



## Perpetual Property Securities Fund

April 2012

### 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<sup>^</sup>

**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

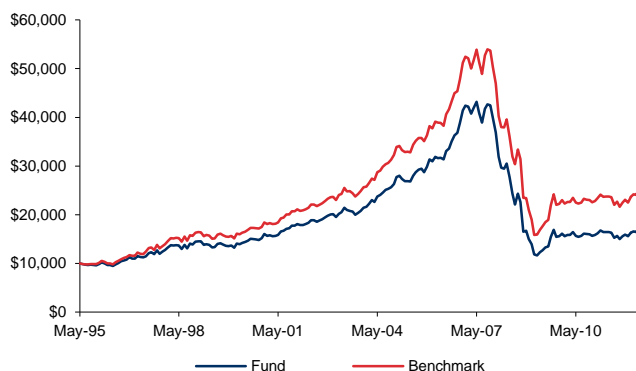
Offers investors actively managed and highly liquid access to the potential long-term growth in property markets, without having to hold and manage physical property assets. Also helps investors to diversify property exposure away from purely residential to commercial, retail, industrial and leisure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

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

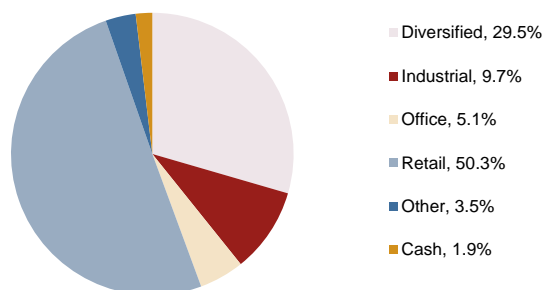
|  | APIR      | 1 mth | 3 mths | 6 mths | 1 yr | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|--|-----------|-------|--------|--------|------|----------|----------|----------|-----------|
| Perp. WealthFocus Investments                      | PER0240AU | 5.4   | 6.5    | 11.6   | 5.8  | 12.5     | -16.2    | -6.1     | -         |
| Perp. WealthFocus Investment Advantage             | PER0037AU | 5.7   | 6.5    | 11.6   | 5.8  | 12.3     | -16.2    | -6.1     | -0.5      |
| Perp. WealthFocus Super                            | PER0026AU | 4.7   | 5.5    | 10.0   | 4.6  | 10.1     | -14.7    | -5.3     | -0.2      |
| Perp. WealthFocus Pensions                         | PER0007AU | 5.6   | 6.4    | 11.6   | 5.7  | 12.1     | -16.0    | -5.9     | -0.4      |
| Perp. WealthFocus Term Allocated Pension           | PER0345AU | 5.6   | 6.4    | 11.6   | 5.7  | 12.1     | -16.0    | -5.9     | -0.4      |
| S&P/ASX 300 A-REIT Accumulation Index <sup>^</sup> |           | 5.4   | 7.2    | 13.0   | 6.9  | 14.5     | -13.3    | -3.6     | 1.7       |

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>

|                           |
|---------------------------|
| Westfield Group           |
| Westfield Retail Trust    |
| Stockland                 |
| Goodman Group             |
| GPT Group                 |
| CFS Retail Property Trust |
| Mirvac Group              |
| Dexus Property Group      |
| Charter Hall Group        |
| Investa Office Fund       |

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

|                  | Portfolio | Benchmark |
|------------------|-----------|-----------|
| Price / Earnings | 12.7      | 12.6      |
| Dividend yield   | 6.3%      | 6.3%      |
| Price / Book     | 0.9       | 0.9       |
| Debt / Equity    | 40.0%     | 42.4%     |
| Interest cover   | 5.1       | 4.8       |
| Return on Equity | 7.3%      | 7.3%      |

<sup>1</sup>Source: Factset

## Market commentary

The listed property sector, as measured by the S&P/ASX 300 Property Accumulation Index rose 5.4% over the month, outperforming the broader equity market. General US economic indicators were mixed over the month and leading European economic indicators suggested further deterioration in the region's economic fundamentals. Local economic data was also mixed, with lower than anticipated inflation numbers released during the month supporting a dovish outlook for interest rates. With economic data once again highlighting the potential for slowing growth prospects coupled with market expectations for a decline in the local cash rate, defensive, yield focused sectors outperformed.

Diversified property (+6.6%) was the best performing subsector over the month, driven by strong returns from the Charter Hall (+13.5%) and Mirvac (+10.7%) property groups. All subsectors provided positive absolute returns over the month with the diversified sector followed by the retail (+5.3%) and commercial (+4.6%) sectors. Industrial property (+4.3%) which now consists of just Goodman Group, lagged the overall market and was the weakest performer this month.

## Portfolio commentary

The Fund's largest overweight positions included Charter Hall Group, Charter Hall Retail REIT and Wharf Holdings Ltd. The portfolio's largest underweight positions include Dexis Property Group, Stockland Australia and GPT Group.

Our overweight position to Charter Hall Group (+13.5%) contributed to this month's relative portfolio performance. The Charter Hall Office REIT (CQO) consortium transaction was completed on the 30th of the month with CQO officially delisted on the 1st of May. Earlier in the month Charter Hall management confirmed that they had entered into a management rights agreement with the consortium in relation to the CQO Office assets. Management also confirmed that the CQO transaction is not expected to materially impact on Charter Hall Group's previously stated earnings guidance.

The finalisation of this transaction caps off a somewhat distracting year for the group's management which also included a review of two major REIT fee structures and an external challenge for the CQO management rights. Putting these issues to rest has given way to market expectations that management is now free to focus on the core activities of what is a solid business with quality assets. This has led to a significant re rating of the stock price, particularly over the past 6 months. Despite recent price appreciation we continue to see the stock as offering good relative value.

Our overweight position to Hui Xian REIT (-2.2%) detracted from relative performance. Hui Xian is the first renminbi-denominated REIT listed in Hong Kong. It operates a diversified property portfolio including retail, office and serviced apartment assets. These assets include the Beijing Oriental Plaza, one of the largest and most iconic commercial properties in Beijing and the Sheraton Shenyang Lido Hotel, which is among the largest five star hotels in north-eastern China. Aside from a top quality global asset portfolio the entity maintains an extremely strong balance sheet, with net debt to equity of less than 1%, 55x interest cover. The current market valuation suggests good long term value.

## 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 the sector trades at a 9.7% discount to adjusted Net Tangible Assets (ex Westfield), REIT sector gearing remains low and the 12 month forecast A-REIT dividend yield sits at around 6.3%.

Despite these strengths the sector is not immune from broader macroeconomic issues. Residential property market indicators remain choppy and 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. 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?

One of the Fund's strongest performing stocks over the month was Ardent Leisure Group. It is the owner and operator of premium leisure assets including the Dreamworld, WhiteWater World and SkyPoint theme parks and attractions, AMF and Kingpin Bowling, d'Albora Marinas, Goodlife Health Clubs, as well as Main Event, a growing portfolio of family entertainment assets in the US.

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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.

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



## Further information

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