

Perennial Value Australian Share

Quarterly Investment Option Update

31 March 2019



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	95.4
Cash	0.0	4.6

Sector Allocation	%
Energy	6.42
Materials	23.26
Industrials	5.48
Consumer Discretionary	11.19
Consumer Staples	2.51
Health Care	1.99
Financials-x-Real Estate	35.03
Real Estate	2.58
Information Technology	2.27
Telecommunication Services	4.65
Utilities	0.00
Cash & Other	4.62

Top Holdings	%
Commonwealth Bank	6.93
BHP Billiton Limited	6.02
Westpac Banking Corporation	5.38
ANZ Banking Group Limited	4.59
National Australia Bank	4.12
Woodside Petroleum	3.04
Macquarie Group Limited	2.98
Rio Tinto Limited	2.58
Newcrest Mining	2.51
Arcor Limited	2.49

Portfolio Summary

- The share market rallied strongly in the March quarter, with the S&P/ASX300 Accumulation Index up 10.8%, recovering from the sell-off in the December quarter and bringing the total return over the last 12 months to a healthy +11.7%.
- 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.

Investment Option Commentary

The share market rallied strongly in the March quarter, with the S&P/ASX300 Accumulation Index up 10.8%, recovering from the sell-off in the December quarter and bringing the total return over the last 12 months to a healthy +11.7%. The rally in the Australian market reflected that seen in offshore markets, with key global indices posting strong gains. The March quarter saw the S&P500 up 14.0%, the FTSE 100 up 8.1%, the Nikkei 225 up 6.0% and the Shanghai Composite up a very strong 23.9%. Markets have now largely recovered the losses experienced in the December quarter sell-off, as central banks have taken an increasingly dovish tone regarding interest rate policy.

The main contributors to performance were Ausdrill Limited (+39.9%). It rallied in anticipation of increasing activity levels in the resources sector. Iron ore stocks such as RIO (+36.2%) performed strongly following the disruptions to the iron ore market following the January tragedy at Vale's Brumadinho mine in Brazil. Monadelphous Group (+27.8%) also performance well in the quarter after delivering strong results.

Stocks which detracted included chemicals manufacturer Nufarm (-20.8%). Nufarm reported half-yearly results during the month and the outlook was weaker than the market expected. Despite Their small position in Challenger Group (-10.8%), it fell after a disappointing earnings update. Integral Diagnostics was down (-8.3%) notwithstanding earnings growth with quality cash conversion. Management was conservative with guidance at this early juncture and thus dismissed by the market.

During the quarter, Perennial took profits and trimmed their holdings in a number of stocks which had performed strongly over recent times including Vocus and Monadelphous. Proceeds were used to increase their holdings Medibank Private, JB Hi-Fi and Ooh Media. Ooh Media is a leading company in the out-of-home media sector and in their view the valuation of the company is undemanding.

Outlook

Overall market valuations are reasonable, with the Australian share market trading close to its long-term average, with a 1-year forward P/E multiple of 15.5x and offering a gross dividend yield of close to 6.0%. 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.

Conditions are currently favourable for the resources sector, with positive supply and demand dynamics, while the banks represent good long-term value. 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, in the long-run valuation matters and at some point, these large valuation dispersions normalise. When they do, there is the potential for value style portfolios to deliver significant outperformance.

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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