

Pendal Australian Equity

Quarterly Investment Option Update

30 June 2021

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/performance

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	97.86
Cash	0	2.14

Sector Allocation	%
Cash & Short Term	2.17
Consumer Discretionary	7.85
Consumer Staple	3.06
Energy	6.34
Financials x Prop Trusts	26.04
Health Care	8.98
Industrials	7.09
Information Technology	6.34
Materials	22.03
Real Estate Investment Trusts	2.09
Communication Services	8.19
Utilities	0.00
Futures	-0.15

Top Holdings	%
BHP Billiton Limited	9.38
CSL Limited	7.15
Commonwealth Bank of Australia Ltd	6.91
Westpac Banking Corporation	6.58
Telstra Corporation Limited	5.45
ANZ Banking Group Limited	4.96
Xero Limited	4.28
Santos Limited	3.72
Qantas Airways Limited	3.57
Aristocrat Leisure Limited	2.84

Investment Option Commentary

The fund underperformed the benchmark over the June quarter.

Contributors

Overweight Aristocrat (ALL, +25.9%) - Aristocrat was able to benefit from a strong rebound in gaming manufacturing, especially as the US economy gradually reopened over the quarter. This trend was particularly evident in Nevada, Delaware and New Jersey, as these states had restrictions eased and are the largest gambling states in the US. It also benefited from record digital bookings for the quarter, a better than expected earnings release of 12% growth in NPATA for 1H21 from its growing online gaming business and dominant position in electronic gaming machines.

Do not hold Woodside Petroleum (WPL, -7.5%) - Brent Crude rose 18% to US\$75.13. The market was waiting to see if OPEC agrees to raise production to help offset the rebound in demand. The UAE is withholding agreement at this point, arguing for a greater share of production. It is worth bearing in mind the inroads being made into global oil inventories. These peaked at ~1,200m barrels in December 2019, but have fallen to ~330m barrels on the rebound in demand and are falling ~50-60m barrels per month. Additional supply will be needed to ensure a smooth run down of inventories as Europe and the US continue to re-open. All in all it is supportive for an oil price remaining in the US\$70-US\$80 range – and perhaps even nudging above it. That being said, the market continues to see a clear disconnect between a stronger oil price, and the weak performance of energy names such as Woodside Petroleum.

Detractors

Overweight Qantas (QAN, -8.5%) - Despite its latest quarterly update, which showed Qantas is now cash flow positive, the national airliner fared poorly amid then fresh lockdown concerns in Sydney. This is against the backdrop of the Covid situation in India, which suggests that international travel is likely to remain complicated for longer than many expected. We continue to hold our conviction in Qantas and see through the short term negatives.

Overweight Santos (STO, -0.1%) - Brent Crude rose 18% to US\$75.13. The market was waiting to see if OPEC agrees to raise production to help offset the rebound in demand. The UAE is withholding agreement at this point, arguing for a greater share of production. It is worth bearing in mind the inroads being made into global oil inventories. These peaked at ~1,200m barrels in December 2019, but have fallen to ~330m barrels on the rebound in demand and are falling ~50-60m barrels per month. Additional supply will be needed to ensure a smooth run down of inventories as Europe and the US continue to re-open. All in all it is supportive for an oil price remaining in the US\$70-US\$80 range – and perhaps even nudging above it. That being said, the market continues to see a clear disconnect between a stronger oil price, and the weak performance of energy names such as Santos.

Market Commentary

The S&P/ASX 300 Accumulation Index finished +8.48% for the quarter, which was stronger than index's return of +4.15% from the March quarter. The Australian 10-year bond yield declined by 25bps over the quarter and finished the period at 1.53%. The market appeared to show its scepticism around the country's economic recovery and future rate hikes by the central bank. The RBA largely shifted its attention towards the labour market in recent years and has emphasised its importance over inflation when it comes to policy tightening during the COVID environment. As a result, it is likely that the quarter's finish of strong full-time over part-time employment helps the case to bring forward normalising policy, which has been closely monitored by the market. While large cap earnings have broadly shrugged off any potential premature tightening by central banks, this is likely to be tested in the coming months and years if it is the path monetary authorities wish to go down.

Outlook

The debate on inflation remains the key macro issue. The Fed has signalled that they are factoring in the risk of higher than expected inflation into their deliberations, reinforcing the view that they are not as reckless as some had feared. The counter argument remains that the Fed does not have the degree of control it currently believes, given the combined degree of fiscal and monetary stimulus. But this will not be apparent for some time.

There are clear bottlenecks driving wage pressure in some parts of the US economy despite there still being material slack in labour capacity – there are 5.5 million fewer people working now than pre-Covid. Recent data on

US house prices – which are growing at their fastest rate in thirty years - is also a reminder of the wealth effects created by current policies, which can drive medium term inflationary forces.

However at the same time there are suggestions that the temporary factors driving inflation may have peaked in May and should halve by November. This means that even if the inflation thesis is correct, it will be hard to detect in the next few months. Combined with on-going QE, this could keep bonds range-bound in the coming months and prevent any dramatic rotation back to value within the equity market.

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

**Closed to new and existing investors

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