

Perennial Value Income Wealth Defender

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

The option is designed to provide investors with an attractive level of tax effective income, whilst also protecting the portfolio by reducing the magnitude of significant negative returns when equity markets fall. The option aims to outperform the S&P/ASX300 Accumulation Index, before fees, over a rolling 3 year period whilst delivering an attractive tax-effective income stream. The strategy invests in a diversified portfolio of higher yielding Australian shares which delivers a dividend yield, including franking credits, above the dividend yield of the Index. The strategy uses protection strategies to dynamically protect the portfolio through market cycles, aimed at reducing the magnitude of significant negative returns in falling equity markets. The option enhances long term performance by maximising returns when markets rally and minimising the extent of losses when markets fall. The strategy invests in ASX-listed Australian shares and equity derivatives products. The option is suitable for investors with a long term horizon, seeking tax effective income generated by exposure to a portfolio of Australian shares that also provides some protection against significant negative returns.

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	100.00	94.3
Cash	0.00	5.8

Sector Allocation	%
Energy	5.2
Materials	13.4
Industrials	6.5
Consumer Discretionary	10.8
Consumer Staples	6.4
Health Care	0.0
Financials-x-Real Estate	44.6
Real Estate	0.0
Information Technology	0.8
Telecommunication Services	6.5

Top Holdings	%
BHP GROUP	8.9
WESTPACK BANKING CORPORATION	8.4
ANZ BANKING GROUP	7.4
NATIONAL AUSTRALIA BANK	7.1
MACQUARIE GROUP	6.0
COMMONWEALTH BANK OF AUSTRALIA	5.1
WESFARMERS	4.6
TELSTRA	4.5
WOODSIDE PETROLEUM	3.5
RIO TINTO	3.4

Investment Option Commentary

Key positive contributors included Caltex (+29.0%), which rallied strongly after receiving a takeover offer from Canadian service station operator, Couche Tard, Qantas (+13.0%) after announcing some ambitious medium-term financial targets and Seven Group (+11.8%) on the prospect of a pick up in mining sector capex in Western Australia, where they are the exclusive supplier of Caterpillar equipment. Macquarie Group (+7.1%) rose after delivering a solid half-year result, with the company having strong growth prospects due to its global leadership in infrastructure investment, with a particular focus on renewable energy. Resources and Energy holdings were also stronger on the improved macro outlook, with Rio Tinto (+8.3%), BHP (+6.0%) and Woodside Petroleum (+6.2%).

Holdings which detracted from performance included, Flight Centre (-7.4%) after issuing a weak trading update, Medibank Private (-7.1%), as pressure mounts on the private health system and Tabcorp (-6.6%). Our 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 our holdings in Downer, following its strong recent performance and also trimmed our holdings in insurers, IAG and Suncorp, as well as exiting our position in Star Entertainment.

Proceeds were used to increase our holdings in a number of good value opportunities such as Macquarie Group and the major banks. They also added mining services provider, Monadelphous to the portfolio. This stock is expected to deliver strong growth over coming years, on the back of a number of large construction contracts in the Pilbara. The Fund also participated in the Qantas off-market buy-back, which delivered a positive after-tax return and generated significant franked dividends. At quarter end, stock numbers were 32 and cash was 5.8%

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.

The portfolio continues to offer a higher forecast gross yield than the overall market and, as always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors, while carrying a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls. Further, they believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1529AU
AMP Flexible Super - Retirement account	AMP1589AU
AMP Flexible Super - Super account	AMP1577AU
CustomSuper	AMP1529AU
Flexible Lifetime - Allocated Pension	AMP1541AU
SignatureSuper	AMP1553AU
SignatureSuper Allocated Pension	AMP1565AU

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