Perpetual Industrial Share

Quarterly Investment Option Update

31 December 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	94.0
Global Shares	0-10	0.0
Cash	0-10	6.0

Sector Allocation	%
Cash	6.0
Consumer Discretionary	14.5
Consumer Staples	9.6
Energy	1.3
Financials ex Property Trusts	32.8
Health Care	4.3
Industrials	9.2
Information Technology	0.0
Materials	7.2
Real Estate	8.3
Telecommunication Services	6.7
Utilities	0.0

Top Holdings	%
Commonwealth Bank of Australia	10.5
Woolworths Group Ltd	7.4
Suncorp Group Limited	4.4
Tabcorp Holdings Limited	4.4
Unibail Rodamco Westfield	4.2
Medibank Private Ltd	4.1
Westpac Banking Corporation	4.1
Brambles Limited	4.1
Telstra Corporation Limited	4.0
ANZ Banking Group Ltd	3.7

Investment Option Commentary

The Fund's largest overweight positions include diversified retailer Woolworths, commercial real estate company Unibail-Rodamco-Westfield, and wagering and gaming company Tabcorp Holdings. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and Transurban Group (not held).

Market Commentary

The S&P/ASX 300 Industrials Accumulation Index ended 0.3% lower over the December quarter as weaker consumer spending data and rising concerns over future corporate earnings growth adversely impacted sentiment. A 25-basis point cut in the cash rate by the Reserve Bank at its October policy meeting to 0.75%, however, provided some relief for the market while expectations of continued record-low interest rates further supported equities. Minutes from the Reserve Bank's November policy meeting warned that the probability of further cuts was higher-than-expected and indicated that unconventional monetary policy would be an option if rates were to fall below 0.25%. Stronger-than-expected employment figures for November, however, saw the unemployment rate fall to 5.2% and reduced expectations of a February rate cut, with the Reserve Bank indicating that more time was needed to see the effects of previous cuts on consumer spending.

Market volatility heightened during the quarter on see-sawing US-China trade disputes as well as from the Trump Administration threatening to impose tariffs of up to 100% on French goods and on all Brazilian and Argentinian metal imports. The US-China negotiations, however, ended the quarter on a positive as President Trump announced that a trade deal was nearing completion and that the two nations were now working towards signing a 'phase 1 trade deal', leading to improved optimism of stabilisation in global growth.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Industrials Accumulation Index, were Health Care (+13.6%), Materials (+5.5%) and Industrials (+3.7%). The worst performers were Financials (-6.3%), Consumer Staples (-2.5%) and Real Estate (-0.5%). As a whole, large cap industrial stocks (-0.4%) underperformed small cap industrial stocks (+0.9%), and value stocks (-3.0%) 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 Perpetual are looking a little longer term than the next results they try 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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