

# Pendal Australian Equity

Quarterly Investment Option Update

30 June 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](http://amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Australian Shares
<b>Suggested investment timeframe</b>	5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Core
<b>Manager style</b>	Single manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.4
Cash	0	2.6

Sector Allocation	%
Energy	10.1
Materials	22.3
Industrials	8.6
Consumer Discretionary	7.3
Consumer Staples	4.9
Health Care	9.6
Information Technology	1.0
Telecommunication Services	2.9
Financial ex Property Trusts	28.5
Property Trusts	2.2
Cash & Other	2.6

Top Holdings	%
BHP Billiton Limited	10.2
Commonwealth Bank of Australia	7.3
ANZ Banking Group Limited	7.1
CSL Limited	6.3
Westpac Banking Corporation	4.5
Qantas Airways Limited	4.3
Amcor Limited	3.2
Telstra Corporation Limited	2.8
Santos Limited	2.7
Origin Energy Limited	2.6

## Portfolio Summary

Australian equities rose into the end of the financial year, with large caps generally outperforming their smaller peers. The Fund made absolute gains, helped by strong performance from some of its mid-cap stocks such as Caltex Australia and CYBG. However, the over weights in Metcash and Qantas saw the Fund lag the index over the month.

## Investment Option Commentary

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

### Contributors Overweight Caltex

Convenient store operator/oil refiner Caltex (CTX, +10.6%) provided guidance for its H1 results over the month: management now expects RCOP NPAT to come in at A\$295-315M, or a 4% growth compared to the previous corresponding period. Whilst the guidance was not too overwhelming to the upside, the company received some broker upgrades subsequently – CTX's share price has fallen ~17% since it last updated the market in February, making stock valuations more appealing. Also propelling investor sentiment, BP announced that it was walking away from the deal to acquire Woolworths' petrol station business following prolonged negotiation with the ACCC. The volume that the market expected CTX to lose as WOW's petrol supplier, should the deal pass through, is likely to remain with CTX, at least for now.

### Detractors Overweight CYBG

CYBG (CYB, +10.2%) announced its recommended offer for Virgin Money (VM) in which shareholders will receive 1.2125 CYBG shares in exchange for each VM share. CYBG will keep using VM national brand, having agreed a fixed yearly minimum royalty payable by CYBG. Whilst some are doubtful with the price paid, as previously communicated, Pandal believes the market will ultimately focus on the emergence of CYBG as a stronger competitor within the UK market.

## Market Commentary

The index returned 13.24% for the financial year, including dividends. At just under 16x, the next-twelve-month price/earnings for the S&P/ASX 300 remains above its long term average, however not egregiously so given the low target interest rate of the Reserve Bank of Australia (RBA). While rates remain low, Pandal believes that the market can maintain its current valuation – and they do not expect imminent rate rises given the lack of inflation in the economy. This leaves earnings to drive stock markets. The investment manager thinks that there is enough juice in the economy to support mid-single digit earnings growth, helped by the pipeline of infrastructure spending and a pick-up in capex in corporate Australia. As a result Pandal continue to expect Australian equities to return somewhere Near high single-digit returns for the next year, once dividends are factored in.

## Outlook

Pandal thinks that there is enough juice in the economy to support mid-single digit earnings growth, helped by the pipeline of infrastructure spending and a pick-up in capex in corporate Australia. As a result we continue to expect Australian equities to return somewhere near high single-digit returns for the next year, once dividends are factored in.

## 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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