

# Investment performance, quarterly market and portfolio commentary

As at 31 March 2010

## Australian shares

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale Industrial Share Fund (inception Dec 1996)	1.5	1.9	41.9	2.2	-3.0	6.2	11.0	10.2	11.3
S&P/ASX 300 Industrials Accumulation Index	1.3	2.3	43.9	-0.5	-5.9	5.2	9.6	6.4	9.1
Wholesale Australian Share Fund (inception Feb 1997)	3.1	6.3	45.0	3.3	0.1	8.8	13.9	12.5	12.2
S&P/ASX 300 Accumulation Index	1.3	4.7	41.9	-0.2	-2.6	8.0	12.5	8.9	9.6
Wholesale Smaller Companies Fund (inception Oct 1996)	-0.1	4.3	59.3	-1.1	-4.0	6.5	13.5	14.1	13.6
S&P/ASX Small Ordinaries Accumulation Index	-1.6	3.2	58.1	-7.4	-7.5	5.8	12.8	6.6	6.7
Wholesale Concentrated Equity Fund (inception Aug 1999)	3.4	7.1	44.7	5.9	2.5	10.1	14.4	13.2	13.2
S&P/ASX 300 Accumulation Index	1.3	4.7	41.9	-0.2	-2.6	8.0	12.5	8.9	9.0
Wholesale Geared Australian Fund (inception Mar 2003)	4.5	10.1	109.7	-10.3	-15.1	4.9	16.1	-	16.7
S&P/ASX 300 Accumulation Index	1.3	4.7	41.9	-0.2	-2.6	8.0	12.5	-	12.5
Wholesale Ethical SRI Fund (inception Apr 2002)	5.5	9.9	73.5	8.3	0.7	11.6	15.3	-	12.3
S&P/ASX 300 Accumulation Index	1.3	4.7	41.9	-0.2	-2.6	8.0	12.5	-	9.3
Wholesale SHARE-PLUS Long Short Fund (inception Mar 2003)	3.4	5.7	39.2	1.9	0.5	8.3	13.1	-	13.5
S&P/ASX 300 Accumulation Index	1.3	4.7	41.9	-0.2	-2.6	8.0	12.5	-	13.2

Source: Perpetual and Datastream. Returns are for Perpetual's wholesale funds after fees and before taxes. Past performance is not indicative of future performance.

### Market

- The S&P/ASX 300 Accumulation Index rose 1.3% over the March quarter, as investors focused on the recent reporting season. A large number of companies exceeded analysts' expectations in terms of profits and guidance for the coming financial year.
- The main observation taken from the reporting season is that the larger, higher quality companies are in a much better position than a number of their lower quality peers. The return to consistent earnings growth will be easier for these higher quality companies.
- The market was lead by strong performance in the information technology (+6.3%), healthcare (+4.4%) and financial (+3.2%) sectors. Meanwhile, traditional income sectors such as property trusts (-1.6%) and telecommunications (-8.9%) lagged the broader market due to suggestions of rising interest rates by the Reserve Bank of Australia (RBA).

### Portfolio

- The recent rally in the Australian sharemarket has started to stretch valuations, with the spate of corporate takeovers lifting investor sentiment in the resources and energy sectors.
- Our funds still appear to be cheaper than the broader market based on FY10 and FY11 estimates and as a result, we believe that we will continue to do well holding stocks with strong and stable earnings.

## International shares

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale International Share Fund (inception Mar 2005)	0.9	3.5	11.0	-5.3	-8.2	-1.2	-	-	-1.0
MSCI World (ex Aus) Accumulation Index \$A	1.1	3.2	14.5	-7.0	-9.6	-0.8	-	-	-0.6
Wholesale Global Resources Fund (inception Nov 2006)	-0.3	9.3	40.1	0.4	11.3	-	-	-	13.8
Blended MSCI All Resources Index & S&P/ASX 200 Resources Index	0.4	11.6	34.7	-2.5	5.5	-	-	-	8.6

Source: Perpetual and DataStream. Returns are for Perpetual's wholesale funds after fees and before taxes. Past performance is not indicative of future performance. PI Investment Management commenced full responsibility for managing the Wholesale International Share Fund on 18 Mar 2005. Prior to this it was managed by Fidelity. The Wholesale Global Resource Fund was established as an unregistered scheme on 30 Nov 2006. It was launched in Jun 2009 and the performance figures above combine returns of the Global Resources Fund to Jun 2009 adjusted for the wholesale fund fees and the actual returns of the Wholesale Global Resources Fund since Jun 2009.

