

Pendal Australian Equity

Quarterly Investment Option Update

30 June 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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.46
Cash	0	2.54

Sector Allocation	%
Cash & Short Term	3.59
Consumer Discretionary	6.98
Consumer Staple	4.39
Energy	6.00
Financials X Prop Trusts	22.58
Health Care	11.25
Industrials	10.64
Information Technology	3.66
Materials	22.65
Real Estate Investment Trusts	2.19
Communication Services	6.01
Utilities	0.00
Derivatives	0.06

Top Holdings	%
CSL Limited	8.52
BHP Billiton Limited	7.14
Commonwealth Bank of Australia Limited	5.84
Westpac Banking Corporation	4.60
Telstra Corporation Limited	4.39
ANZ Banking Group Limited	4.10
Atlas Arteria	3.04
Amcor Limited	2.62
Santos Limited	2.60
Qantas Airways Limited	2.59

Portfolio Summary

The Fund performed broadly in line with its benchmark over the June quarter.

Investment Option Commentary

Contributors

Overweight Santos - Despite losing some momentum in June, Energy was among the best performing sectors over the quarter, as the oil price rebounded strongly. It wasn't a smooth ride without turbulence – price for the WTI futures contract turned negative for the first time in late April; although it was believed to be largely attributed to the contract rollover of a specific tenure. Underlying demand for oil has recovered somewhat over the course, however, Pandal believes there is risk to the downside should new Covid cases continue to rise in the US. More specifically on Santos, its quarterly report was well received, confirming that it had more hedging in place than people had expected, which can help support near term cash flow. Pandal believes it remains the best exposure to the oil/LNG complex, given its low-cost base and strong management.

Overweight James Hardie - James Hardie delivered a positive update and an upgrade for expected quarterly earnings, which reflects the fact that US housing is doing better than many thought. This is flowing through to higher margins for JHX, which is also gaining market share. Pandal are mindful that JHX has benefited from a geographic advantage in terms of its key US exposures – there is some risk here in the next few months given their exposure in the southern US. Pandal continue to keep a close eye here. However, at this point they continue to like JHX as one of their recovery plays and policy beneficiaries.

Detractors

Overweight Metcash - Metcash delivered its FY20 results in June. The key factor, in terms of their underlying position, was that there are continued signs that IGA's loss of share in recent years has stabilised and is turning. While there were indications of this pre-Covid, the trend has been helped by a return to more localised shopping in recent months. This comes soon after MTS had revamped formats in many IFAs and reduced prices, with the result that people returning to IGAs during March and April have liked the experience. MTS saw a bump in revenues during Covid, however, this did not feed through to earnings, which was disappointing but consistent with a recent update from Woolworths. Supermarkets were forced to take on additional costs – such as extra shifts - to meet the surge in demand, offsetting revenue gains. However, IGA sales growth remains strong and Pandal believes that they should be able to contain costs. Management also announced some small bolt-on acquisitions, using some of the capital they raised and helping calm fears that there would be no return on it. MTS's liquor and hardware businesses remain well positioned. If the food segment can continue to perform it will no longer be seen as an offset to the other parts of the business and should help support a better rating.

Overweight IAG - GI insurers, including IAG, QBE and SUN generally underperformed over the June quarter. IAG in May stated that the hit to their investment book had been larger than consensus expectations and this has been the market's focus at the moment. Pandal remains mindful that unlike some peers, they have not had to sell these assets. As a result, they may see this revert given the rebound in credit markets.

Market Commentary

The S&P/ASX 300 continued to benefit from positive sentiment around the pace of the economic rebound and the degree of fiscal and monetary policy support. It gained +2.4% in June, to cap a very strong +16.8% return for the quarter. The index is now down -10.6% for the calendar year to date. This came despite some wobbles late in June as the market expressed some concern over the rise in cases in the US as it rolled back restrictions. There was strong rotation from growth and defensives to value and more cyclical stocks during the quarter as confidence around the economy improved – although this rotation stalled late in the period. Economic data continued to reflect the material blows inflicted by the shutdown. However, in most respects it is not as bad as many as expected – while the rebound in activity and confidence indicators has also been sharp.

Outlook

The economic rebound as restrictions roll off has generally beaten expectations. Coupled with supportive data and strong policy support, it has driven a rapid bounce in equity markets. While second wave clusters in China and Germany appear to have been contained, cases continue to rise in the US. This in itself is not causing economic issues at this point. However, the fear is that Pandal will see a re-run of March/April, with cases leading to stress on hospitals and ICUs and a surge in mortality. This would likely be a material setback for market sentiment and confidence.

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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