



Perpetual Smaller Companies Fund

December 2011

Fund facts

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

Benchmark: S&P/ASX Small Ordinaries Accumulation Index[^]

Mgmt cost: 1.95%

Buy / Sell spread: 0.30% / 0.00%

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

Suggested minimum investment period: Five years or longer

Fund benefits

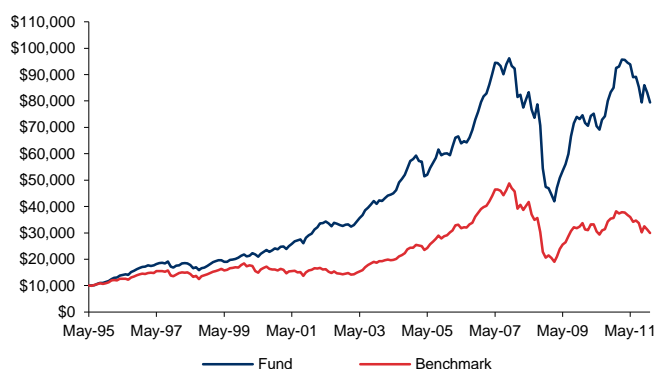
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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

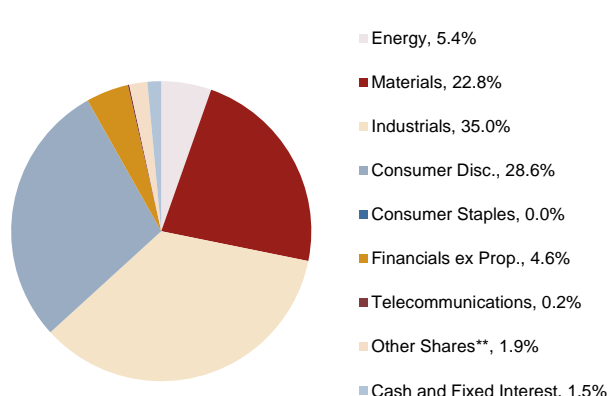
	APIR	1 mth	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	7 yrs pa	10 yrs pa
Perp. WealthFocus Investments	PER0113AU	-4.6	-0.1	-10.9	-14.3	19.2	-0.1	4.6	10.4
Perp. WealthFocus Investment Advantage	PER0039AU	-4.5	0.0	-10.8	-14.2	19.2	0.0	4.6	10.3
Perp. WealthFocus Super	PER0025AU	-4.1	0.0	-9.2	-11.8	18.7	1.3	5.6	10.8
Perp. WealthFocus Pensions	PER0008AU	-4.4	0.0	-10.0	-12.8	20.5	1.6	6.2	11.9
Perp. WealthFocus Term Allocated Pension	PER0348AU	-4.4	0.0	-10.0	-12.8	20.5	1.6	6.2	11.9
S&P/ASX Small Ordinaries Accumulation Index [^]		-4.3	-0.6	-12.3	-21.4	11.8	-5.2	3.0	6.5

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

New Hope Corporation Limited
Mineral Resources Limited
Cardno Limited
Super Retail Group Limited
The Reject Shop Limited
Alacer Gold Corp.
CSR Limited
Mirabela Nickel Limited
RCR Tomlinson Limited
SAI Global Limited

Portfolio fundamentals¹

	Portfolio	Benchmark
Price / Earnings	10.1	12.3
Dividend yield	5.2%	5.6%
Price / Book	1.5	1.3
Debt / Equity	16.7%	32.0%
Interest cover	13.3	8.3
Return on Equity	15.5%	12.2%

¹Source: Factset

Market commentary

The S&P/ASX Small Ordinaries Accumulation Index fell 4.3% over the month, underperforming both larger companies and the broader market by 3.1% and 2.9% respectively. Global macroeconomic themes continued to drive equity markets, with investor concerns regarding the ongoing European sovereign debt crisis partially offset by a series of resilient economic data releases from the US. In a move designed to ease liquidity pressures for sovereigns and the European banking system, the European Central Bank undertook an unprecedented Longer-Term Refinancing Operation (LTRO) in which European banks could borrow funds at an attractive rate for a three year period. The operation attracted strong demand, with a total of €490 billion borrowed from the central bank.

The best performing sectors in smaller companies over the month were utilities (+8.7%), consumer staples (+1.2%) and telecommunications (+1.0%). The worst performing sectors in smaller companies were materials (-7.0%), consumer discretionary (-5.7%) and financials ex-property (-5.6%). As a group, small industrial stocks (-2.3%) outperformed small resources stocks (-4.7%).

Portfolio commentary

The Fund's largest overweight positions include coal producer New Hope Corporation, engineering service provider Cardno and diversified mining service provider Mineral Resources. New Hope has a large cash balance and a good land bank. Cardno has good operating cash flow and solid organic growth. The Fund's largest underweight positions include Beach Energy, Aurora Oil and Gas and Adelaide Brighton. Beach Energy and Adelaide Brighton pass our quality filters but are not held as there is currently better relative value elsewhere. Aurora Oil and Gas is not held as it does not pass our quality filters.

Not holding retailer Billabong (-51.9%) contributed to relative performance. The company's share price fell heavily following a trading update, with earnings before interest, tax, depreciation and amortisation for the six months ended 31 December 2011 now expected to be in the range of \$70 - \$75 million compared to \$95 million in the previous corresponding period. The deterioration in profitability has occurred as a result of a rapid decline in sales growth over October and November, forcing increased promotional activity and pressure on gross margins. Billabong is not held in the portfolio as we feel that there is currently better relative value elsewhere within our quality universe.

Our overweight position to Australian base metals explorer Mirabela Nickel (-24.3%) detracted from relative performance. Although the price of nickel increased over the month, the company's share price continued to fall after it recently reported a loss of US\$8.4 million for the quarter and US\$45.7 million for the nine months ending 30 September 2011. Despite the result, we remain comfortable with our position in Mirabela. As the company ramps up production over the next year, we expect earnings to increase significantly. The company has a world class deposit with a 23 year reserve life, is a low cost producer and has a simple, proven open pit mine and a conventional sulphide processing plant. It also has sound management and a solid balance sheet.

Outlook

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

What are...?

Smaller companies are generally those listed outside the top 100 stocks (by market capitalisation) on the stock exchange. There is generally higher risk with these companies due to limited reliable company information and lower liquidity than larger stocks.

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 Funds largest overweights, Cardno is an international services provider, which locally delivers specialist advice to create or improve the physical and social infrastructure that underpin communities around the world. These capabilities include, Social and Economic Infrastructure, Community Development, Economic Revitalisation & Enterprise Development, Education, Training & Human Capacity, Governance, Law & Justice, Health & HIV/AIDS & Natural Resource Management.

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

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



Further information

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