

# Perennial Value Income Wealth Defender

Quarterly Investment Option Update

31 December 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/performance](http://amp.com.au/performance)

## 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	94.2
Cash	0	5.8

Sector Allocation	%
Energy	5.0
Materials	18.0
Industrials	7.5
Consumer Discretionary	11.9
Consumer Staples	10.8
Health Care	2.5
Financials-x-Real Estate	29.5
Real Estate	3.1
Information Technology	0.0
Telecommunication Services	6.0

Top Holdings	%
BHP Group	7.3
Commonwealth Bank of Australia	6.8
Westpac Banking Corp	5.8
National Australia Bank Ltd	5.6
Wesfarmers Ltd	5.3
Woolworths Group Ltd	4.2
Telstra Corp Ltd	4.1
Fortescue Metals Group Ltd	3.7
Macquarie Group Ltd	3.7
Amcor PLC	2.9

## Investment Option Commentary

During the quarter the strategy returned -4.1%, underperforming the market by -4.0%. Stocks which detracted from performance included Energy stocks Woodside Petroleum and Ampol, which were impacted by the ongoing low oil price. Insurers Suncorp and IAG were also weaker, while Telstra also underperformed on concerns over competition in the mobiles market. The investment manager continues to see Telstra as offering an attractive dividend yield and standing to benefit from the ongoing growth in mobile and the roll out of 5G.

Key positive contributors to performance included iron ore miners, Fortescue Metals, BHP and Rio Tinto as well as mining services company Seven Group. Other strong performers included Coca-Cola Amatil, Downer, Amcor and Macquarie Group.

During the quarter, the strategy added positions in a number of high-quality stocks including Sonic Healthcare, Aristocrat Leisure and Mirvac as well as increasing its holdings in Amcor and Aurizon. This was funded by exiting positions in TPG Telecom, IAG, Janus Henderson and Flight Centre, as well as taking profits and reducing holdings in BHP and Rio Tinto, following their strong share price performance. Holdings in the major banks were also increased. While the current mortgage and business loan repayment holidays have been extended until March next year, indications are that a significant proportion of borrowers will return to making payments well before this time. The strategy holds a significant position in the banks as Perennial see material medium-term valuation upside. Further, the sector is highly leveraged to any improvement in the domestic outlook. At quarter end, stock numbers were 33 and cash was 2.0%.

## 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.

The highlight of the quarter was the company reporting season. Never before has the market entered a reporting season in such an information vacuum, with virtually all companies having previously withdrawn guidance due to COVID-19 uncertainty. As a broad statement, while many companies are being significantly impacted, results were less bad than feared. After the initial shock of lockdowns, many companies are seeing a reasonable activity levels as economies progressively reopen. Those most impacted are adapting to the current environment by reducing costs, hunkering down and strengthening their balance sheets.

## 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 Perennial are well placed to lead others in terms of a recovery in activity. The strategy continues to be positioned to benefit from any sustained recovery in the domestic and global outlook.

In the meantime, the strategy continues to offer a higher forecast gross yield than the overall market and, as always, their 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 Code
AMP Flexible Super - Super	AMP1577AU*
AMP Flexible Super - Retirement	AMP1589AU*
CustomSuper	AMP1529AU*
Flexible Lifetime - Super	AMP1529AU*
Flexible Lifetime - Allocated Pension	AMP1541AU*
SignatureSuper	AMP1553AU*
SignatureSuper - Allocated Pension	AMP1565AU*

\*Closed to new investors

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