

Perennial Value Australian Share

Quarterly Investment Option Update

31 March 2020

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	94.5
Cash	0.0	5.5

Sector Allocation	%
Energy	7.3
Materials	26.6
Industrials	4.3
Consumer Discretionary	7.0
Consumer Staples	3.7
Health Care	6.9
Financials-x-Real Estate	29.9
Real Estate	2.6
Information Technology	0.0
Telecommunication Services	6.0
Utilities	0.2
Cash & Other	5.5

Top Holdings	%
COMMONWEALTH BANK OF AUSTRALIA	7.3
BHP GROUP	6.8
WESTPAC BANKING CORPORATION	5.4
CSL	5.2
ANZ BANKING GROUP	4.5
NATIONAL AUSTRALIA BANK	4.4
MACQUARIE GROUP	3.9
RIO TINTO	3.2
ARISTOCRAT LEISURE	3.2
JAMES HARDIE INDUSTRIES	2.5

Investment Option Commentary

In what was a very tough environment for value investing, the Fund delivered a return, before fees, of -28.9%, underperforming the benchmark by -5.5%. Many of the Fund's holdings were sold down sharply, to very low levels, despite continuing to have strong medium-term prospects. In what appeared, in many cases, to be panic selling, many large companies experienced share price falls of up to -50% from their previous highs.

Key positive contributors to relative performance over the quarter included gold miners, Northern Star Resources and St Barbara, on the back of the strong gold price and Rio Tinto, as the iron ore price proved resilient. Agricultural stocks Nufarm and Graincorp also outperformed, as the seasonal outlook improved following recent rains across Eastern Australia. The Fund also benefited from its underweight position in the REITs, which sold off sharply, despite their supposed defensive qualities.

Holdings which detracted from performance included retailer Kathmandu and outdoor advertising business oOh! Media, which were impacted by falling retail sales and advertising bookings respectively, as a result of the social distancing lockdowns. Energy stocks, Woodside Petroleum and Santos and engineering firm Worley Group also fell sharply on the lower oil price. The Fund was also impacted by its valuation-driven underweight to the Healthcare sector, with CSL, the key driver of the sector, outperforming and now having a market cap greater than that of CBA (albeit based on a sky-high multiple of 40x current year earnings).

During the quarter, the Fund reduced its holdings in a number of names which had outperformed including Woolworths, Wesfarmers, and Telstra and well as trimming its holdings in the major banks. Proceeds were used to increase holdings in a range of good value opportunities such as Macquarie Group, James Hardie and Santos. The Fund also initiated new positions in a number of stocks including Magellan Financial Group, Goodman Group and online retailer City Chic Collective. At quarter end, stock numbers were 67 and cash was 5.5%.

Market Commentary

Global markets sold off sharply over the March quarter, due to the impacts of the escalating Coronavirus crisis. The Australian market did not escape, with the benchmark ASX300 Accumulation Index delivering a return of -23.4% over the quarter. Healthcare was the only sector to record a positive return, with all other sectors of the market declining. Given the increased level of uncertainty, defensive parts of the market tended to perform better, with Consumer Staples, Utilities and Telcos outperforming on a relative basis. By contrast, the more cyclical parts of the market were sold off more heavily, with Energy, Consumer Discretionary, Industrials and Financials bearing the brunt of the selloff.

Outlook

The market has now declined -28.6% since its February high, making it one of the sharpest selloffs on record. While the sharp slowing of activity means that forecasting near term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. Australia's relatively low levels of infections and recent move to more stringent isolation measures sees us well placed versus other parts of the world to weather this storm.

The silver lining of a downturn such as this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, having stress tested our key portfolio holdings, we believe they offer exceptional upside from the current oversold levels.

As always, the investment manager focus will continue to be on investing in quality companies with proven business models and strong balance sheets, which are offering attractive valuations and have the ability to deliver high levels of franked dividend 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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