

Perennial Value Income Wealth Defender

Quarterly Investment Option Update

30 June 2022

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 taxeffective 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 | 95.7 |
| Cash & Other | 0.00 | 4.3 |

| Sector Allocation | % |
|----------------------------|--------|
| Energy | 8.45% |
| Materials | 22.33% |
| Industrials | 0.88% |
| Consumer Discretionary | 9.88% |
| Consumer Staples | 9.54% |
| Health Care | 2.26% |
| Financials-x-Real Estate | 28.43% |
| Real Estate | 4.27% |
| Information Technology | 0.00% |
| Telecommunication Services | 4.59% |
| Utilities | 0.00% |
| Cash & Other | 9.38% |

| Top Holdings | % |
|------------------------------|-------|
| BHP GROUP LTD | 8.94% |
| WOODSIDE ENERGY GROUP LTD | 6.94% |
| COMMONWEALTH BANK OF AUSTRAL | 5.97% |
| TELSTRA CORP LTD | 4.59% |
| NATIONAL AUSTRALIA BANK LTD | 4.58% |
| RIO TINTO LTD | 4.58% |
| MACQUARIE GROUP LTD | 4.01% |
| WOOLWORTHS GROUP LTD | 3.85% |
| FORTESCUE METALS GROUP LTD | 3.73% |
| WESTPAC BANKING CORP | 3.52% |

Investment Option Commentary

The portfolio outperformed the market for the June quarter. The protection overlay also contributing positively, partially offsetting the market's fall. The protection overlay previously demonstrated its worth in the 2020 COVID sell-off, where it offset more than half of the market's fall, significantly smoothing returns for investors.

Key positive contributors to relative performance over the quarter included Tabcorp, which demerged its wagering and lotteries businesses into separate entities. History suggests that demergers such as this lead to greater value being realised, and will potentially facilitate corporate activity. Ampol performed well on the back of very strong refining margins and Graincorp outperformed as it benefitted from the very large east coast grain crop. Woodside Energy Group outperformed with the continued strength in the oil price and the benefits it is expected to receive following its merger with BHP Petroleum.

Insurance stocks Suncorp and IAG both outperformed, with the insurance industry experiencing a period of very strong premium rate increases. Further, insurance earnings are both fairly defensive and positively leveraged to rising interest rates, which drive higher earnings from their investment portfolios. Combined with undemanding valuations, this makes them ideal stocks for the current environment. Telstra, another defensive, also outperformed, with its mobiles business performing well and the company returning to growth following the completion of the NBN roll-out.

During the quarter, the Fund took profits and exited a number of holdings which had performed strongly, including Ampol and Gaincorp as well as reducing holdings in the major banks. Proceeds were used to increase the holdings in resources and energy stocks, BHP and Woodside Energy as well as establishing new positions in stocks where Perennial sees very significant upside, such as James Hardie, South32 and Treasury Wine Estates.

Market Commentary

The Australian market declined in the June quarter, with the ASX300 Accumulation Index falling -12.2%, to finish the financial year down -6.8%. The decline in the market mirrored that of global markets, where sentiment has switched from being positive about the post-COVID economic reopening, to being concerned about the effect of rising interest rates on global growth and therefore corporate earnings as well as the valuation of the market. While interest rates have been expected to rise from their very low levels, the acceleration in inflation due to factors such as the war in Ukraine, has meant that the pace of rate increases is likely to be greater than previously expected.

The quarter saw strong performances from the Energy sector, which benefitted from continuing strength in the oil price, while defensive sectors such as Utilities, Healthcare and Consumer Staples also outperformed as investors sought out companies with perceived stable earnings. By contrast, the more cyclical parts of the market were sold off, with the miners down sharply on concerns over the impacts of renewed COVID lockdowns on Chinese growth. Financials were also weaker, with concerns that a slowing economy would more than offset the benefits banks receive from higher interest rates, while Consumer Discretionary stocks were softer as spending is expected to fall from the current very strong levels.

Outlook

While growth is clearly slowing, on balance, Perennial views the outlook as positive, with economies recovering as COVID recedes. Economic data continues to be sound in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and Insurance as well as a modest overweight in gold.

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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