



Perpetual Property Securities Fund

December 2011

Fund facts

Investment objective: Aims to provide long-term capital growth and income by investing in listed property related securities.

Benchmark: S&P/ASX 300 A-REIT Accumulation Index[^]

Mgmt cost: 1.80%

Buy / Sell spread: 0.30% / 0.00%

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Five years or longer

Fund benefits

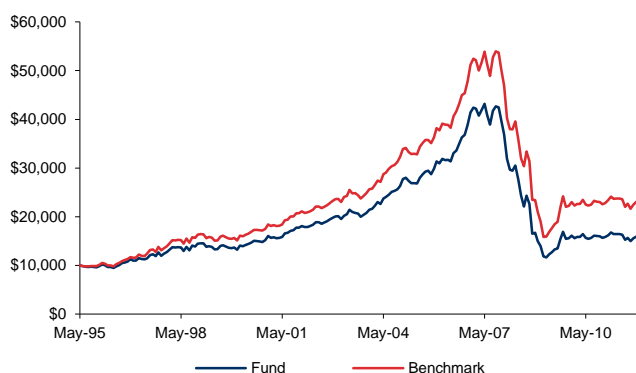
Offers investors actively managed and highly liquid access to the potential long-term growth in property markets, without having to hold and manage physical property assets. Also helps investors to diversify property exposure away from purely residential to commercial, retail, industrial and leisure property.

Total returns % (after fees) as at 31 December 2011

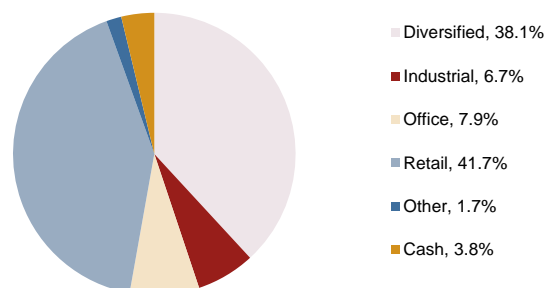
	APIR	1 mth	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	7 yrs pa	10 yrs pa
Perp. WealthFocus Investments	PER0240AU	-2.2	4.0	-4.7	-1.9	1.2	-17.8	-7.9	-
Perp. WealthFocus Investment Advantage	PER0037AU	-2.3	3.8	-4.7	-1.9	1.2	-17.8	-7.9	-1.5
Perp. WealthFocus Super	PER0026AU	-2.1	3.5	-4.5	-2.3	0.8	-16.2	-6.9	-1.0
Perp. WealthFocus Pensions	PER0007AU	-2.2	3.9	-4.8	-2.1	1.2	-17.6	-7.7	-1.3
Perp. WealthFocus Term Allocated Pension	PER0345AU	-2.2	3.9	-4.8	-2.1	1.2	-17.6	-7.7	-1.3
S&P/ASX 300 A-REIT Accumulation Index [^]		-2.6	3.8	-4.6	-1.6	2.3	-15.2	-5.7	0.6

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

Growth of \$10,000 since inception (WFI Fund)



Portfolio sectors¹



Top 10 stock holdings¹

Westfield Group
Stockland
Westfield Retail Trust
Mirvac Group
GPT Group
Dexus Property Group
CFS Retail Property Trust
Charter Hall Office REIT
Goodman Group
Charter Hall Retail REIT

Portfolio fundamentals¹

	Portfolio	Benchmark
Price / Earnings	11.7	11.9
Dividend yield	6.7%	6.6%
Price / Book	0.9	0.9
Debt / Equity	41.6%	43.0%
Interest cover	5.3	5.2
Return on Equity	7.4%	7.3%

¹Source: Factset

Market commentary

The listed property sector, as measured by the S&P/ASX 300 Property Accumulation Index fell 2.6% over the month, underperforming the broader equities market which fell 1.4%. Australian REITs did however outperform the local equity market over the calendar year by 9.4%, the first time it has done so since 2006.

The commercial office sector (+3.3%) proved to be the strongest performer for the month, with retail property (-3.7%) providing the weakest returns. This pattern almost mirrors year end results with the commercial office sector (+22.2%) providing stellar annual returns in stark contrast to the retail sector (-7.0%). However, excluding Westfield Group (-13.2%), both the retail sector and the broader property market would still have provided investors with positive absolute returns over the calendar year.

