

Perpetual Institutional Monthly Update

December 2010 For the use of institutional investors only

Perpetual News

Kohlberg Kravis Roberts & Co. (KKR) have formally ended their discussions regarding the possible takeover of Perpetual Limited after mutually acceptable terms were unable to be developed. As a result, KKR's indicative proposal to acquire all of Perpetual's shares via a scheme of arrangement will not be proceeding.

Australian Equities

The S&P/ASX 300 Accumulation Index gained 3.8% over the month. Industrials (+2.5%) underperformed resources (+6.4%), whilst smaller companies continued to outperform the larger caps. Investor sentiment towards equities improved, reflecting continued positive momentum in macro data, diminishing concerns around European sovereign debt issues and the release of positive outlook commentary on markets for 2011 from the majority of research houses. In major company news, the New South Wales Government completed the privatisation of its electricity assets with TRUenergy acquiring Energy Australia's retail business and Origin Energy acquiring Integral Energy and Country Energy. Lend Lease agreed to acquire Valemus which is the Australian arm of Bilfinger Berger AG. Also, the NBN Co. released its full business plan with households obtaining basic broadband access from \$56 per month based on a wholesale access price of \$24 per month.

| Gross returns for periods ending Dec 2010 | 1 mth | 3 mths | 6 mths | 1 yr | 2 yrs pa | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|---|-------|--------|--------|------|----------|----------|----------|----------|-----------|
| Wholesale Australian Share Fund | 4.5 | 6.2 | 13.2 | 6.7 | 23.2 | -0.7 | 6.7 | 12.4 | 12.2 |
| S&P/ASX 300 Accumulated Index [^] | 3.8 | 4.7 | 13.3 | 1.9 | 18.4 | -5.0 | 4.4 | 9.9 | 8.5 |
| Excess | 0.7 | 1.5 | -0.1 | 4.8 | 4.8 | 4.3 | 2.3 | 2.5 | 3.7 |
| Wholesale Concentrated Equity Fund | 2.9 | 3.3 | 10.8 | 4.0 | 22.3 | 0.2 | 7.5 | 12.0 | 12.9 |
| S&P/ASX 300 Accumulated Index [^] | 3.8 | 4.7 | 13.3 | 1.9 | 18.4 | -5.0 | 4.4 | 9.9 | 8.5 |
| Excess | -0.9 | -1.4 | -2.6 | 2.1 | 3.9 | 5.2 | 3.1 | 2.0 | 4.4 |
| Wholesale Smaller Companies Fund | 9.0 | 16.1 | 35.0 | 26.3 | 43.1 | 2.1 | 11.1 | 14.1 | 17.0 |
| S&P/ASX Smaller Companies Accumulated Index | 7.1 | 11.2 | 29.9 | 13.1 | 33.4 | -5.9 | 5.5 | 10.3 | 9.3 |
| Excess | 1.9 | 4.9 | 5.0 | 13.3 | 9.7 | 7.9 | 5.6 | 3.8 | 7.7 |
| Wholesale Ethical SRI Fund | 3.7 | 3.0 | 9.5 | 5.1 | 33.9 | 0.1 | 8.9 | 13.2 | - |
| S&P/ASX 300 Accumulated Index [^] | 3.8 | 4.7 | 13.3 | 1.9 | 18.4 | -5.0 | 4.4 | 9.9 | - |
| Excess | -0.1 | -1.6 | -3.8 | 3.2 | 15.5 | 5.1 | 4.5 | 3.3 | - |

International Equities

Global equity markets enjoyed a strong finish to the 2010 year, overcoming bond market weakness. Concerns over public debt in the Eurozone markets eased, which saw a 5.4% rally in the Euro Stoxx 50, along with a 6.8% rally in the FTSE 100. The S&P 500 rose 6.7% as equity investors welcomed a deal to roll over tax concessions. Meanwhile, tensions in the Korean peninsula and China's move to a policy tightening basis held back Asian markets. The Hang Seng was up 0.4%, the Nikkei 225 up 2.9% and MSCI China down 0.6%. The International Share Fund underperformed in December. Contributors to performance included our holdings in Walgreen, CRH and LG Electronics. Meanwhile, our holdings in the more defensive companies underperformed in the strong market. These included Johnson & Johnson, Wal-Mart and Fresenius which detracted from the portfolios relative performance.

| Gross returns for periods ending Dec 2010 | 1 mth | 3 mths | 6 mths | 1 yr | 2 yrs pa | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|--|-------|--------|--------|------|----------|----------|----------|----------|-----------|
| International Share Fund | -0.3 | 0.8 | -2.2 | -5.9 | -5.5 | -8.1 | -3.8 | - | - |
| MSCI World ex Aust. Accumulation Index (\$A) | 0.3 | 2.9 | 1.8 | -2.0 | -1.2 | -9.8 | -4.5 | - | - |
| Excess | -0.6 | -2.1 | -3.9 | -3.9 | -4.3 | 1.7 | 0.7 | - | - |
| International Concentrated Fund | 0.0 | -0.5 | -3.3 | -6.9 | -5.3 | -8.9 | - | - | - |
| MSCI World ex Aust. Accumulation Index (\$A) | 0.3 | 2.9 | 1.8 | -2.0 | -1.2 | -9.8 | - | - | - |
| Excess | -0.3 | -3.3 | -5.1 | -4.8 | -4.1 | 0.9 | - | - | - |
| Global Resources Fund [*] | 7.9 | 18.2 | 33.7 | 18.8 | 35.3 | 6.8 | - | - | - |
| MSCI Custom Resources Index ¹ | 4.3 | 10.6 | 15.1 | 4.7 | 19.2 | -2.7 | - | - | - |
| Excess | 3.6 | 7.6 | 18.6 | 14.2 | 16.1 | 9.4 | - | - | - |

^{*} Please note that this fund is managed by the Australian Equities team.

