

# Perpetual Industrial Share

Quarterly Investment Option Update

31 December 2020

## 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/performance](http://amp.com.au/performance)

## 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>               | Value             |
| <b>Manager style</b>                  | Single Manager    |

| Asset Allocation  | Benchmark (%) | Actual (%) |
|-------------------|---------------|------------|
| Australian Shares | 80-100        | 96.70      |
| Global Shares     | 0-10          |            |
| Cash              | 0-10          | 3.30       |

| Sector Allocation             | %    |
|-------------------------------|------|
| Cash                          | 3.3  |
| Consumer Discretionary        | 19.9 |
| Consumer Staples              | 11.7 |
| Energy                        | 0.0  |
| Financials ex Property Trusts | 29.3 |
| Health Care                   | 6.9  |
| Industrials                   | 9.9  |
| Information Technology        | 1.2  |
| Materials                     | 8.2  |
| Real Estate                   | 5.4  |
| Telecommunication Services    | 4.4  |
| Utilities                     | 0.0  |

| Top Holdings                    | %   |
|---------------------------------|-----|
| Commonwealth Bank of Australia  | 8.0 |
| Woolworths Group Ltd            | 7.0 |
| National Australia Bank Limited | 6.4 |
| Flutter Entertainment Plc       | 6.2 |
| ANZ Banking Group Ltd           | 4.8 |
| Incitec Pivot Limited           | 3.8 |
| Suncorp Group Limited           | 3.7 |
| CSL Limited                     | 3.6 |
| Crown Resorts Limited           | 3.4 |
| Qantas Airways Limited          | 3.3 |

## Investment Option Commentary

The Fund outperformed the S&P/ASX 300 Industrial Accumulation Index for the quarter.

The Fund's largest overweight positions include diversified retailer Woolworths, online gaming and betting provider Flutter Entertainment PLC, and commercial explosives and fertilizer manufacturing company Incitec Pivot. The Fund's largest underweight positions include CSL, Wesfarmers, and Macquarie Group (not held).

## Market Commentary

The S&P/ASX 300 Industrials Accumulation Index ended the December-quarter 12.6% higher. Declining national coronavirus trends boosted investor confidence as restrictions were relaxed and state borders into Victoria, NSW, and WA reopened. Consumer confidence was further supported by the release of a stimulus-heavy Federal Budget, consisting of fast-tracked income tax cuts, accelerated infrastructure investment, incentives for first home buyers, business tax incentives, and wage subsidy schemes for companies. Equities were further supported as Economic activity indicators showed signs of improvement with headline CPI recording its largest quarterly increase since 2006, rising 1.6% quarter-on-quarter, and the unemployment rate beginning to reside. The Reserve Bank announced a new \$100b asset purchase program as well as cutting interest rates from 0.25% to a new record low of 0.1%. A rally in global markets in November, following Joe Biden's US Presidential election victory, benefitting the local market despite President Trump refusing to concede defeat, calling for recounts, and Supreme Court intervention. Value stocks and the cyclical sectors performed particularly well, boosted by the announcement of several better-than-expected coronavirus vaccine trial results and an initial rollout of a vaccine across the US in December.

Heightened volatility towards the end of the quarter on the back of rising infections in the US and concerns of a more infectious variant in Europe, an outbreak of infections originating from Sydney's northern beaches resulting in reimposed restrictions and interstate border closures briefly hampered sentiment, though not enough to offset improving market confidence developed earlier in the quarter. Rising tensions with China further contributed to market volatility and adversely impacted commodity producers after trade restrictions were imposed on a variety of Australian exports including barley, wine, and seafood.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Industrials Accumulation Index, were Financials (+22.8%), Information Technology (+22.8%) and Real Estate (+13.7%). The worst performers were Utilities (-5.4%), Health Care (-1.0%) and Industrials (+5.7%). As a whole, large cap industrial stocks (+12.6%) outperformed small cap industrial stocks (+12.2%), and value stocks (+22.9%) outperformed growth stocks as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## Outlook

The global economic recovery from COVID continues, although Perpetual remain wary of relapses that may trigger further economic dislocation, as they are seeing in Europe. The discovery of highly effective vaccines in record time, however, raises hope that sustained economic growth is possible from mid-2021 onward, as markets are beginning to price a significant rotation into stocks. Most value sectors (like banks, energy, resources, and consumer discretionary) will be more sensitive to an upswing in the economy, as such, this investment style is anticipated to outperform after a prolonged period of dominance by growth investing. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

## Availability

| Product Name                               | APIR Code   |
|--|-------------|
| AMP Flexible Super - Super                 | AMP1497AU   |
| AMP Flexible Super - Retirement            | AMP1368AU   |
| CustomSuper                                | AMP0767AU   |
| Flexible Lifetime - Super                  | AMP0767AU   |
| Flexible Lifetime - Allocated Pension      | AMP0634AU   |
| Flexible Lifetime - Term Pension           | AMP0943AU   |
| Flexible Lifetime - Investments (Series 1) | AMP0853AU** |
| Flexible Lifetime - Investments (Series 2) | AMP1431AU** |
| SignatureSuper                             | AMP0811AU*  |

\*Closed to new investors

\*\*Closed to new and existing investors

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)

Email: [askamp@amp.com.au](mailto:askamp@amp.com.au)

Phone: 131 267



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