Perennial Value Income Wealth Defender

Quarterly Investment Option Update

31 December 2021

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

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	5 years
Relative risk rating	7 /Very High
Investment style	Value
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.00	95.4
Cash & Other	0.00	4.6

Sector Allocation	%
Energy	6.3
Materials	19.5
Industrials	1.1
Consumer Discretionary	12.5
Consumer Staples	8.6
Health Care	3.3
Financials-x-Real Estate	35.2
Real Estate	4.3
Information Technology	0.0
Telecommunication Services	4.6

Top Holdings	%
BHP	8.6
CBA	7.0
NAB	6.5
Westpac	5.7
Macquarie Group	5.0
Rio Tinto	4.6
Telstra	4.6
Wesfarmers	4.5
Fortescue Metals	3.5
Aristocrat Leisure	3.5

Investment Option Commentary

While the portfolio lagged the market return, this was largely attributable to the protection overlay which, as expected, dragged in the strongly rising market. It is worth noting that the protection overlay performed very well during last year's COVID-related sell-off, significantly cushioning the portfolio.

Key positive contributors over the quarter included resource holdings, with Fortescue Metals (+28.4%) and BHP (+10.3%) rallying as the iron ore price began to rise. The fund manager sees significant upside to the share prices of the major miners and expect them to continue to generate very attractive dividends over the coming year. Pathology providers Sonic Healthcare (+14.7%) and Healius (+10.0%) outperformed, driven by the large volumes of COVID testing they are performing. Agricultural holdings were strong, with Graincorp (+32.2%) rising due to the very large eastern Australian grain crop, while Fertiliser manufacturer, Incitec Pivot (+13.2%), rose with high fertiliser prices. Macquarie group (+14.4%) rallied after delivering a strong half-year result, on the back of very favourable market conditions. The main negative contributor to relative performance was the Trust's overweight position in the major banks, which underperformed by an average of -5.4% over the quarter. While low interest rates and mortgage competition are currently impacting their margins, this will abate over time as interest rates begin to rise. In the meantime, the banks are in financially strong positions and will deliver strong dividends.

The Portfolio continues to offer a higher forecast gross yield than the overall market and, as always, the 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, the fund manager believes the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Market Commentary

The Australian market continued its advance in the December quarter, with the ASX300 Accumulation Index rising +2.2%, to be up a healthy +17.5% for the calendar year. The market is now well above its pre-COVID levels, with expectations of an ongoing recovery in growth as economies reopen, supported by low interest rates and ongoing stimulus measures. The recovery in global markets has continued, despite the emergence of new COVID variants, as early indications are that vaccination provides effecting protection against serious disease, suggesting that the economic recovery will not be derailed.

The Resources sector was the standout over the quarter, as ongoing strength in base metals pricing combined with the iron ore price finding a floor, saw broad-based rallies across the sector. By contrast, the Banks were softer, after reporting full-year results which highlighted margin pressure, resulting from ongoing low interest rates and intense mortgage competition. Corporate activity continued apace, as corporates and other investors take advantage of cheap funding to either grow by acquisition or privatise assets. The fund manager expects this to be an ongoing feature of the market over the coming year.

Outlook

Looking ahead to 2022, assuming that vaccines prove to be effective against the Omicron COVID variant, the fund manager sees the outlook as positive, with ongoing economic recovery, underpinned by relatively low interest rates and continuing stimulus measures. Further, the fund manager looks forward to the return to a more “normal” economic environment, as tapering and rate rises start to see the distortions caused by extremely low interest rates and unconventional monetary policy abate.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and the fund manager expects the economy to bounce back strongly, just as it did following previous lockdowns. Key economic indicators continue to be strong and while there are some concerns around supply chain issues and inflationary pressures, both corporates and consumers are in good shape. If this improvement continues, then corporate earnings and dividends are likely to continue to grow over the coming year.

As always, the fund’s 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, while carrying a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

Availability

Product name	APIR
SignatureSuper*	AMP1553AU
SignatureSuper Allocated Pension*	AMP1565AU

* Closed to new investors

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