Perennial Value Australian Share

Quarterly Investment Option Update

30 June 2022

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/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	100.0	94.4
Cash	0.0	5.6

Sector Allocation	%
Energy	5.90%
Materials	27.71%
Industrials	3.73%
Consumer Discretionary	8.26%
Consumer Staples	4.79%
Health Care	11.04%
Financials-x-Real Estate	27.63%
Real Estate	1.50%
Information Technology	0.00%
Telecommunication Services	3.71%
Utilities	0.00%
Cash & Other	5.72%

Top Holdings	%
BHP	8.92%
CSL LTD	5.56%
COMMONWEALTH BANK OF AUSTRAL	5.54%
NATIONAL AUSTRALIA BANK LTD	4.62%
WESTPAC BANKING CORP	3.47%
QBE INSURANCE GROUP LTD	3.40%
MACQUARIE GROUP LTD	3.25%
TELSTRA CORP LTD	3.04%
SANTOS LTD	2.82%
AUST AND NZ BANKING GROUP	2.58%

Investment Option Commentary

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. Ramsay Healthcare was also strong after receiving a takeover offer from a private equity firm. Perennial invested in Ramsay as, while its near-term earnings are still being impacted by COVID-related disruptions to patient numbers and staffing levels. However, on a long-term view there is clear upside to earnings as well as the potential to separate the operating business from the property assets.

Energy stocks Woodside Energy Group and Santos both outperformed on the back of the continued strength in the oil price. The oil price has been boosted by the sanctions against Russia as a result of its invasion of Ukraine, as the reduction in supply is not able to be made up by other producers in the short-term. Engineering firm, Worley, also outperformed. It is a major supplier of engineering services to the oil and gas sector and there is expected to be a strong pipeline of work following a period of underinvestment globally. Longer-term this company is well positioned to participate in the transition to renewables, which account for an increasing share of their business.

Insurance stocks QBE 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.

Holdings which detracted from performance were mainly the smaller cap names, with many stocks being sold down as investors sought safety in the larger end of the market. Examples include City Chic Collective, Virgin Money UK, MA Financial and Integral Diagnostics. At current levels, Perennial sees very significant upside to the share prices of these stocks over the medium-term. Miners were also softer, however Perennial expects that they will recover on the back of Chinese stimulus in the second half of the calendar year.

During the quarter, the Fund took profits and exited a number of holdings which had performed strongly, including Newscorp, Incitec Pivot, Ampol and Graincorp as well as reducing its holdings in the major banks. Proceeds were used to increase the holdings in more defensive names such as Woolworths and Telstra and to build a position in Treasury Wines and James Hardie, both of which Perennial believes have significant upside.

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 reopening 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.

The Fund is positioned to benefit from an ongoing economic improvement and the focus remains 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.

Availability

Product name	APIR
SignatureSuper*	AMP0808AU
SignatureSuper Allocated Pension*	AMP1169AU
SignatureSuper Term Pension*	AMP1169AU
Flexible Lifetime Investment (Series 1)**	AMP0843AU
Flexible Lifetime Investment (Series 2)**	AMP1430AU

* Closed to new investors
** Closed to new and existing investors

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