

Perennial Value Australian Share

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To grow the value of the investment over the long term via a combination of capital growth and tax-effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (before fees) that outperforms the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

The portfolio invests in a range of companies listed (or soon to be listed) on the ASX and will typically hold approximately 45 stocks with a minimum stock holding of 20 and a maximum of 70. The option may utilise derivative instruments for risk management purposes, subject to the specific restriction that they cannot be used to gear portfolio exposure.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Value
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.0	90.9
Cash	0.0	9.1

Sector Allocation	%
Energy	7.5
Materials	24.0
Industrials	4.8
Consumer Discretionary	6.6
Consumer Staples	3.3
Health Care	4.4
Financials-x-Real Estate	30.2
Real Estate	2.2
Information Technology	0.0
Telecommunication Services	8.0
Utilities	0.0
Cash & Other	9.1

Top Holdings	%
COMMONWEALTH BANK OF AUSTRALIA	6.6
BHP GROUP	6.2
WESTPAC BANKING CORPORATION	5.7
NATIONAL AUSTRALIA BANK	4.8
ANZ BANKING GROUP	4.2
MACQUARIE GROUP	4.0
ARISTOCRAT LEISURE	3.6
JAMES HARDIE INDUSTRIES-CDI	3.0
CSL	2.8
RIO TINTO	2.5

Portfolio Summary

The Fund delivered a return, before fees, of +2.7%, outperforming the benchmark by +2.0%. This performance was driven by a number of strong stock specific performances, as well as a general rotation in the market towards “value” style stocks, on the back of more positive market sentiment. This was a pleasing result, as ongoing macro uncertainty and low interest rates have caused investors to favour the growth and defensive sectors of the market, in recent times, pushing the prices of these stocks up to very high levels. By contrast, we tend to avoid this part of the market on account of its excessive valuation and this has presented their “true-to-label” value style of investing with considerable headwinds over the past few years.

Investment Option Commentary

Key positive contributors included Virgin Money (+67.8%), which rallied strongly after delivering a healthy full-year result, as well as on positive sentiment to the UK outlook post the election result. Outdoor advertising group oOh! Media (+27.3%) rose after upgrading full-year earnings guidance on higher than anticipated advertising bookings and Ingenia Communities (+23.8%) also outperformed after announcing an acquisition to expand its retirement living portfolio. Retailer Kathmandu (+17.8%) performed well after acquiring surfwear brand Rip Curl and Integral Diagnostics (+16.8%) rose on the back of solid growth in the radiology market.

Holdings which detracted from performance included mining services company Perenti (-26.2%), after issues at some of its African operations, as well as their holdings in gold stocks such as Evolution Mining (-16.1%) and Newcrest Mining (-12.9%), on the back of a decline in the gold price. Perennial have modest overweight in the major banks also detracted, with the sector declining an average of -10.6%. While the banks clearly face a number of headwinds, their core businesses are fundamentally sound and they are trading on undemanding valuations and paying attractive levels of dividends.

During the quarter, Perennial took profits and reduced their holdings in Wesfarmers, James Hardie, Santos and Tabcorp. They also exited their position in Link Administration, as they have concerns around increasing competition in its core businesses. Proceeds were used to increase their holdings in a number of good value opportunities such as Worley, Telstra and Northern Star Resources. At quarter end, stock numbers were 60 and cash was 9.1%.

Market Commentary

Global markets were strong over the December quarter, with most major indices rallying on an improved macroeconomic backdrop. This followed an easing of US-China trade tensions and the decisive outcome of the UK election, which will likely see an end to the Brexit impasse. The Australian market was more subdued, with the benchmark ASX300 Accumulation Index delivering a return of +0.7% over the quarter. While most sectors delivered a positive return, the market was held back by the major banks, which declined after delivering soft full-year results and being impacted by negative sentiment around the Westpac AUSTRAC issues.

Outlook

The market is currently trading above its long-term average valuation level, with segments of the market which are very expensive. Importantly, however, Perennial are still seeing many companies which are trading on attractive valuations and which should deliver solid returns to investors from these levels. While the market has favoured expensive growth and defensive stocks in recent times, the valuation dispersion between these types of stocks and the “value” end of the market is at historically high levels. As a result, any sustained improvement in the macroeconomic outlook could see an aggressive rotation back to value and this would be expected to benefit the relative performance of the Fund.

In the meantime, the Fund continues to offer better value than the overall market on their key valuation metrics and, as always, their focus will remain on investing in quality companies, which are offering attractive valuations and have the ability to deliver high levels of franked income to investors.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0666AU
AMP Flexible Super - Retirement account	AMP1367AU
AMP Flexible Super - Super account	AMP1496AU
CustomSuper	AMP0666AU
Flexible Lifetime - Allocated Pension	AMP0631AU
Flexible Lifetime - Term Pension	AMP0942AU
Flexible Lifetime Investment	AMP0843AU
Flexible Lifetime Investment (Series 2)	AMP1430AU
SignatureSuper	AMP0808AU
SignatureSuper Allocated Pension	AMP1169AU

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