Pendal Australian Equity

Quarterly Investment Option Update

31 March 2019

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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	96.23
Cash	0	3.77

Sector Allocation	%
Cash & Short Term	3.77
Consumer Discretionary	6.88
Consumer Staples	2.63
Energy	9.30
Financials x Prop Trusts	24.27
Health Care	10.94
Industrials	10.85
Information Technology	1.47
Materials	22.17
Real Estate Investment Trusts	2.83
Communication Services	5.43
Utilities	0.00
Derivatives	0.07

Top Holdings	%
BHP Billiton Limited	8.24
CSL Limited	7.48
Commonwealth Bank of Australia	7.34
ANZ Banking Group Limited	5.84
Qantas Airways Limited	4.33
Telstra Corporation Limited	3.96
Westpac Banking Corporation	3.72
Santos Limited	3.42
Transurban Group	3.36
Amcor Limited	3.16

Portfolio Summary

Most of the 11 GICS sectors recorded double-digit gains over the March quarter, with limited exceptions being Health Care (+6.7%), Financials (+5.9%), and Consumer Staples (+5.0%). Information Technology (+20.0%), Materials (+17.7%) and Communication Service (+16.6%) had the largest absolute gains. Beneath the underwhelming headline return for Financials, performance was divergent amongst all: Diversified Financials (+13.6%) and Insurance (+14.2%) both recorded strong gains over the quarter; however they were more than offset by disappointing performance from heavyweight Banks (+3.0%). Whilst the wrap up of the Royal Commission gave the banks a boost in February, it was proven short-lived. The operating environment remains challenging for the whole sector, as the downward trend of the domestic property market is putting great pressure on bank's loan books. In addition, the Reserve Bank of New Zealand has proposed to raise the minimum core tier one capital requirement for NZ banks from 8.5% to 16% - versus 10.5% in Australia, which will affect all the Kiwi subsidiaries of the "Big Four", potentially forcing the parents to raise additional capital at some stage.

Investment Option Commentary

The Fund's return was largely in line with the benchmark index over the March quarter.

Contributors Overweight Santos

January saw a marked bounce in oil prices as OPEC production cuts moderated supply and fears of a sharp slump in global growth receded. The West Texas Intermediate (WTI) crude oil price rose 19.2% and Brent Crude gained 20.4% in US dollar terms for the month. Santos (STO, +26.2%) has the greatest leverage to the oil price among the Australian energy names and performed accordingly. Its oil price tailwind was enhanced by a well-received production report for CY-2018, with revenue of US$3.7b well ahead of the US$3.5b expected by the market. Management production guidance for CY-2019 also came in ahead of expectations. The stock did pare some of the gains in March, as the price divergence between oil and gas weighed on sentiment.

Detractors Overweight Resmed

Despite a strong second quarter bottom-line result ResMed (RMD, -9.2%) was sold off in January after the company missed their revenue target, driven by weaker rest of the world (ROW) flow-generator (FG) growth and a slight miss on revenues from its recent acquisition, Brightree. The mask business globally continues to do well and is supported by recent product launches. Issues around FG growth in the ROW segment are likely to persist over the next two to three quarters, in addition to concerns surrounding the growth rate declines at Brightree. That said, positives from other recent acquisitions are expected to feed through in coming halves.

Market Commentary

The Australian equity market orchestrated a meaningful turnaround in the first quarter of CY2019, despite a somewhat less sanguine reporting season in February. A few factors contributed to the general improvement of investor sentiment: In the US there has been a material shift in rhetoric from the Fed; comments now indicate a more dovish stance suggesting the board is not as deaf to market feedback as many feared. Whilst, we are still facing an environment of reduced liquidity, investors are now less concerned that a sharp liquidity crunch could drive a more sustained correction.

Outlook

Looking forward, we would not be surprised to see the market consolidate for a period given its strong run. Valuations remain at a reasonable level given prevailing interest rates, although the market's P/E rating may come under pressure if we start to see a material deterioration in the outlook for earnings growth. The consensus outlook for ASX200 earnings remained broadly unchanged across reporting season and stands at about 5% for FY19. That said, there has been a material change in the underlying drivers, as resource stocks continue to see significant upgrades, while the remainder of the market continues to see lower earnings expectations.

We continue to see attractive opportunities in the market. In particular, we like mining and infrastructure services, which are enjoying the cyclical tailwinds of increased capex spending and transport infrastructure investment. We are also positive on the near term outlook for iron miners as supply disruption supports a higher price. Several of our highest conviction stocks are among the more cyclical parts of the economy, including Qantas and Nine Entertainment, where we see compelling valuation coupled with company-specific opportunities to deliver attractive shareholder return.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0860AU
AMP Flexible Super - Retirement account	AMP1340AU
AMP Flexible Super - Super account	AMP1469AU
CustomSuper	AMP0860AU
Flexible Lifetime - Allocated Pension	AMP0875AU
Flexible Lifetime - Term Pension	AMP0916AU
Flexible Lifetime Investment	AMP0835AU
Flexible Lifetime Investment (Series 2)	AMP1405AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)

INSIGHTS
IDEAS
RESULTS