

Pendal Australian Equity

Quarterly Investment Option Update

30 September 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
Manager style	Single Manager

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

Sector Allocation	%
Cash & Short Term	2.04
Consumer Discretionary	6.58
Consumer Staple	2.85
Energy	8.10
Financials x Prop Trusts	25.77
Health Care	11.56
Industrials	11.59
Information Technology	1.80
Materials	19.01
Real Estate Investment Trusts	3.84
Communication Services	7.02
Utilities	0.00
Derivatives	-0.16

Top Holdings	%
CSL Limited	8.46
Commonwealth Bank of Australia	7.22
BHP Billiton Limited	6.41
ANZ Banking Group Limited	5.96
Telstra Corporation Limited	4.98
Qantas Airway Limited	4.42
Westpac Banking Corporation	4.16
Transurban Group	3.58
Santos Limited	3.30
Macquarie Group Limited	2.71

Investment Option Commentary

The Fund underperformed its benchmark over the September quarter.

Qantas (QAN, +19.0%) delivered a decent result in August, despite the headwind of higher fuel costs and softer demand in the domestic market. The company also dialled-up its capital return by \$100m to \$600m per half year, which was well received by the market. There was also a positive read on the implications of

Virgin Australia's (VAH) poor earnings result. VAH's announcement that it is looking to cut unprofitable routes, plus the increased gearing that comes with its US\$-denominated debt, had some investors questioning its ability to survive. Pental believe that it does; however, VAH is in no position to start aggressively discounting fares, while fewer routes means less capacity in the domestic Australian market. Both situations are good for QAN.

YBG (CYB, -39.2%) dragged over the quarter, following the announcement of an additional provision of GBP 350 – 400 million against mis-selling claims for its payment protection insurance. The net effect of CYB's provision equates to 10% of the company's capital base. Although payment amounts have been running in the low teens as a percentage of claims made, the administration costs in processing the claims renders the final amount required to be highly uncertain. The company's share price also remains highly responsive to any Brexit news.

Telstra (TLS) fell -6.8% over the quarter, which looks to have been driven largely by offshore selling. Investors were disappointed with the earnings result revelation that the headwind from NBN would be \$400m more than expected. That said, in Pental's view this issue is unlikely to deteriorate, while we believe the market is underestimating the effect of slightly better pricing in mobile telephony. TLS is not at a demanding valuation and therefore lacks the risk of de-rating seen in other parts of the market. It is also offering a 4.6% dividend yield, pre-franking, in an environment where interest rates and bond yields remain low. We believe it could do well in this environment.

Market Commentary

The S&P/ASX 300 price Index recorded marginal gains (+0.2%) over the September quarter, whilst adding back dividends, the S&P/ASX 300 Accumulation Index was 1.5% higher. The domestic equity market started the quarter on solid footing in July, and was able to maintain its momentum during reporting season in August, as a raft of growth stocks took the steering wheel. The euphoria however quickly lapsed in September as a confluence of macro thematic factors drove investor sentiment, including the ongoing Sino-US trade conflict, as well as the rising oil price and global bond yields. The Royal Commission also remains an overhang for the Financials (-0.2%) sector, with Banks (-0.5%) in particular seeing limited buying support. The interim report of the Royal Commission was released at the end of September.

Outlook

There has been no sign of rapprochement between the Trump Administration and Chinese authorities on trade and the Republican Party, playing to a domestic audience, seems to have little motivation to ease pressure ahead of the mid-term Congressional elections in early November. However at the same time Chinese authorities continue to signal their intention to reverse the cooling policy stance of the past year and offset trade-induced economic pressure with looser monetary and fiscal policy. Pental see this as the logical response to slowing economic momentum.

US bond yields continue to rise as the Federal Reserve hiked rates in September. This has weighed on the yield-sensitives in the Australian market and prompted a late-quarter rotation away from them in to Resources. Pental are underweight yield sensitives such as REITs and infrastructure and this has helped recent performance. Looking forward, Pental think that yields may continue to rise, but ultimately they are unlikely to rise too far in absolute terms, which will ultimately put a base of support under the defensive yield stocks. Pental do have exposure to this part of the market but are content to remain underweight for the moment.

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

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