### Market

- Global equity markets had a roller coaster start to the year, dropping by 10% as worries about monetary policy, sovereign debt and new regulations dented investor risk appetite. However, improving corporate earnings and macroeconomic data enabled markets to rebound to new highs by quarter end.
- Despite the early concerns, it was a strong quarter for global cyclical companies. Material companies rose due to the ongoing demand for commodities from emerging Asia.
- Consumer discretionary companies also outperformed as sentiment towards an improving economic landscape, especially in the US, bode well for the retail consumer sector.
- Long-term bond yields in the US rose during the quarter, however European and Japanese yields were almost unchanged. The Australian dollar rose against the majority of currencies, most notably against the Euro and Pound.

### Portfolio

- The portfolio marginally underperformed in the first quarter of 2010. The increase in traditionally cyclical higher beta stocks meant a number of the larger, higher quality companies with more consistent earnings streams did not perform as strongly as their more risky peers. That said, the attributes of low gearing, solid operating margins and high return on invested capital remain favourable and valuable qualities, and will remain at the forefront of investors' minds in this uncertain economic environment.

## Property

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale Property Securities Fund (inception Mar 2003)	-1.5	-6.0	37.0	-25.9	-26.3	-9.1	-2.4	-	-1.7
S&P/ASX 300 A-REIT Accumulation Index	-1.6	-6.5	42.0	-22.8	-23.3	-7.2	-0.9	-	0.0
Wholesale Property Income Fund (inception Oct 2004)	-1.0	-3.4	16.8	-14.6	-14.8	-2.3	-	-	-1.2
UBS Government Bond 3 to 5 Years Index	0.7	-2.1	17.1	-13.1	-10.2	0.9	-	-	2.1

Source: Perpetual and DataStream. Returns are for Perpetual's wholesale funds after fees and before taxes. Past performance is not indicative of future performance. Perpetual Investments began active management of the Wholesale Property Securities Fund in March 2003. Prior to this it was a passive fund. The Wholesale Property Income Fund benchmark prior to November 2009 was a blended property index comprising 50% Mercer Unlisted Property Index and 50% S&P/ASX Property 300 Accumulation Index.

### Market

- The Australian real estate investment trust (A-REIT) sector fell 1.6% over the March quarter. Despite this result the sector has rallied 73.2% off its lows early in 2009.
- Key themes this quarter included the stabilisation of Australian direct property. Our direct markets have not only outperformed their offshore counterparts but have also enjoyed an increasing number of transactions. This is an important development as it allows trusts to better manage their gearing and provides vital valuation information. Demand for Australian assets from offshore investors remains high, driven by our strong economic climate and attractive yields.

- The strongest performing major trust in the index over the quarter was Goodman Group (+3.2%), which rallied when its development arm began to gain traction after a number of years. Meanwhile Mirvac Group (-4.8%), which has a large residential exposure, came under pressure due to rising interest rates.

### Portfolio

- While ending down over the quarter, the reporting season demonstrated that there are a number of trusts that have repaired large amounts of the damage done by the Global Financial Crisis. These trusts, if carefully selected, can provide investors with strong returns featuring an attractive income component.

## Credit

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale Diversified Income Fund (inception Oct 2005)	3.4	6.6	15.0	3.9	2.2	-	-	-	3.7
UBS Australia Bank Bill Index	1.0	1.9	3.5	5.1	5.7	-	-	-	5.8

Source: Perpetual and DataStream. Returns are for Perpetual's Wholesale Monthly Income Fund after fees and before taxes. Past performance is not indicative of future performance.

### Market

- Local credit spreads continued to contract during the quarter. This was supported by the demand and supply imbalance which continues to be a theme in this credit market recovery.
- There was a notable increase in issuance in the primary market. However coupon payments and a significant volume of maturities resulted in strong market demand.
- There was an improvement in risk appetite with subordinated and longer-dated credits outperforming on a relative basis.
- Despite a considerable recovery in the markets, margins remain attractive relative to longer-term historic levels.
- The best performing sectors during the month were the banks, mainly due to improved earnings results.

### Portfolio

- The Fund strongly outperformed its benchmark over the quarter off the back of positive returns across all the portfolio's sectors as credit spreads continued to contract.
- The current yield-to-maturity is 8.0% pa, which is 3.8% above the bank bill swap rate.
- The Fund is currently fully invested and we continue to actively manage the portfolio to take advantage of relative value opportunities. Implementation of relative value investing has been supported by stronger fundamentals and improved market sentiment.

