

Perpetual Industrial Share

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide long-term capital growth and regular income through investment in quality industrial shares. The strategy aims to outperform the S&P/ASX 300 Industrials Accumulation Index (before fees and taxes) over rolling three-year periods. Perpetual's priority is to select those companies that represent the best investment quality and are appropriately priced. Investment quality is based on four key criteria: conservative debt levels, sound management, quality business and recurring earnings.

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
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	80-100	93.1
Global Shares	0-10	
Cash	0-10	6.9

Sector Allocation	%
Cash	6.9
Consumer Discretionary	14.8
Consumer Staples	9.5
Energy	1.6
Financials ex Property Trusts	34.3
Health Care	3.4
Industrials	7.6
Information Technology	0.0
Materials	7.4
Real Estate	8.6
Telecommunication Services	5.9
Utilities	0.0

Top Holdings	%
Commonwealth Bank of Australia	10.4
Woolworths Group Ltd	7.8
Westpac Banking Corporation	6.3
Suncorp Group Limited	5.1
Medibank Private Ltd	5.0
Tabcorp Holdings Limited	5.0
Unibail Rodamco Westfield	3.8
Brambles Limited	3.6
National Australia Bank Limited	3.4
Telstra Corporation Limited	3.3

Portfolio Summary

- The investment option underperformed its benchmark over the quarter.
- Twenty-nine percent of reporting companies exceeded their earnings expectations while about twenty-eight percent came in below guidance.
- The Australian share market remains challenging for investors; with only modest revenue growth forecasts and cost-out opportunities becoming exhausted. Perpetual remains cautious.

Investment Option Commentary

The Fund's largest overweight positions include diversified retailer Woolworths, health insurer Medibank Private, and wagering and gaming company Tabcorp Holding. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and ANZ Bank.

Market Commentary

The Australian equity market strengthened over the September-quarter with the S&P/ASX 300 Industrials Accumulation Index ending 4.1% higher. A 25-basis point cut in the official cash rate to 1.0% in July (the first back-to-back cut since 2012) boosted the broader market, while expectations of additional rates cuts ahead of the Reserve Bank's October's policy meeting were reinforced, further stimulating the market as Governor Lowe signalled uncertainty over the durability and strength of the pickup in economic growth, sub-target inflation, and sustained rates of unemployment. The downward pressure in rates led to a fall in 10-year Government bond yield to a record low of 0.9%, weighing on the Australian dollar, declining 3.9% against the USD. The market was further supported as the Liberal Party's income tax cut plan was successfully passed through the Senate.

Energy stocks rallied following an unidentified drone attack on the state-owned Saudi Aramco Abqaiq facility, a processing plant that accounts for approximately 5% of the world's total oil supply. The suspension in production contributed to an 11% spike in crude oil prices, which later retracted as production recommenced. This followed a previous spike in crude prices during July as Iran seized a British tanker off the Persian Gulf. Iron ore producers however struggled on an increase in supply out of Brazil following the recommencement of operations from a major Vale mine following the January dam collapse disaster. Nickel and gold, bucked the trend, ending higher on continued trade tensions and prospects of US interest rate cuts.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Industrials Accumulation Index, were Consumer Staples (+11.6%), Consumer Discretionary (+8.9%) and Health Care (+7.2%). The worst performers were Communication Services (-3.4%), Industrials (+0.6%) and Utilities (+1.6%). As a whole, large cap industrial stocks (+4.2%) outperformed small cap industrial stocks (+3.9%), and value stocks (+1.1%) underperformed growth stocks as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

Outlook

Market sentiment has moved from "synchronised global growth" to one of caution focused on the macroeconomic headwinds facing both the global and domestic economy. Globally, investors are concerned amongst other things by the slowing growth rates in China, geopolitical risks including the impact of trade wars and tightening central bank liquidity. Domestically, the economy and consumer are facing additional headwinds from falling property prices, a significant East Coast drought and ongoing elevated utility costs. These headwinds and potential risks have been very well telegraphed by the investment community and Australian media. The timing and severity of any potential downturn in the economy, if there is in fact one, is difficult to predict. Given that we are looking a little longer term than the next results Perpetual tries to look through cycles when making investment decisions. What is important though is investing in companies with a robust balance sheet, strong market position and a dynamic management team with proper incentives which will put us in good stead.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0767AU
AMP Flexible Super - Retirement account	AMP1368AU
AMP Flexible Super - Super account	AMP1497AU
CustomSuper	AMP0767AU
Flexible Lifetime - Allocated Pension	AMP0634AU
Flexible Lifetime - Term Pension	AMP0943AU
Flexible Lifetime Investment	AMP0853AU
Flexible Lifetime Investment (Series 2)	AMP1431AU
SignatureSuper	AMP0811AU*

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