

Pendal Australian Equity

Quarterly Investment Option Update

31 December 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/performance

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	98.25
Cash	0	1.75

Sector Allocation	%
Cash & Short Term	1.75
Consumer Discretionary	7.83
Consumer Staple	3.95
Energy	5.14
Financials x Prop Trusts	23.01
Health Care	10.30
Industrials	9.66
Information Technology	4.90
Materials	23.17
Real Estate Investment Trusts	3.29
Communication Services	6.63
Utilities	0.00
Derivatives	0.36

Top Holdings	%
BHP Billiton Limited	8.61
CSL Limited	8.14
Commonwealth Bank of Australia Limited	6.21
ANZ Banking Group Limited	4.81
Westpac Banking Corporation	4.78
Telstra Corporation Limited	4.09
Qantas Airways Limited	3.86
Xero Limited	3.35
James Hardie Industries Plc	2.83
Fortescue Metals Group Limited	2.75

Investment Option Commentary

The Fund outperformed the benchmark over the December quarter.

Contributors

Overweight Xero - delivered a good result in November. New subscriber growth softened in the US and UK, in line with expectations given the challenges in attracting new customers during the Covid period. However the key metrics Pental are watching in those markets continue to track well. There was stronger than expected subscriber growth in Australia – and particularly in New Zealand – which was surprising given that these are already heavily penetrated markets. This may suggest a further post-Covid shift in mentality towards the importance of online cloud-based accounting. There were also constructive signals around the development of the broader platform and ancillary services. XRO remains among the preferred tech growth exposures.

Overweight Nine Entertainment - upgraded revenue for Dec as advertising rose from 30 to 40% - brands are trying to get in front of consumers after a tough 2020. While the recent outbreak has the chance to derail this in the short term, Pental believe the trend will continue from here.

Detractors

Overweight Evolution Mining - Gold continues to sell-off amid the rise of the long-term bond yields, as investor's need for safe haven reduces for now. This saw gold miners, including Evolution Mining (EVN, -13.2%) pull back during the quarter.

Underweight National Australia Bank - The big four banks all performed strongly during quarter, ranging from +16.9% (WBC) to 34.2% (ANZ), as their latest updates got well received by the market. The outlook remains unconvincing - revenue trends remain challenged, credit growth - while stabilising - is still low, margins remain under pressure and any tangible benefit from cost out is an FY22 story. However, they remain propped up by the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Without BDD deterioration it is hard to see the sector underperform materially. Pental still prefer ANZ and WBC over NAB and CBA.

Market Commentary

The S&P/ASX 300 Accumulation index rebounded strongly over the December quarter (+13.8%), capping the year's return at +1.7%. Stronger commodity prices, the iron ore in particular, which gained ~70% over the year propelled returns for Resources (+18.6%/+9.2% Q4/CY20); whereas Industrials (+12.6%/-0.1%) were the laggard. Covid cases in the US continue to rise and Europe has started to deteriorate again. In the UK concern centres on the rise of cases in London, and the focus has been on a potentially new strain/variant of Covid-19. While it has proven more infectious, there is no evidence to suggest this new strain will make people sicker or is more resistant to vaccines. The latter is critical to market sentiment.

Outlook

The rate of Covid infection continues to deteriorate in the northern hemisphere, leading to lockdowns. Jobs have stalled well below pre Covid-levels in the US as the restrictions hit sectors such as leisure and hospitality. Health care systems are under pressure in several countries and regions. Meanwhile, a Covid outbreak in NSW has led to localised restrictions and state border closures. Nevertheless, the market remains relatively positive, driven by the twin beacons of vaccines and policy support. Vaccination programmes are ramping up – at differing rates – across many countries. This is giving hope of rolled back restrictions and demand growth. This remains a key risk to watch – any disappointment here could hit markets and the recovery sectors which have recently run hard.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1469AU
AMP Flexible Super - Retirement	AMP1340AU
CustomSuper	AMP0860AU
Flexible Lifetime - Super	AMP0860AU
Flexible Lifetime - Allocated Pension	AMP0875AU
Flexible Lifetime - Term Pension	AMP0916AU
Flexible Lifetime - Investments (Series 1)	AMP0835AU**
Flexible Lifetime - Investments (Series 2)	AMP1405AU**

**Closed to new and existing investors

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