

Perennial Value Australian Share

Quarterly Investment Option Update

30 September 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:

www.amp.com.au/performance

Investment Option Overview

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

Sector Allocation	%
Energy	6.2
Materials	24.3
Industrials	6.6
Consumer Discretionary	9.3
Consumer Staples	3.7
Health Care	7.3
Financials-x-Real Estate	27.7
Real Estate	3.6
Information Technology	0.0
Telecommunication Services	5.1
Utilities	0.0
Cash & Other	6.4

Top Holdings	%
Commonwealth Bank of Australia	6.9
Westpac Banking Corporation	6.2
BHP Group Ltd	6.0
National Australia Bank Ltd	5.7
CSL Ltd	4.4
Macquarie Group Ltd	3.2
James Hardie Industries	2.9
Newcrest Mining Ltd	2.4
Seven Group Holdings Ltd	2.4
Aristocrat Leisure Ltd	2.1

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.0	93.8
Cash	0.0	6.2

Portfolio Summary

The strategy underperformed the benchmark for the quarter ending September 2020.

Investment Option Commentary

The strategy delivered a return before fees of -0.8% for the quarter, underperforming the benchmark by 0.7%. However, since the market low, the strategy has delivered a very strong return of +36.8%, outperforming the benchmark by +6.3%. This outperformance during the rally 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 our holdings. Periods of indiscriminate selling, such as we saw in March, allow investors to buy high quality stocks at unusually attractive valuations. The strategy took advantage of the selloff to add new holdings at prices 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 building materials company, James Hardie, which is benefitting from continued strength in the US housing market as well as strong operational performance, and engineering firm Worley, which is well placed to benefit from the coming investment in renewable energy. Oz Minerals performed strongly on the rally in the copper price, while Seven Group Holdings benefited from ongoing strength in the iron ore sector, to which it is a key supplier of equipment. Other strong performers included Bluescope Steel, Kathmandu Holdings, Event Hospitality, News Corp and Aristocrat Leisure.

Holdings which detracted from performance over the quarter included Origin Energy and Santos, which were impacted by the weak oil price as well as Alumina Ltd, on the back of the weak aluminium price. Financial holdings also detracted, with uncertainty around the ultimate levels of bad debts that will be experienced as a result of the downturn. The strategy holds a modest overweight position in the major banks, as they represent good medium-term value.

During the quarter, the strategy sold out of a number of holdings including Woodside Petroleum and Rio Tinto, preferring to gain exposure to oil and iron ore via holdings such as BHP, Fortescue Metals and Santos. The strategy also sold out of ANZ and reinvested the proceeds into the other banks, which have a proportionately greater exposure to the domestic economy, which the investment manager expects to recover faster than other markets. The strategy also increased its exposure to a domestic recovery, adding to positions in Tabcorp and Ampol as well as adding Mirvac to the portfolio. At quarter end, stock numbers were 60 and cash was 6.2%.

Market Commentary

After rallying strongly post the March sell-off, the market stabilised in the September quarter, with the ASX300 Accumulation Index returning -0.1%. After bottoming in late March, the market has now recovered over half of the losses incurred in the COVID-induced selloff, on the back of increased optimism around the economic outlook, as infection rates decreased in many countries and lockdowns have been eased. However, the market has now entered a holding pattern as it awaits an indication of whether the worst of the COVID-related economic impacts are behind us, or whether the recently rising infection rates in many countries will lead to renewed lockdowns.

Outlook

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 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. The Trust continues to be positioned to benefit from any sustained recovery in the domestic and global outlook.

Further, 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, we have been taking the opportunity to add a number of new stocks to the portfolio which we are confident will deliver strong returns to investors over time.

As always, our 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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