Diversified Funds

The balanced growth fund returned 2.1%, outperforming the benchmark by 0.7% over the month. Asset allocation contributed to performance over the month, due in part to our overweight position to Australian equities. Stock selection also contributed to performance over the month, with the outperformance in Australian equities and bonds offsetting underperformance in International equities. The fund remains overweight Australian equities, driven by positive value and technical signals, whilst the fixed income allocation remains neutral, with positive cycle scores offset by technical signals following the recent sell off in bonds.

| Gross returns for periods ending Dec 2010 | 1 mth | 3 mths | 6 mths | 1 yr | 2 yrs pa | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|---|-------|--------|--------|------|----------|----------|----------|----------|-----------|
| Wholesale Conservative Growth Fund | 1.1 | 1.7 | 3.8 | 5.8 | 8.4 | 4.4 | 5.7 | 7.3 | - |
| Conservative Growth Index | 0.7 | 1.3 | 3.5 | 4.8 | 6.7 | 2.2 | 4.6 | 6.3 | - |
| Excess | 0.4 | 0.4 | 0.2 | 1.0 | 1.7 | 2.2 | 1.2 | 1.0 | - |
| Wholesale Diversified Growth Fund | 1.6 | 2.3 | 4.8 | 5.0 | 8.4 | 2.4 | 4.4 | 7.2 | - |
| Diversified Growth Index | 1.1 | 2.0 | 4.7 | 3.9 | 7.2 | -0.4 | 3.2 | 6.0 | - |
| Excess | 0.5 | 0.4 | 0.1 | 1.1 | 1.2 | 2.8 | 1.1 | 1.2 | - |
| Wholesale Balanced Growth Fund | 2.2 | 3.2 | 5.8 | 4.0 | 9.4 | -0.5 | 3.1 | 7.3 | 5.9 |
| Balanced Growth Index | 1.4 | 2.4 | 6.0 | 3.7 | 8.3 | -2.3 | 2.8 | 6.5 | 4.8 |
| Excess | 0.8 | 0.8 | -0.2 | 0.3 | 1.1 | 1.7 | 0.3 | 0.8 | 1.1 |

Fixed Income Funds

Credit markets advanced in December buoyed by the solid data flow and recovering confidence out of the US, the extension of the Bush-era income tax cuts and positive earnings news and earnings upgrades. Overcoming bond market weakness and China's policy tightening, domestic corporate credit spreads continued to grind tighter on healthy demand for AUD paper albeit various taps from domestic banks seen during the month. The secondary cash market was also relatively well bid in thinning volumes and liquidity leading up to the holiday period. In the derivatives markets, synthetic spreads as measured by the iTraxx Australia index contracted by 15 points to the closing level of 104 points.

| Gross returns for periods ending Dec 2010 | 1 mth | 3 mths | 6 mths | 1 yr | 2 yrs pa | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|---|-------|--------|--------|------|----------|----------|----------|----------|-----------|
| Premium Treasury Fund | 0.8 | 2.0 | 3.9 | 7.5 | 6.5 | 5.9 | 5.9 | - | - |
| UBS Bank Bill Index | 0.4 | 1.2 | 2.5 | 4.7 | 4.1 | 5.2 | 5.7 | - | - |
| Excess | 0.3 | 0.7 | 1.5 | 2.8 | 2.4 | 0.7 | 0.2 | - | - |
| High Grade Treasury Fund | 0.9 | 2.2 | 4.4 | 8.6 | 7.1 | 5.5 | 5.5 | - | - |
| UBS Bank Bill Index | 0.4 | 1.2 | 2.5 | 4.7 | 4.1 | 5.2 | 5.7 | - | - |
| Excess | 0.4 | 0.9 | 1.9 | 4.0 | 3.0 | 0.3 | -0.2 | - | - |
| Credit Income Fund | 1.0 | 2.4 | 5.2 | 11.4 | 8.4 | 5.1 | 4.5 | - | - |
| UBS Bank Bill Index | 0.4 | 1.2 | 2.5 | 4.7 | 4.1 | 5.2 | 5.7 | - | - |
| Excess | 0.6 | 1.2 | 2.7 | 6.7 | 4.3 | -0.1 | -1.2 | - | - |
| Wholesale Diversified Income Fund | 0.8 | 2.0 | 4.5 | 10.4 | 8.8 | 4.7 | 5.0 | - | - |
| UBS Bank Bill Index | 0.4 | 1.2 | 2.5 | 4.7 | 4.1 | 5.2 | 5.7 | - | - |
| Excess | 0.4 | 0.8 | 2.1 | 5.7 | 4.8 | -0.5 | -0.7 | - | - |
| Active Fixed Interest Fund | 0.2 | 0.4 | 2.3 | 7.8 | 5.9 | 8.2 | 6.1 | - | - |
| UBS Composite Bond Index | 0.0 | -0.2 | 1.1 | 6.0 | 3.9 | 7.4 | 5.8 | - | - |
| Excess | 0.2 | 0.6 | 1.2 | 1.8 | 2.1 | 0.8 | 0.3 | - | - |

Returns shown for the funds have been calculated using exit prices and assuming the re-investment of distributions with no allowance made for contribution or withdrawal fees or taxation. For institutional investor purposes, no allowance has also been made for management fees. Past performance is not indicative of future performance.

Equities

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^ 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 The MSCI Custom Resource Index is comprised of 75% Metals and Mining / Coal and Consumable Fuels, and 25% Energy Equipment and Services and Industry / Gas and Consumable Fuels (excluding Coal and Consumable Fuels). It is based on free float adjusted market capitalisation (unhedged in AUD).

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