

Perennial Value Australian Share

Quarterly Investment Option Update

30 June 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	95.3
Cash	0.0	4.7

Sector Allocation	%
Energy	6.5
Materials	25.0
Industrials	5.7
Consumer Discretionary	6.7
Consumer Staples	3.2
Health Care	7.7
Financials-x-Real Estate	32.1
Real Estate	2.8
Information Technology	0.5
Telecommunication Services	4.9
Utilities	0.3
Cash & Other	4.7

Top Holdings	%
Commonwealth Bank Of Australia	6.4
BHP Group	6.0
Westpac Banking Corporation	4.8
CSL	4.5
ANZ Banking Group	4.2
National Australia Bank	4.2
Macquarie Group	3.9
James Hardie Industries	2.8
Rio Tinto	2.4
Seven Group Holdings	2.3

Portfolio Summary

The Investment Option delivered a very strong return, before fees, of +22.2%, outperforming the benchmark by +5.4%. This outperformance was driven by a combination of a generally more favourable environment for value investing as improved sentiment saw a rotation towards the more cyclical sectors of the market, as well as some very strong stock-specific performances from a number of holdings.

Investment Option Commentary

Periods of indiscriminate selling, such as we saw in March, allow investors to buy high quality stocks at unusually attractive valuations. The Investment Option took advantage of the selloff to add a number of new holdings at well below their historical valuations. Many of these stocks have performed strongly in the subsequent rally, rising by over 50%.

Key positive contributors to relative performance over the quarter included James Hardie, which delivered a strong Q1 trading update highlighting the ongoing strength of the US housing market, Seven Group which provided a market update which showed the strong ongoing demand in its mining services business and outdoor retailer, Kathmandu, which also delivered a positive trading update. Other positive contributors included Macquarie Group, with its leverage to improving financial markets, diagnostic imaging company Integral Diagnostics as patient volumes picked back up, gold miner St Barbara on strength in the gold price, energy stocks Santos and Worley as the oil price recovered and retailer City Chic Collective, whose online sales continued to grow strongly. The Investment Option also benefitted from its underweight position in CSL, which underperformed over the quarter. We continue to view CSL as being significantly overvalued and at risk of a material de-rating. Holdings which detracted from performance included agricultural stocks Nufarm and United Malt Group, both of which have been impacted by COVID-related disruptions to their US and European operations. Holdings in insurer QBE and mining services company Monadelphous also detracted from performance.

During the quarter, the Investment Option reduced its holdings in a number of names which had outperformed including mining companies, BHP, Rio Tinto and Fortescue Metals, gaming company Aristocrat Leisure and online advertising platform Carsales. Proceeds were used to increase holdings in a range of good value opportunities such as building materials company James Hardie, retailer Kathmandu, mining services companies Seven Group and Perenti and asset manager Magellan Group. The Investment Option also initiated new positions in salary packaging and leasing company Smartgroup as well as insurance broker Steadfast.

Market Commentary

The market rallied strongly in the June quarter, with the ASX300 Accumulation Index rising +16.8%. After bottoming in late March, the market has now rallied +30.6% and recovered a significant portion of the losses incurred in the COVID-induced selloff. The rally was driven by increased optimism around the economic outlook, as infection rates decreased in many countries and lockdowns began to be eased. The rally was broad-based, however, it was the more cyclical sectors of the market which are most leveraged to a recovery in activity, which delivered the strongest gains. For example, the Consumer Discretionary and Energy sectors were particularly strong over the quarter. By contrast, the more defensive sectors of the market such as Healthcare, Consumer Staples, Utilities and Telcos tended to lag.

Outlook

Despite the rally, the market is still well down from its February highs. 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. While it is impossible to know how this will ultimately play out, signs are emerging that worst of the health crisis may be behind us and the first steps towards normalisation may not be too far away.

Further, Australia has so far fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity.

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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