

Perpetual Industrial Share

Quarterly Investment Option Update

30 September 2018

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	80-100	95.4
Global Shares	0-10	-
Cash	0-10	4.6

Sector Allocation	%
Cash	4.6
Consumer Discretionary	15.5
Consumer Staples	8.9
Energy	2.7
Financials ex Property Trusts	40.0
Health Care	6.0
Industrials	8.0
Information Technology	1.2
Materials	7.8
Real Estate	3.2
Telecommunication Services	1.8
Utilities	0.3

Top Holdings	%
Commonwealth Bank of Australia	9.5
Woolworths Group Ltd	7.5
Westpac Banking Corporation	6.7
ANZ Banking Group Ltd	5.4
Suncorp Group Limited	4.9
Star Entertainment Group Limited	4.5
National Australia Bank Limited	4.5
Tabcorp Holdings Limited	4.4
Shire PLC	3.8
Medibank Private Ltd	3.0

Portfolio Summary

- The investment option underperformed its benchmark over the quarter.
- Twenty-nine percent of reporting companies exceeded their earnings expectations while about twenty-eight percent came in below guidance.
- The Australian share market remains challenging for investors; with only modest revenue growth forecasts and cost-out opportunities becoming exhausted. Perpetual remains cautious.

Investment Option Commentary

The Fund underperformed the S&P/ASX 300 Industrial Accumulation Index over the quarter. The Fund's largest overweight positions include diversified retailer Woolworths, casino operator Star Entertainment Group, and biopharmaceutical company Shire Plc. The Fund's largest underweight positions include CSL, Wesfarmers (not held) and Macquarie Group (not held).

Market Commentary

The Australian equity market finished higher over the September quarter with the S&P/ASX 300 Industrials Accumulation Index gaining 1.7%. Full-year corporate earnings were reported at the beginning of the quarter as internationally-focused stocks stood out on the back of strengthening global economic conditions. Twenty-nine percent of reporting companies exceeded their earnings expectations while about twenty-eight percent came in below guidance. Malcolm Turnbull's loss of party support led to heightened risk sentiment although this was short lived as a leadership spill saw Scott Morrison being appointed Australia's 30th Prime Minister. Continued dry weather conditions and a broader realisation of the severity of the drought on the east coast further constrained agricultural stocks. Aged care related stocks also created a drag on the market as scrutiny for tighter regulations saw the announcement of a royal commission into the industry.

The release of the Hayne Banking Royal Commission's interim report on hearings into industry lending practices, financial advice, superannuation, and insurance highlighted "a culture of pursuing profit and financial interest at the expense of customer interest." Many of the banks raised their lending rates independently of the official cash rate, citing wholesale funding cost pressures. Meanwhile, the Reserve Bank of Australia kept the official cash rate on hold at its record low of 1.5%, maintaining a neutral stance on monetary policy with no change to forward guidance and remaining upbeat with respect to global and domestic economic conditions. Second-quarter GDP climbed 0.9%, and by 3.4% year-on-year, demonstrating the highest year-on-year growth since the third quarter of 2012. The greatest contributors to growth came from household consumption, government spending and net exports.

The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Telecommunication Services (+25.2%), Information Technology (+9.7%) and Health Care (+4.6%). The worst performers were Utilities (-3.9%), Materials (-3.0%) and Consumer Staples (-1.0%). Large cap industrial stocks (+1.5%) underperformed small cap industrial stocks (+3.4%) and value stock (+1.4%) outperformed growth stocks as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively

Outlook

A period of historically low interest rates across the globe has led to a repricing of risk and a subsequent inflation of asset values across many markets. With trillions of dollars of bonds now trading at low yields, future shifts in official interest rates have the potential to heavily impact asset valuations which have left market participants to remain focused on central bank policy. In addition, ongoing shifts in the global political landscape continue to nourish uncertainty across markets and deliver periods of heightened volatility. The Australian share market remains challenging for investors; with only modest revenue growth forecasts and cost-out opportunities becoming exhausted. Perpetual remain cautious – particularly given where valuations are currently at relative to history. However, there are always opportunities to own high-quality companies trading below fair value; Perpetual continue to actively and prudently seek these out.

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 members

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