays in repayment. Whilst it is the intention of the Investment Sub-Adviser to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful.
- Specific portfolio risk - The Investment Sub-Adviser's investment approach may result in a Managed Portfolio that differs substantially from an industry benchmark and hence the Managed Portfolio's investment returns may also differ substantially from industry benchmark returns.
- Third party risk - The MDA Provider uses information and services provided by third parties such as sub-custodians and other service providers. Procedures are in place to address risks associated with outsourcing, such as having comprehensive service agreements with service providers. If a service provider advises of an error, it is corrected and if material, it will generally be communicated to you or your advisor (or both).
- Systems and technology risk - The MDA Provider relies on the integrity and reliability of the trading and administration systems used to manage your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have back-up arrangements and business continuity plans. In the event that the systems fail there may be delays in processing transactions or in accessing your investment capital and investment returns may differ from those that would have been achieved.

Please note that the risks identified are not meant to be exhaustive as it is not possible to identify every risk factor associated with investing. The appropriate level of risk for you will depend on various factors including your age, investment timeframe, other investments you may hold, and your level of risk tolerance.

Investors who have concerns regarding any of the above risk factors or any other applicable risks, are encouraged to contact their financial adviser.