Perpetual Industrial Share

Quarterly Investment Option Update

30 June 2016

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1368AU
Flexible Super – Choice (Super)	AMP1497AU
CustomSuper	AMP0767AU
Flexible Lifetime – Allocated Pension	AMP0634AU
Flexible Lifetime – Investments (Series 1)	AMP0853AU
Flexible Lifetime – Investments (Series 2)	AMP1431AU
Flexible Lifetime – Super	AMP0767AU
Flexible Lifetime – Term Pension	AMP0943AU*
MultiFund Flexible Income Plan	AMP0764AU*
Signature Super	AMP0811AU*

**This option is closed to new investors only.*

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy:

To provide investors with long term capital growth and income through investment in quality Australian industrial shares. The investment manager researches companies of all sizes using consistent share selection criteria. The investment manager's priority is to select those companies that represent the best investment quality and are appropriately priced. In determining investment quality, investments are carefully selected on the basis of 4 key investment criteria: conservative debt levels; sound management; quality business; and recurring earnings. Derivatives may be used in managing the portfolio.

Investment category: Australian equities

Suggested Investment Timeframe: 5+ years

Relative Risk Rating: High

Investment Style: Value

Asset Allocation	Benchmark (%)	Range (%)
Australian Industrial shares	100	90-100
Cash	0	0-10

Holdings

Industry Exposure	%
Cash	8.6
Consumer Discretionary	14.7
Consumer Staples	10.9
Energy	6.2
Financials ex Property Trusts	43.0
Health Care	0.8
Industrials	2.3
Information Technology	0.2
Materials	6.4
Telecommunication Services	4.6
Utilities	1.8
Property Trusts	0.5

Top Ten Securities	%
Commonwealth Bank of Australia	8.5
Woolworths Ltd	7.5
Westpac Banking Corporation	7.0
National Australia Bank Limited	5.9
ANZ Banking Group Ltd.	5.7
Telstra Corporation Limited	4.6
Star Entertainment Group Limited	3.7
QBE Insurance Group Limited	3.7
Suncorp Group Limited	3.5
Caltex Australia Limited	3.1

Market Commentary

The Australian equity market, as measured by the S&P/ASX 300 Industrials Accumulation Index, rose 2.76% over the June quarter. Equities delivered mixed results across the globe, impacted by heightened volatility in currencies and commodity prices. Improving steel demand from China, production cuts from major iron ore producers, and expectations of production cuts from OPEC oil producers led to a sharp rally in both iron ore and oil during April, with iron ore then giving back most of its gains in May. Economic data from China and the US was mostly positive, however rhetoric from the US Federal Reserve was predominantly dovish, pushing out expectations of further rate rises this year. A lack of expected stimulus action by the Bank of Japan saw the Yen rally strongly against most major currencies. The UK's decision to exit the EU caught markets by surprise, with the pound sterling falling to a 30 year low after the result. Equity markets sold off sharply in response, before recovering after central banks signalled they would provide additional monetary stimulus if required.

In Australia, Federal Treasurer Scott Morrison delivered his first budget, forecasting a deficit of $37.1b, around 2.2% of GDP. Weaker than expected core inflation data led the RBA to reduce the cash rate by 25bps to 1.75%. The Australian dollar fell against most major currencies as a result, ending the quarter down 3.2% against the USD at US$0.74.

The best performing industrials sectors over the quarter were health care (+10.3%), property trusts (+9.4%) and utilities (+9.0%). The worst performers were consumer staples (-3.9%), financials ex-property (+0.4%) and information technology (+1.5%). As a whole, large cap industrials (+2.9%) outperformed small cap industrials (+1.6%).

In major company news, Rio Tinto, BHP Billiton and Vale cut future iron ore production, leading to a rally in the price of iron ore, while indebted producer Arrium entered voluntary administration. Telstra announced the sale of its majority stake in Chinese car sale website Autohome for circa $1.8b. Oil Search launched a US$2.2b takeover offer for PNG oil and gas company InterOil. Investa Office Fund rejected a $2.5b takeover bid from Dexus Property Group and laboratory testing group ALS rejected a $2.7b takeover offer from a private equity consortium.

Investment Option Commentary

The Fund declined 0.10% over the quarter, underperforming the S&P/ASX 300 Industrial Accumulation Index by 2.86%. It has returned 9.25% pa since inception, outperforming the index by 0.77% pa.

The Fund's largest overweight positions include diversified retailer Woolworths, casino operator Star Entertainment Group and fuel distributor Caltex. The Fund's largest underweight positions include CSL (not held), Wesfarmers and Scentre Group (not held).

Outlook

Global economic uncertainty is continuing to result in heightened volatility across investment markets, while interest rates around the world are at historic lows. Investors are increasingly favouring stocks that are deemed to offer defensive earnings with the promise of strong dividend yields. Within the Australian market, sectors such as infrastructure and property trusts are now trading at extreme valuations relative to historic multiples. The investment team remains cognisant of that fact that many of these seemingly stable earners operate with significant financial leverage, with market participants failing to adequately assess the risk that accompanies such highly geared balance sheets.

Similarly, in an environment where sustainable growth is becoming relatively scarce, stocks that are delivering strong growth have become increasingly overpriced. Enthusiastic growth projections, based on past achievements during a more favourable economic environment, represent another form of unappreciated risk. The investment team is currently finding investment opportunities away from these areas of the market. Less favoured stocks that are delivering lower or less immediate earnings growth, but have strong balance sheets and high quality assets, are now offering opportunities to earn attractive returns throughout the market cycle.