

Perpetual Industrial Share

Quarterly Investment Option Update

30 September 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:

www.amp.com.au/performance

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	97.0
Global Shares	0-10	
Cash	0-10	3.0

Sector Allocation	%
Cash	3.0
Consumer Discretionary	21.2
Consumer Staples	11.6
Energy	0.5
Financials ex Property Trusts	25.1
Health Care	7.7
Industrials	10.5
Information Technology	1.4
Materials	7.3
Real Estate	5.4
Telecommunication Services	6.3
Utilities	0.0

Top Holdings	%
Woolworths Group Ltd	7.5
Commonwealth Bank of Australia	6.2
Flutter Entertainment Plc	5.6
National Australia Bank Limited	5.4
CSL Limited	4.6
Crown Resorts Limited	4.1
Incitec Pivot Limited	3.8
Telstra Corporation Limited	3.4
Suncorp Group Limited	3.4
ANZ Banking Group Ltd	3.3

Investment Option Commentary

The strategy rose over the quarter, outperforming the S&P/ASX 300 Industrial Accumulation Index. It has returned

The strategy's largest overweight positions include casino operator Crown Resorts, gaming provider Flutter Entertainment PLC, and diversified retailer Woolworths. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and Macquarie Group (not held).

Market Commentary

The Australian equity market ended the September quarter lower as the S&P/ASX 300 Industrials Accumulation Index fell 0.1%. Despite optimism from positive coronavirus vaccine trials and recovering global economic activity early in the quarter, local stocks struggled as the second wave of infections in Victoria saw an extension to its stage 4 lockdowns, resulting in the temporary closure of all non-essential businesses, curfews, and border closures with other states and a decline in consumer confidence as the Victorian Government outlined an overly cautious roadmap for relaxing the restrictions.

The economic impact from the pandemic was further highlighted after the consumer price index dropped a record 1.9% over the June quarter, resulting in an annual inflation rate of -0.3% over FY2020, the first time in 22 years that the economy has experienced deflation. A record contraction in GDP also confirmed the first official recession in almost 30 years, with June-quarter GDP falling 7.0% quarter-on-quarter (vs a consensus decline of 6.0% and a 0.3% decline in the March Quarter). This was cushioned by the Reserve Bank signalling the possibility of further interest rate cuts, as well as the Federal Government announcing an extension to its JobKeeper payments and indicating additional fiscal support in the October budget. By the end of August most companies had reported their full-year FY2020 financial results. Corporate earnings experienced their worst average decline since the 1990s recession, with only 75% of companies reporting a statutory profit and under 69% issuing a final dividend. The market continued to be pressured later in the quarter on concerns of a second wave of infections across Europe, US election uncertainty, and slowing global economic recovery.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Industrials Accumulation Index, were Information Technology (+13.0%), Consumer Discretionary (+10.1%) and Materials (+9.0%). The worst performers were Utilities (-8.2%), Financials (-5.8%), and Consumer Staples (-3.9%). As a whole, large cap industrial stocks (-1.0%) underperformed small cap industrial stocks (+6.9%), and value stocks (-3.5%) underperformed growth stocks as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

Outlook

The recent market rally has been particularly narrow in Australia, with healthcare, tech, and iron ore names at the forefront. The longer that the shutdown in Victoria is in place, the greater the divergence in its impact across specific sectors and stock prices. Once the economy reopens nationally, a big question will be around the strength of the rebound. Many investors have a 'glass half full' perspective, which will be challenging for both the economy and markets.

Finally, the perception that interest rates will remain at their current levels forever will be challenged as the investment manager sees the potential re-emergence of inflation. Although inflation presents an unlikely risk in the shorter-term, given the excess capacity in economies globally, it may present a substantial tail risk. Subsequently, a steepening of the yield curve in response to a potential rise in inflation could see a short sharp market correction. Despite the better-than-expected earnings season, they're still to learn what 'COVID normal' will look like, and how that might impact businesses both large and small. 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
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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