Portfolio commentary

The Fund's largest overweight positions included BWP Trust, Charter Hall Retail REIT and Charter Hall Office REIT. The portfolio's largest underweight positions include Westfield Group Australia, Goodman Group and Commonwealth Property Office Fund.

Our overweight position to the Charter Hall Office REIT (+5.5%) was the largest contributor to December relative performance. It was also one of the best performing REITs of 2011, posting a 31.0% return for the year. Charter Hall Office REIT is a listed real estate investment trust focused on investing in high grade office buildings predominantly located in major business districts across Australia and the United States. The trust outperformed over December after the announcement that a conditional deal had been struck for the sale of the trust's Australian property portfolio. The internationally led consortium revised its initial bid upwards to \$2.49 per unit which represents an estimated discount to NTA of 5.3% (allowing for distributions potentially unpaid post 31 Dec 2011).

Our underweight position to the Commonwealth Property Office Fund (+2.5%) was a detractor from this month's performance. Commonwealth Property Office represents the only pure domestic office vehicle in the market place. It offers a solid occupancy rate and weighted average lease expiry. Following the recent sale of two large fund assets, the trust's overall gearing level is expected to fall to a very low 14.5%. Given these quality characteristics it is no surprise that the trust currently trades at what we consider to be premium market pricing. Until such time as the price/value equation tips in the investor's favour we will continue to maintain our underweight positioning.

Outlook

The listed property sector has largely completed the long rebuilding phase that was necessitated by the severity of the global financial crisis. Recent years have seen management teams raise capital and dispose of underperforming assets in order to restore balance sheet strength. A renewed focus on traditional rent collection activities has also occurred at the expense of riskier and more volatile development and fund management revenue streams. From a market fundamentals perspective we enter 2012 with the sector trading at an 11.6% discount to stated Net Tangible Assets (ex Westfield), REIT sector gearing around 28.3% and a REIT Earnings per Unit (EPU) yield of 8.5%. Its noteworthy that both gearing and EPU at these levels has not been seen since the early 2000's, with the gap between REIT EPU and the domestic 10 year bond yield at levels surpassed only by those witnessed during the height of the global financial crisis.

Despite these strengths the sector is not immune from broader macroeconomic issues. Residential property market indicators remain choppy and weakness in consumer spending is likely to continue weighing on retail trusts. Additionally, evidence of a structural shift to on-line retailing as opposed to a mere cyclical downturn in domestic retail sales may place further pressure on traditional bricks and mortar landlords. However, we believe that these factors provide a solid platform for longer term performance and our insistence on holding quality trusts at attractive valuations while avoiding more speculative vehicles will help to ensure that REIT investors are better placed to weather prevailing economic and structural headwinds.

What are...?

Property securities funds invest in listed property trusts that are managed by specialists. These trusts own different types of property such as industrial (eg. factories), commercial (eg. office buildings), retail (eg. shopping centres), leisure (eg. hotels and resorts) and residential. They offer liquidity, diversification and expert management that you cannot get with direct investment in residential property.

Why Perpetual

Perpetual is one of Australia's most experienced investment services groups, with an enduring passion for protecting and growing our clients' wealth.

Founded in Sydney in 1886 as Perpetual Trustees, we've helped generations of Australians invest and manage their wealth through all market conditions.

Perpetual process

Perpetual's investment philosophy is a fundamental, conservative bottom-up approach to stock picking and active management, focusing on identifying quality companies that represent good value.

The process is based on comprehensive internal company research using four filters - sound management, conservative debt, quality of business and recurring earnings. Portfolios are constructed by experienced portfolio managers within a pre-determined risk framework.

Did you know?

The Fund's largest overweight is BWP Trust. The BWP Trust is a listed managed investment scheme which invests in premium commercial real estate across Australia. The majority of its properties are Bunnings Warehouse properties tenanted by Bunnings Group Limited, a wholly owned subsidiary of Wesfarmers Limited.

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^ Benchmark prior to 1/4/2000 was the ASX Property Trust Accumulation Index. From 1/4/2000 to 30/6/2002 it was the S&P/ASX 200 Property Accumulation Index. From 1/7/2002 to present it is the S&P/ASX 300 Property Trusts Accumulation Index.

¹ Fund information in this document is relevant to the Wholesale option unless stated.



Further information

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