

# Perennial Value Income Wealth Defender

Quarterly Investment Option Update

31 March 2020

## 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](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>	Value
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.00	82.4
Cash	0.00	17.6

Sector Allocation	%
Energy	5.5
Materials	19.4
Industrials	5.5
Consumer Discretionary	8.8
Consumer Staples	6.5
Health Care	0.0
Financials-x-Real Estate	30.1
Real Estate	0.0
Information Technology	0.0
Telecommunication Services	6.6

Top Holdings	%
BHP GROUP	8.7
COMMONWEALTH BANK	5.2
TELSTRA CORP	5.1
WESFARMERS LTD	5.0
WESTPAC	4.3
RIO TINTO	3.8
MACQUARIE GROUP	3.7
ANZ BANKING GROUP	3.7
NATIONAL AUSTRALIA BANK	3.6
WOODSIDE PETROLEUM	3.4

## Portfolio Summary

- 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

## Investment Option Commentary

During the quarter, the Fund delivered as return, before fees of -16.4%, outperforming the benchmark by +7.0%. It is in major selloffs like the one we have just seen, that the protection overlay demonstrates its worth. Over the quarter, the protection overlay contributed a return of +12.8%, offsetting 54% of the market's fall. The overlay is designed to begin contributing at an increasing rate in market falls of greater than -5% and, in the March quarter, the overlay offset 70% of the market's fall below this level.

Key positive contributors over the quarter included consumer staples stocks such as the supermarket retailers, with the Trust holding overweight positions in both Coles and Woolworths, which have been amongst the few stocks to benefit from the coronavirus crisis. Other defensive holdings also outperformed, including packaging companies Amcor and Orora as well as Telstra. The Fund's mining exposures also contributed positively, with holdings in BHP, Rio Tinto and Fortescue Metals all outperforming the Index as the iron ore price remained strong. Agricultural stock Graincorp also outperformed as seasonal conditions improved following recent rainfall across eastern Australia.

Holdings which detracted from performance included travel and tourism-related stocks such as Qantas and Flight Centre, as well as casino operator Crown Resorts, which will be significantly impacted in the near term by travel restrictions and lockdowns. Energy stock, Woodside Petroleum also underperformed due to the selloff in the oil price.

During the quarter, the Fund reduced its holdings in the major banks and established new positions in Orora and Fortescue Metals. At quarter end, stock numbers were 33 and cash was 5.3%.

## Outlook

The fall in March brings the market's total decline since its February high to -28.6%, making it one of the sharpest selloffs on record. While the 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 holdings, Perennial believe they offer exceptional upside from the current oversold levels.

In the meantime, the Fund 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, Perennial 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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