



## Perpetual Industrial Share Fund

April 2012

### Fund facts

**Investment objective:** Aims to provide long-term capital growth and regular income through investment in quality Australian industrial shares.

**Benchmark:** S&P/ASX 300 Industrials Accumulation Index<sup>^</sup>

**Mgmt cost:** 31/12/1976

**Buy / Sell spread:** 0.15% / 0.00%

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

**Suggested minimum investment period:** Five years or longer

### Fund benefits

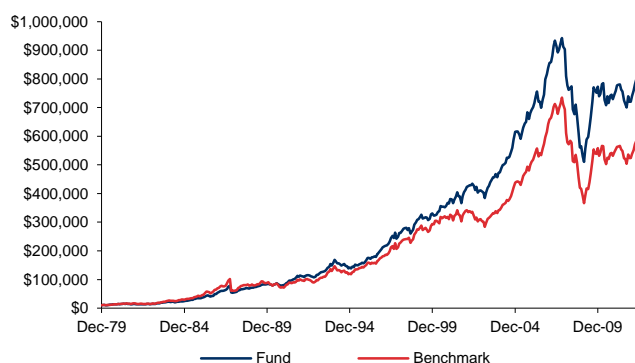
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

### Total returns % (after fees) as at 30 April 2012

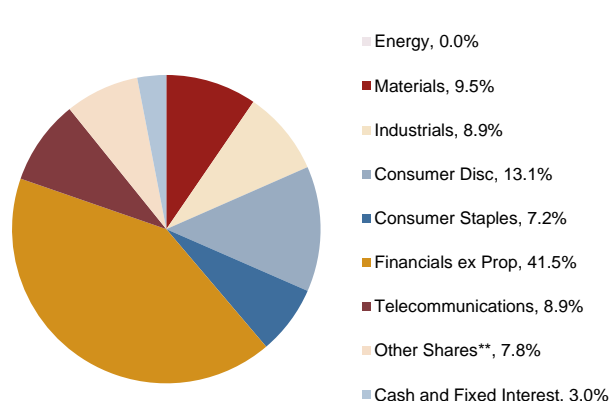
	APIR	1 mth	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	7 yrs pa	10 yrs pa
Perp. WealthFocus Investments	PER0011AU	2.2	7.7	7.9	2.1	10.7	-2.7	4.4	6.4
Perp. WealthFocus Investment Advantage	PER0028AU	2.2	7.6	7.8	2.1	10.7	-2.8	4.3	6.3
Perp. WealthFocus Super	PER0023AU	2.5	7.4	8.0	3.7	11.5	-0.9	5.6	7.3
Perp. WealthFocus Pensions	PER0010AU	2.8	8.1	9.0	4.2	12.2	-0.8	6.2	8.3
Perp. WealthFocus Term Allocated Pension	PER0342AU	2.8	8.1	9.0	4.2	12.2	-0.8	6.2	8.3
S&P/ASX 300 Industrial Accumulation Index <sup>^</sup>		2.0	8.2	8.8	2.9	11.7	-3.7	4.4	5.7

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 sectors<sup>1</sup>



### Top 10 stock holdings<sup>1</sup>

Commonwealth Bank of Australia
Telstra Corporation Limited
Westpac Banking Corporation
ANZ Banking Group Limited
Wesfarmers Limited
National Australia Bank Limited
Orica Limited
Crown Limited
News Corporation
Washington H Soul Pattinson & Company Limited

### Portfolio fundamentals<sup>1</sup>

	Portfolio	Benchmark
Price / Earnings	12.6	12.1
Dividend yield	5.5%	6.0%
Price / Book	1.6	1.6
Debt / Equity	28.7%	47.3%
Interest cover	8.9	6.5
Return on Equity	12.7%	12.7%

<sup>1</sup>Source: Factset

## Market commentary

The Australian market, as measured by the S&P/ASX 300 Industrials Accumulation Index rose by 2.0% for the month, outperforming the broader market. After a strong March quarter, mixed economic news flow saw markets suffer a mild decline in early April before rallying in to month end. Australian stocks outperformed their developed market counterparts, with the S&P 500 (-0.7%), the Euro Stoxx (-6.9%) and the Nikkei 225 (-5.6%) all ending the period in negative territory in local currency terms.

The best performing industrial sectors over April were defensives: telecommunications (+7.2%), property trusts (+5.4%) and financials ex-property (+2.4%). The worst performing sectors were information technology (-3.5%), industrials (-1.0%) and materials (-0.9%). As a group, large industrials (+2.1%) outperformed small industrials (+0.0%).

In economic news, the Reserve Bank of Australia left its targeted cash rate unchanged at 4.25%. Economic data releases were mixed. Quarterly inflation surprised to the downside, with heading inflation of 0.1% over the period, whilst unemployment data was stronger than expected, with the economy adding an estimated 44,000 jobs in March. The Australian dollar rose just under 1% against the US dollar, ending the month at \$1.04.

## Portfolio commentary

The Fund's largest overweight positions include casino operator Crown, investment company Washington H. Soul Pattinson, and telecommunications giant Telstra. The Fund's largest underweight positions include Woolworths, Westfield Group (not held) and National Australia Bank.

Our overweight position to telecommunications giant Telstra (+7.6%) contributed to relative performance. During April, Telstra held an investor update to discuss its capital management strategy following the conclusion of National Broadband Network (NBN) negotiations. The company anticipates the deal will generate excess free cash flow of between \$2 billion to \$3 billion over the coming three years. In keeping with its three key priorities, namely maximising returns to shareholders, maintaining financial strength and retaining financial flexibility, Telstra expects to return this excess capital by increasing fully franked dividends from the 2014 financial year onwards.

Our overweight position to explosives manufacturer Orica (-3.9%) detracted from relative performance. Orica's share price declined over April, underperforming the broader market despite no material news flow in advance of the company's upcoming results. Following a series of issues in late 2011, Orica has recently restarted ammonia production at Kooragang Island. Plant closures are estimated to have impacted earnings before interest and taxes by around \$90 million this financial year. However, given strong underlying demand conditions, Orica expects its Group net profit after tax to be higher than that reported for 2011 subject to global economic conditions. We like Orica as it has a strong balance sheet and is a market leader in mining explosives and chemicals.

## Outlook

Recent data has pointed to slowing activity in the domestic economy. Additionally, equity markets globally remain hampered by significant political and economic uncertainty. Despite these concerns, we believe many Australian companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive on a relative basis, and particularly in light of the recent interest rate cut by the Reserve Bank of Australia. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand periods of economic weakness. We continue to research and invest in companies with sound management, conservative debt and recurring earnings which we believe are well placed to add value over the medium to long-term.

## What are...?

Industrial shares are companies that are engaged in the production or sale of goods or services, as distinct from resource or mining stocks. Industrial shares make up approximately two thirds of the Australian sharemarket by market capitalisation.

## 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?

One of the Fund's strongest performing stocks over the month was the gaming and entertainment group Crown Limited. The Crown Entertainment Complex in Melbourne occupies space of 510,000m<sup>2</sup> which is equivalent to two city blocks, making it the largest casino complex in the southern hemisphere and one of the largest in the world.

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\*\* Other Shares may include Healthcare, Property Trusts, Information Technology, Utilities and GICS unspecified/international stocks.

^ Benchmark prior to 1/4/2000 was the ASX All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

<sup>1</sup> Fund information in this document is relevant to the Wholesale option unless stated.



## Further information

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