

# Perpetual Industrial Share

Quarterly Investment Option Update

31 December 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](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

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	80-100	96.4
Global Shares	0-10	-
Cash	0-10	3.6

Sector Allocation	%
Cash	3.6
Consumer Discretionary	13.4
Consumer Staples	10.2
Energy	3.2
Financials ex Property Trusts	39.5
Health Care	3.9
Industrials	8.0
Information Technology	0.0
Materials	7.6
Real Estate	4.0
Telecommunication Services	6.4
Utilities	0.0

Top Holdings	%
Commonwealth Bank of Australia	11.2
Woolworths Group Ltd	8.3
Westpac Banking Corporation	6.6
Suncorp Group Limited	5.3
ANZ Banking Group Ltd	5.0
Star Entertainment Group Limited	4.5
Tabcorp Holdings Limited	4.3
National Australia Bank Limited	4.2
Medibank Private Ltd	3.7
Incitec Pivot Limited	2.7

## Investment Option Commentary

The Fund's largest overweight positions include diversified retailer Woolworths, casino operator Star Entertainment Group, and banking and insurance provider Suncorp Group. The Fund's largest underweight positions include CSL, Wesfarmers (not held) and Macquarie Group (not held).

## Market Commentary

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 8.4% over the December quarter. The sell-off was in line with a broader decline across global markets as increasing interest rates and apprehension of a slowdown in economic growth took its toll on equities. Uncertainty of a Brexit deal, and ongoing US-China trade tensions further quelled market sentiment. Discretionary retail sales figures were stagnant and related stocks lost ground due to anticipation that Christmas sales will fail to meet expectations. Resource stocks were mixed over the quarter, energy stocks lost ground as oil prices slumped on concerns of reduced demand from a slowdown in global economic growth and from increased OPEC supply. This saw crude oil fall 40.6% from its peak reached in October. Base metals weakened as the London Metals Exchange index fell 6.5%, however iron ore gained 5.1% on rising Chinese steel prices. Gold miners witnessed a strong quarter as gold rallied 7.5% on the back of risk-off selling across equity markets.

In economic news, the latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%, however the most recent employment figures showed a slight softening to a 5.1% unemployment rate. The Commonwealth Treasury's Mid-Year Economic and Fiscal Outlook provided an improved 2019/20 budget surplus forecast from A\$2.2b to A\$4.1b, along with net debt expected to decline from 18.2% as a percentage of GDP in 2018/19 to 1.5% in 2028/29. The best performing sectors for the quarter, as measured by the S&P/ASX 300 Accumulation Index, were Utilities (-3.1%), Materials (-5.1%) and Real Estate (-5.3%). The worst performers were Energy (-21.6%), Communication Services (-14.9%) and Information Technology (-14.1%). As a whole, industrial stocks (-8.4%) outperformed resource stocks (-8.5%) and large cap stock (-6.8%) outperformed small cap stocks (-13.7%). Value stocks (-11.1%) outperformed growth stocks (-13.4%) 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 will 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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