

Perennial Value Australian Share

Quarterly Investment Option Update

31 December 2018



Aim and Strategy

To grow the value of the investment over the long term via a combination of capital growth and tax-effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (before fees) that outperforms the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

The portfolio invests in a range of companies listed (or soon to be listed) on the ASX and will typically hold approximately 45 stocks with a minimum stock holding of 20 and a maximum of 70. The option may utilise derivative instruments for risk management purposes, subject to the specific restriction that they cannot be used to gear portfolio exposure.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Value

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.0	93.5
Cash	0.0	6.5

Sector Allocation	%
Energy	6.2
Materials	23.5
Industrials	6.9
Consumer Discretionary	8.1
Consumer Staples	5.2
Health Care	2.2
Financials-x-Real Estate	35.0
Real Estate	2.8
Information Technology	1.9
Telecommunication Services	1.7
Utilities	0.0
Cash & Other	6.5

Top Holdings	%
Commonwealth Bank	7.4
BHP Billiton Limited	5.9
Westpac Banking Corporation	5.8
ANZ Banking Group Limited	5.0
National Australia Bank	4.4
Woodside Petroleum	2.6
Newcrest Mining	2.6
Macquarie Group Limited	2.6
Woolworths Limited	2.3
Rio Tinto Limited	2.3

Portfolio Summary

Following the recent declines, the market is now trading below its long-term average forward P/E ratio of 14.5x and offering an attractive gross dividend yield of over 6.0%, presenting many very good value opportunities available for investors with a longer-term time horizon

Investment Option Commentary

Main contributors to performance included gold holdings, with Evolution Mining (39.3%) and Newcrest (+12.3%) rallying on the back of the strong AUD gold price, which is nearing record highs. Further, this is a sector which is likely to experience significant consolidation and, in an uncertain world, Australia is an increasingly attractive location for mining investment. Another stock which performed well included Graincorp (+17.3%), which received a conditional takeover proposal at a 43.0% premium to the current share price.

The stocks which detracted from performance included Mining Services exposures including WorleyParsons Ltd (-41.1%) and Ausdrill (-31.5%). In the fund manager's view, these companies are very well placed given the expected uptick in resources capex over the coming years, particularly in terms of major iron ore projects and new projects in the gold sector. Other detractors included Lendlease (-40.9%) which fell after announcing provisions related to cost overruns in a number of engineering projects.

During the quarter, profits were taken and holdings trimmed in a number of stocks which had performed strongly over recent times including Vocus Communications, IAG and Goodman Group. Proceeds were used to increase Perennial's holdings in a number of good value opportunities including Downer which is trading on an attractive valuation with an FY19 P/E of 12.7x, Ausdrill and the major banks.

Market Commentary

The share market fell in the December quarter, with the S&P/ASX300 Accumulation Index down -8.4%, bringing the total return over the last 12 months to a modest decline of -3.1%. The sell-off mirrored that seen in offshore markets, where the heightened level of political uncertainty around issues such as US-China trade and Brexit, as well as rising interest rates, are weighing on the growth outlook and impacting sentiment.

Overall valuations are reasonable, with the recent pull-back seeing the market trading in line with its long-term average valuation. Market forecasts are for continued, moderate earnings growth over the coming year. In addition, corporate Australia has been paying down debt and balance sheets are in very good shape. This provides the flexibility to invest and grow, pay healthy dividends and weather any headwinds that may arise.

While the market continues to prove challenging for value investors, Perennial are finding many opportunities to invest in quality companies at attractive prices. As noted previously, there is a wide valuation dispersion in the market, with many "growth" and "momentum" stocks remaining expensive, while many "value" stocks are trading at very cheap levels. History shows that at some point these large valuation dispersions normalise and, when they do, there is the potential for a value style portfolio to deliver significant outperformance.

Outlook

Within the overall market, Perennial are currently finding many good value investment opportunities. Across both the industrial and resources sectors, they are seeing many quality companies trading on attractive valuations which should deliver solid returns to investors from these levels.

By contrast, there remain pockets of expensive growth and momentum style stocks which present significant de-rating risks if the lofty growth rates implied in their valuations are not able to be met. Perennial do not hold these types of stocks as they do not meet their value criteria.

In the meantime, the fund manager will ensure that the underlying share portfolio continues to deliver a true to label value exposure and they will maintain their focus on investing in financially sound and sustainable businesses which offer good value and which have the ability to deliver high levels of franked dividend income to investors.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0666AU
AMP Flexible Super - Retirement account	AMP1367AU
AMP Flexible Super - Super account	AMP1496AU
CustomSuper	AMP0666AU
Flexible Lifetime - Allocated Pension	AMP0631AU
Flexible Lifetime - Term Pension	AMP0942AU
Flexible Lifetime Investment	AMP0843AU
Flexible Lifetime Investment (Series 2)	AMP1430AU
SignatureSuper	AMP0808AU
SignatureSuper Allocated Pension	AMP1169AU

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