## Mortgages

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale Monthly Income Fund (inception Jul 2000)	1.1	2.2	4.1	4.9	5.3	5.7	5.7	-	5.7
UBS Australia Bank Bill Index	1.0	1.9	3.5	5.1	5.7	5.8	5.7	-	5.6

Source: Perpetual and DataStream. Returns are for Perpetual's Wholesale Monthly Income Fund after fees and before taxes. Past performance is not indicative of future performance.

### Market

- After three consecutive rate rises during the previous quarter the RBA caught the market by surprise holding the cash rate at 3.75% for most of the quarter. However growing evidence the local economy was returning to trend levels instigated a 0.25% rate hike in March, raising the cash rate to 4%.
- The market quickly began pricing in further rate hikes resulting in 0.21% rise in the 90-day bank bill swap rate to 4.49%.
- At the time of writing the RBA moved the cash rate up again in April by 0.25% to 4.25%. This is the fifth rate hike in seven months. Despite this, interest rates remain below normal levels and this is providing some support to the property market.
- Lending margins for commercial properties stayed at relatively high levels due to the ongoing absence of lending among the majority of non-bank lenders.

### Portfolio

- Our quality mortgage book has shown little sign of deterioration in a falling property market, both from a loan-to-value and loans-in-arrears point of view.

## Cash

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Exact Market Cash Fund (inception Feb 2005)	1.0	1.9	3.5	5.1	5.7	5.8	-	-	5.8
UBS Australia Bank Bill Index	1.0	1.9	3.5	5.1	5.7	5.8	5.7	5.6	6.9
Cash Management Fund (inception May 1989)	0.8	1.4	2.5	4.0	4.6	4.8	4.6	4.5	5.9
UBS Australia Bank Bill Index	1.0	1.9	3.5	5.1	5.7	5.8	5.7	5.6	6.9

Source: Perpetual and Datastream. Returns are for Perpetual's Wholesale Monthly Income Fund after fees and before taxes. Past performance is not indicative of future performance.

### Market

- During the June quarter the RBA's Governor Stevens continued to emphasise the need to remain pre-emptive in the face of asset bubbles, suggesting that further hikes were needed in the near term.
- As a result the RBA raised the cash rate 0.25% to 4% during the quarter. The RBA's accompanying statement highlighted that with growth likely to be close to trend and inflation close to target, interest rates should be raised to more normal levels.
- At the time of writing, the RBA moved the cash rate up again in April by 0.25% to 4.25%. This is the fifth rate hike in seven months.

### Portfolio

- The Cash Management Fund continues to abide by Standard & Poor's AAAM investment rating criteria, which requires a biased allocation to highly liquid securities.
- The Exact Market Cash Fund continues to deliver investors the exact pre-tax performance of the UBS Bank Bill Index. The index represents a short-term money market portfolio.

## Balanced funds

	3 months %	6 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception % pa
Wholesale Conservative Growth Fund (inception Sep 2003)	1.7	3.1	13.9	4.4	3.3	5.8	-	-	6.7
Conservative Growth Index	1.3	2.9	11.7	3.3	2.3	5.7	-	-	6.5
Wholesale Diversified Growth Fund (inception Oct 2001)	1.9	3.6	17.9	2.8	1.0	5.0	7.3	-	5.5
Moderate Growth Index	1.4	3.6	16.1	1.3	-0.2	5.0	6.9	-	5.1
Wholesale Balanced Growth Fund (inception Oct 1997)	1.7	4.1	22.3	0.3	-1.5	4.3	8.0	5.6	7.2
Balanced Growth Index	1.5	3.7	20.1	0.0	-1.8	5.2	7.8	4.9	6.7
Wholesale Split Growth Fund (inception Mar 1999)	1.1	3.0	22.9	-1.9	-5.7	2.0	6.3	1.1	2.2
Split Trust Accumulation Index	1.2	2.9	25.7	-4.2	-7.9	1.7	5.5	0.1	1.9

Source: Perpetual and DataStream. Returns are for Perpetual's wholesale funds after fees and before taxes. Past performance is not indicative of future performance.

### Portfolio

- The diversified funds started the quarter with an underweight position to Australian equities, driven by our assessment of the asset classes' value. This was beneficial during January, when the market fell. We then established an overweight position based on our improved assessment of the market's value and its momentum, benefiting from the market upturn later in the quarter.
- We maintained a roughly neutral position to fixed income over the quarter. This is due to our negative assessment of where the asset class is in its cycle being offset by our positive assessment of its value. We have a negative view of the cycle due to short-term rising rates and have a positive view of value due to where Australian bond yields are relative to their US counterparts and inflationary expectations.

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