

Perpetual Wholesale Ethical SRI Fund (PWSRF) \* WealthFocus Investments Perpetual Ethical SRI Fund (PIISRF) \* WealthFocus Super Plan Perpetual Ethical SRI Investment Option (PISSRF) \* WealthFocus Pension Plan Perpetual Ethical SRI Investment Option (PIPSRF) \* WealthFocus Investment Advantage Perpetual Ethical SRI Investment Option (PICSRF)

## Total returns % (After Fees) as at 31 January 2010

	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Ethical SRI Fund	-3.56	-2.14	26.51	74.09	0.17	-0.57	9.44	13.88
WF Investments - Perpetual's Ethical SRI Fund	-3.65	-2.45	25.74	72.15	-0.92	-1.66	8.24	-
WF Super Plan - Perpetual's Ethical SRI Inv. Option	-2.80	-1.77	22.52	61.30	0.89	-0.10	8.83	-
WF Pension Plan - Perpetual's Ethical Inv. Option	-3.01	-1.83	25.48	72.67	0.97	0.03	9.74	-
WF Investment Advantage Perpetual's Ethical SRI Inv. Option	-3.67	-2.43	25.76	72.27	-	-	-	-
Benchmark - S&P/ASX 300 Accumulation Index	-6.17	-0.95	9.92	35.67	-5.88	-3.47	6.62	11.10

### Market Commentary

The Australian market, as measured by the S&P/ASX 300 Accumulation Index fell by 6.2% for the month ending January 2010.

The market moved lower on rising risk aversion due to a number of factors including strong Chinese economic data and a proposal by President Obama to reduce risk-taking activities within the US banking system. The strong Chinese economic data triggered concerns that Chinese authorities would be forced to implement policy tightening sooner rather than later and President Obama proposed that US banks reduce their risk taking activities by sticking with their "core missions" as opposed to owning or sponsoring hedge funds/private equity funds. Mr Obama also proposed to prevent further consolidation in the financial system that would result in the existence of only a few large firms. Additionally, the worsening fiscal situation in Greece prompted concerns over a possible default and/or bailout by the European Union.

Domestically, economic data during January remained positive with strong data released on building approvals, retail sales and unemployment. Inflation also surprised on the upside, increasing pressure on the Government to reduce spending and the Reserve Bank of Australia to continue tightening monetary policy. During the month the Australian dollar reached a high of 93.2 cents against the US dollar before closing at 89.0 cents at the end of the month.

The dominant theme for January was the underperformance of resource stocks which were heavily impacted by weakened commodity prices. All sectors returned negative over the month with information technology (-1.1%), property trusts (-2.9%) and telecommunications (-3.1%) outperforming and energy (-9.8%), materials (-9.0%) and consumer staples (8.4%) underperforming.

### Portfolio

The Wholesale Ethical SRI Fund outperformed its benchmark, the S&P/ASX 300 Accumulation Index for the month ending 31 January 2010, as the value bias and less risky nature of the companies we invest in contributed positively to relative return. The portfolios generally do not have exposure to smaller material or energy stocks, due to insufficient proof of historic earnings or high levels of debt. This contributed to relative return this month. In terms of positioning, in the current economic climate we are finding value in companies with strong operating cash flows and comfortable interest cover, such as TPG Telecom, NIB Holdings, Westpac Banking Corporation and Breville Group.

### Contributors

Our overweight position to telecommunications company, TPG Telecom (+2.7%), formerly SP Telemedia, contributed to relative performance. TPG has been one of the fund's top performing securities over several months. The company generates around 80% of its profitability as a low cost broadband telecommunications provider; however, it also resells Optus mobile voice and data products. It has a profitability margin, using EBITDA (earnings before interest and taxes, depreciation and amortisation), of about 30%, making it the second most profitable telecommunications company by this measure and putting it well ahead of its closest peer, iiNET. Financial year 2010 guidance for EBITDA is between \$140 and \$150 million with net profit after tax expected between \$52 to \$57 million.

Not holding diversified resources group BHP Billiton (-8.6%) contributed to relative performance. BHP agreed to pay US\$320 million to acquire a junior Canadian potash company, Athabasca Potash for C\$8.35 per share, a 25% premium to its closing price in late January. BHP also provided its exploration and development report for the quarter ended 31 December 2009, stating that the Western Australia Iron Ore Rapid Growth Project achieved first production ahead of schedule and within budget and that all other projects were on track. The company spent US\$239 million on minerals exploration for the half-year ended 31 December 2009 of which US\$220 million was expensed. BHP is screened out of the ethical investment universe due to its uranium operations and also that it is an extractive company.

### Detractors

Not holding shopping centre giant Westfield Group (+0.8%) detracted from relative performance over the month as macroeconomic news supported the retail property sector, and Westfield in particular, with stronger than expected employment numbers and retail sales figures. In addition, the expectation of increasing development opportunities in Australia and the improved sentiment in US dollar denominated assets helped the company outperform. We do not hold this stock due to its high price, considering its near term earnings outlook.

Not holding investment banking company Macquarie Group (+3.6%) detracted from relative performance. During the month Macquarie Group completed its acquisition of Delaware Management Holdings and its subsidiaries from Lincoln Financial Group for \$451.8 million in cash, subject to customary post-closing adjustments. In connection with the sale agreement, Delaware Investments will continue to manage Lincoln Financial general account insurance assets under a long-term contract, and will provide additional sub-advisory services. Additionally, Macquarie Group launched its Macquarie Mexican Infrastructure Fund (MMIF), with approximately US\$408 million in initial commitments from Mexican pension funds, Mexico's National Infrastructure Fund and Macquarie.

### Outlook

In the last couple of months there has been an increased focus on stock specific themes rather than the large macro trades which dominated performance over the previous two years. The market rise in 2009 priced in some unsustainable earnings growth, and as a result any profit warning or negative surprise is being treated much more harshly than any positive upgrade. The February 2010 reporting season will bring further clarity around how company revenue and earnings are holding up in the current economic conditions. We expect the higher quality companies that have scale, strong brand and pricing power, elevated operating cash levels and earn a superior return on equity are currently attractively valued due to their consistent earnings outlook in the potentially tepid conditions ahead.



\*Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries.