

Pendal Australian Equity

Quarterly Investment Option Update

31 March 2021

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	98.08
Cash	0	1.92

Sector Allocation	%
Cash & Short Term	1.92
Consumer Discretionary	8.20
Consumer Staple	3.39
Energy	5.43
Financials x Prop Trusts	26.06
Health Care	8.90
Industrials	8.68
Information Technology	4.76
Materials	22.81
Real Estate Investment Trusts	2.19
Communication Services	7.41
Utilities	0.00
Derivatives	0.25

Top Holdings	%
BHP Billiton Limited	9.19
CSL Limited	6.97
Westpac Banking Corporation	6.53
ANZ Banking Group Limited	6.14
Commonwealth Bank of Australia Limited	6.10
Telstra Corporation Limited	4.70
Qantas Airways Limited	4.01
Santos Limited	3.36
Xero Limited	3.17
James Hardie Industries Plc	2.86

Investment Option Commentary

The Fund outperformed the benchmark over the March quarter.

Contributors

ANZ (overweight, +24.1%) – Higher yields over the quarter provided a tailwind to banks. Beyond that, ANZ's 1Q21 profits were above market expectations. This was due to lower bad-and-doubtful debts (BDDs), improved net interest margins, and lending volume growth. ANZ also has a strong capital position, providing opportunity for further capital management in the future.

Nine Entertainment (overweight, +21.4%) - News around a payment deal with the technology giants, Google and Facebook, for content used on their platforms lifted Nine Entertainment (NEC) over the quarter. Its 1H21 result also showed Advertising remains strong as companies seek to take advantage of easing restrictions and a more open economy. NEC is also expecting to gain TV market share in 2H21 while Digital assets, such as Stan and 9Now, present appealing growth prospects.

Detractors

Xero (overweight, -13.8%) – Xero (XRO) was caught in the crosshairs of some hedge fund deleveraging in January, as long positions were sold down after a year of strong outperformance. The rotation away from growth stocks has also impacted XRO. It is a preferred growth names, which could be a beneficiary of digitisation of the economy and low interest rates. Despite some near-term headwinds on expected SME churn and failure rates, structural shift to the cloud may accelerate as a result of COVID and that the relationship between accountants, SMEs and software has never been more important.

National Australia Bank (underweight, +15.0%) - Higher yields over the quarter provided a tailwind to banks as the market expects central banks to begin raising rates. As such, NAB had a strong March quarter along with the other Big Four banks, but lagged behind the fund's preferred banks, ANZ (+24.1%) and Westpac (+26.0%).

Market Commentary

The March quarter featured growth, inflation, and yields as key subjects for markets. Developments in Covid vaccine rollouts and cases were also a focal concern. Additionally, the February reporting season showed strong financial results for Australian companies. The S&P/ASX 300 Accumulation Index finished up +4.2% for the quarter, with contributions coming from both Industrials (+4.7%) and Resources (+2.2%) stocks. Value (+8.5%) significantly outperformed Growth (-0.4%) in Australia, as measured by the MSCI Australia IMI Indexes, and this was similar across global markets.

Outlook

The rise in Covid cases in the US presents a risk. Localised outbreaks have seen case numbers increase and hospitalisations tick up and there is a risk that restrictions will be reintroduced in some places. But at this point the market is looking through this and focusing instead on the huge surge in economic growth. The large-scale stimulus being pushed through by the Biden administration in combination with re-opening as the vaccination programme accelerates, is likely to result in a couple of quarters of extremely strong growth. This coupled with accommodative monetary policy and a market awash with liquidity, is likely to remain supportive for equities.

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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