

# Perpetual Industrial Share

Quarterly Investment Option Update

30 June 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](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>	Value
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	80-100	N/A
Global Shares	0-10	
Cash	0-10	N/A

Sector Allocation	%
Cash	3.7
Consumer Discretionary	19.6
Consumer Staples	11.7
Energy	0.7
Financials ex Property Trusts	26.2
Health Care	7.3
Industrials	11.3
Information Technology	1.3
Materials	7.2
Real Estate	4.1
Telecommunication Services	6.9
Utilities	0.0

Top Holdings	%
Woolworths Group Ltd	7.9
Commonwealth Bank of Australia	7.4
Flutter Entertainment Plc	4.7
CSL Limited	4.6
Suncorp Group Limited	4.2
Brambles Limited	4.2
Crown Resorts Limited	4.2
Telstra Corporation Limited	4.2
National Australia Bank Limited	3.9
ANZ Banking Group Ltd	3.7

## Investment Option Commentary

The Investment Option rose over the quarter but underperformed the S&P/ASX 300 Industrial Accumulation Index.

The Investment Option's largest overweight positions include casino operator Crown Resorts, gaming provider Flutter Entertainment, and diversified retailer Woolworths. The Investment Option's largest underweight positions include CSL, Macquarie Group (not held), and Westpac Bank.

## Market Commentary

The S&P/ASX 300 Industrials Accumulation Index began to recover from its March sell-off, finishing 14.2% higher over the June quarter. Market sentiment improved as coronavirus infection rates were contained for most of the quarter, and social distancing laws began to be wound back under a 3-phased plan to reopen the economy by July. A boost in economic activity led to gains in cyclical stocks while a strong rally in the price of iron ore and crude oil on the back of production cuts, a weakening US dollar, and an improved global economic outlook, assisted the resources sector.

Despite volatility remaining elevated on concerns of a resurgence in infections, and a spike in cases towards the end of June, the market mostly shrugged this off as consumer and business confidence recovered rapidly. The unemployment rate reached a 19-year high of 7.1% (up from 6.9% in May) yet avoided earlier estimates of double-digit unemployment expectations. GDP data confirmed that Australia will experience its first recession since the early 1990s - driven mostly by the decline in household consumption (falling to GFC-lows). The International Monetary Fund, however, reported a forecasted 4.5% contraction in the Australian economy during 2020, suggesting a less-severe downturn than initially feared and an improvement upon the 6.7% decline predicted in April. The rebound in economic activity was seen to be largely assisted by the unprecedented Federal Government and Reserve Bank stimulus measures, a flatter-than-expected coronavirus infection-rate curve, and a sooner-than-expected reopening of the economy.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Industrials Accumulation Index, were Information Technology (+44.4%), Consumer Discretionary (+30.8%) and Materials (+20.7%). The worst performers were Health Care (+2.9%), Consumer Staples (+6.9%) and Utilities (+7.3%). As a whole, large cap industrial stocks (+13.5%) underperformed small cap industrial stocks (+20.8%), and value stocks (+15.7%) outperformed growth stocks as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## Outlook

The extent and duration of the impact that the coronavirus will have on the economy and markets are still unknown. Despite the gradual reopening of the economy, Fund Manager thinks it is too early to be confident that new spikes in infection rates will not impede economic recovery in the months ahead. This has, for obvious reasons, changed the near-term earnings outlook for equities. Many companies have withdrawn their earnings guidance which says a lot about the state of the markets and the current lack of earnings visibility. Perpetual have never seen a crisis quite like this, so it's going to be hard for investors to forecast earnings when companies themselves are unaware where their profits will land. The key debate for the Fund Manager is "does this change the medium to longer-term earnings outlook for the stocks they hold?". The economy should bounce back from the current measures in place, though the rate of this recovery may be slower than what some may expect due to the sharpness of the decline. For this reason, Perpetual continue to focus on high-quality companies with proven management and strong balance sheets that will remain resilient throughout prolonged periods of uncertainty.

## 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*

\*Closed to new investors

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