# Perpetual Geared Australian Fund

## April 2012

### Fund facts

**Investment objective:** Aims to enhance long-term capital growth through borrowing (gearing) to invest in quality shares.

**Benchmark:** S&P/ASX 300 Accumulation Index^
**Mgmt cost:** 1.95% pa (GAV)
**Buy / Sell spread:** 0.75% / 0.00%
**Investment style:** Active, fundamental, bottom-up, value
**Suggested minimum investment period:** Seven years or longer

### Fund benefits

Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

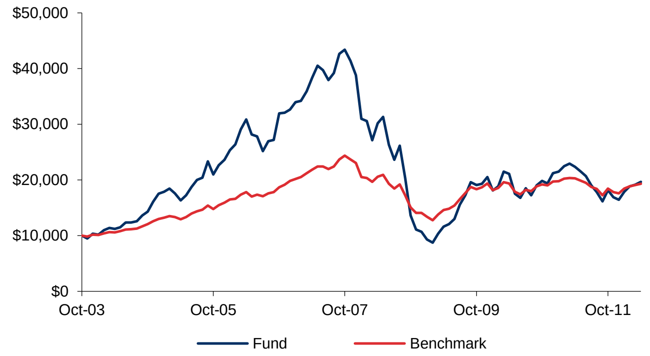
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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

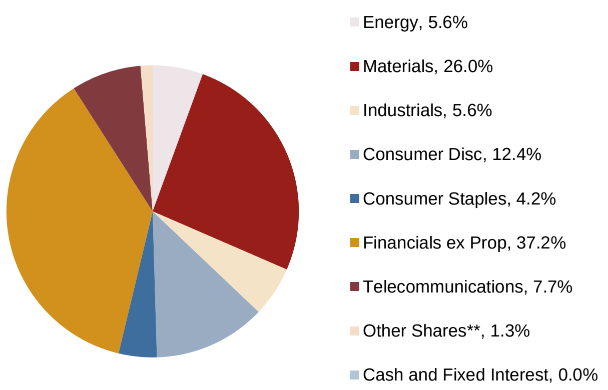
| | APIR | 1 mth | 3 mths | 6 mths | 1 yr | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|---|---|---|---|---|---|---|---|---|---|
| Perp. WealthFocus Investments | PER0244AU | 2.9 | 10.1 | 8.3 | -12.0 | 19.2 | -12.5 | 2.7 | - |
| Perp. WealthFocus Investment Advantage | PER0492AU | 2.9 | 10.1 | 8.3 | -12.1 | 19.1 | - | - | - |
| Perp. WealthFocus Super | PER0223AU | 2.6 | 9.5 | 9.4 | -7.9 | 19.4 | -8.4 | 5.7 | - |
| Perp. WealthFocus Pensions | PER0147AU | 2.8 | 9.8 | 10.5 | -8.3 | 22.0 | -8.3 | 6.5 | - |
| Perp. WealthFocus Term Allocated Pension | PER0341AU | 2.8 | 9.8 | 10.5 | -8.3 | 22.0 | -8.3 | 6.5 | - |
| S&P/ASX 300 Accumulation Index^ | | 1.3 | 4.6 | 4.7 | -4.7 | 9.8 | -2.4 | 5.9 | - |

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[1]




### Top 10 stock holdings[1]

| |
|---|
| Commonwealth Bank of Australia |
| Westpac Banking Corporation |
| BHP Billiton |
| Telstra Corporation Limited |
| Rio Tinto |
| ANZ Banking Group Limited |
| Orica Limited |
| ASX Limited |
| News Corporation |
| Insurance Australia Group Limited |

### Portfolio fundamentals[1]

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings | 12.1 | 11.9 |
| Dividend yield | 5.0% | 5.2% |
| Price / Book | 1.7 | 1.6 |
| Debt / Equity | 28.3% | 37.5% |
| Interest cover | 16.0 | 11.3 |
| Return on Equity | 15.5% | 14.3% |

*Source: Factset

## Market commentary

The Australian market, as measured by the S&P/ASX 300 Accumulation Index rose by 1.3% for the month, the fourth consecutive monthly gain since the turn of the calendar year. 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 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 energy (-0.6%). As a whole, industrial stocks (+2.0%) outperformed resource stocks (-0.3%) and large companies (+1.3%) outperformed small companies (-0.9%).

## Portfolio commentary

The Fund's largest overweight positions before gearing include Australia's largest retail bank Commonwealth Bank, explosives manufacturer Orica and telecommunications giant Telstra. The Fund's largest underweight positions include National Australia Bank, Wesfarmers (not held) and Woodside Petroleum (not held).

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 bilion 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 coal miner New Hope Corporation (-6.8%) detracted from relative performance. New Hope's stock price fell in tandem with declining thermal coal prices over April. The spot price for the commodity has fallen this financial year as a glut of natural gas has seen US producers sell excess supply through the international market. The absence of weather-related disruptions and higher than anticipated Indonesian production have also boosted supply in the Asia-Pacific, placing further pressure on prices. We continue to like New Hope Coal as it has an excellent management team, a high quality balance sheet, and low cost, long-life assets.

## 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...?

Geared funds have an internal gearing mechanism, which means that instead of borrowing externally to invest, money is borrowed within the workings of the fund, to reinvest into the Fund, to enhance the returns. When markets are up, this magnifies returns. When markets are down, losses are magnified.

## 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?

When you invest though a geared fund, you are paid dividends and may be entitled to franking credits on the geared amount of the underlying investments. This can result in you getting more 'bang for your buck'.



** 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 Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

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

## Further information

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