

# Pendal Australian Equity

Quarterly Investment Option Update

31 March 2020

## Aim and Strategy

To provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 Accumulation Index over the medium to long term. It is an actively managed portfolio of Australian shares that has the potential for long-term capital growth and tax effective income and offers diversification across a broad range of Australian companies and industries.

This strategy may also hold cash and may use derivatives for managing market exposure. The investment manager's process for Australian shares is based on a core investment style and aims to add value through active stock selection and fundamental company research which focuses on four key factors: valuation, financial risk, franchise and management quality.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Australian Shares
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Core
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	95.95
Cash	0	4.05

Sector Allocation	%
Cash & Short Term	4.05
Consumer Discretionary	4.79
Consumer Staple	5.03
Energy	5.22
Financials x Prop Trusts	20.74
Health Care	13.32
Industrials	9.36
Information Technology	3.90
Materials	22.00
Real Estate Investment Trusts	4.58
Communication Services	7.75
Utilities	0.00
Derivatives	-0.75

Top Holdings	%
CSL Limited	10.77
Commonwealth Bank of Australia	6.25
Telstra Corporation Limited	6.09
BHP Billiton Limited	5.48
Westpac Banking Corporation	3.57
ANZ Banking Group Limited	3.06
Insurance Group Australia	2.98
Aristocrat Leisure Limited	2.83
Amcor Limited	2.80
Rio Tinto Limited	2.59

## Investment Option Commentary

The Fund outperformed its benchmark over the March quarter

### Contributors

**Overweight Metcash (MTS)** - owns the IGA convenience supermarket brand and is a grocery and alcohol wholesaler into that network and others. Given this, it has a relatively defensive demand profile which is less sensitive to the effects of measures to contain Covid-19. More recently, the closure of restaurants and cafes has seen support for demand for more convenience shopping, well suited for the IGA format. At the same time, MTS and IGA have been regaining share over recent times as customers identify with the refurbished stores, extended attractive product range and competitive pricing. Overall, Pandal expect demand to remain strong as the recent drivers will be sustained. They have lightened the exposure to MTS later in the month as it has run so hard relative to the market, but they still like its positioning as “Recession Insurance” within the portfolio and retain a position.

**Overweight CSL (CSL)** – CSL maintained a strong run into the start of the year and then held up relatively well during the volatility of the last six weeks. Its business is unlikely to see a material impact on demand as a result of the Covid-19 outbreak and as such has been rewarded for its defensive characteristics in a volatile period. There is likely to be some impact on supply of plasma due to the effect of COvid-19, although at this point it remains deemed as essential service in the US. However higher unemployment rates are also likely to encourage donation rates. They regard CSL as part of the “high quality defensive” part of the portfolio.

### Detractors

**Overweight Qantas (QAN)** - Travel related stocks remain among the most leveraged to the containment measures enacted to control the spread of Covid-19. Pandal retain their position in QAN as part of the “Recovery Protection” part of the portfolio. While they see the probability of a swift medical breakthrough and rapid recovery in markets as low, it still remains a possibility. As a result QAN remains in the portfolio as a hedge, as it is likely to see a rapid rebound in that event. They have confidence in QAN’s ability to remain solvent through an extended shutdown. They have moved rapidly to cut costs and have secured funding backed against part of their fleet, most of which is fully owned rather than leased. Domestic flights are also a far larger driver of earnings than international, with the former likely to resume sooner than the latter. They also believe that QAN is likely to emerge in a stronger competitive position post the economic disruption.

**Overweight Oil Search (OSH)** - The energy sector is finding itself under pressure in terms of both supply and demand which has seen a sharp fall in the oil price. The measures to contain Covid-19 will see a material hit to oil demand as travel is severely curtailed. At the same time, the deal to limit production between Russia and OPEC has fallen through, with both Moscow and the Saudis indicating that they will increase production from pre-agreed levels. The upshot is a materially oversupplied market and rapid falls in the oil price. This weighed on the portfolio’s positions in Santos (STO) and Oil Search (OSH) – although there was some offset from not owning the largest oil energy stock in the index – Woodside (WPL) – or other energy related names such as Worley (WOR). They have had a preference for STO and OSH based on a superior growth profile (STO) and material undervaluation and ability to monetise assets (OSH).

## Market Commentary

The Australian equities market had its worst quarter over March since the 1987 Market Crash. Amid the escalation of Covid-19 cases globally and the associated economic slowdown, the S&P/ASX 300 Accumulation index initially declined by as much as -36.2% from its peak, before recouping some of the losses in late March following the introduction of a significant government package to support people and the economy. The index finished the quarter -23.4% lower. The Job Keeper announcement was the most significant development for Australian equities, which helped underpin the domestic market’s recovery from its lows. Lower correlations within the market suggest that investors started to allocate capital more rationally, as opposed to the “sell everything” mentality earlier.

## Outlook

Market uncertainty is being driven, ultimately, by that fact that no one knows how long containment measures are likely to last or the scale of the damage that will be inflicted upon the economy. Each week brings better clarity on two key inputs, the first is the spread of infection. There are signs that the curves – the daily percentage increase in new confirmed cases – are flattening in Europe. The US remains the largest source of new infections, although the spread is quite uneven. In Australia, at this point, the percentage of new case growth has dropped from above 20% in March to below 5% today.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0860AU
AMP Flexible Super - Retirement account	AMP1340AU
AMP Flexible Super - Super account	AMP1469AU
CustomSuper	AMP0860AU
Flexible Lifetime - Allocated Pension	AMP0875AU
Flexible Lifetime - Term Pension	AMP0916AU
Flexible Lifetime Investment	AMP0835AU
Flexible Lifetime Investment (Series 2)	AMP1405AU

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