

Perpetual Institutional Monthly Update

October 2010 For the use of institutional investors only

Perpetual News

Nathan Parkin joined the Perpetual Equities team during the month, bringing with him a 16 year career in financial markets with various positions in the ASX, Perpetual and 452 Capital. Nathan's experience in investments reflects our style and process and is highly regarded for both his technical and personal attributes. He will be joining the small caps team led by Jack Collopy.

Over the month, Perpetual received a friendly takeover offer from **KKR**. The original bid of \$38-\$40/share was deemed to not reflect Perpetual's value, however, the firm will be conducting exploratory discussions with KKR in order to better assess the proposal which at this point remains incomplete.

Australian Equities

The S&P/ASX 300 Accumulation Index rose 1.8% over the month. Resources (5.2%) outperformed Industrials (+0.4%), and Smaller companies (+3.3%) continued to outperform the larger caps (1.7%). Investor appetite for risk taking remained steady and commodity prices continued to strengthen. The prospect of Quantitative easing in the United States buoyed market sentiment. A knock on effect was the rise in the Australian dollar which hit parity. This will impact exporters and Australian companies with offshore earnings. There was an increase in corporate activity; Tabcorp demerger, Channel Ten purchase by James Packer, ASX/SGX merger, BHP/RIO ceasing their joint venture & BHP bid for Potash. Perpetual also received a friendly offer from KKR.

Gross returns for periods ending Oct 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	2.2	4.2	-0.3	7.0	16.4	-3.5	7.2	12.1	12.1
S&P/ASX 300 Accumulated Index [^]	1.8	5.6	-0.7	4.7	13.0	-7.6	5.4	9.8	8.1
Excess	0.4	-1.4	0.5	2.3	3.4	4.2	1.9	2.4	4.0
Wholesale Concentrated Equity Fund	1.7	4.2	-0.7	7.3	16.2	-1.8	8.3	12.1	13.1
S&P/ASX 300 Accumulated Index [^]	1.8	5.6	-0.7	4.7	13.0	-7.6	5.4	9.8	8.1
Excess	-0.2	-1.4	0.0	2.7	3.2	5.8	3.0	2.3	5.0
Wholesale Smaller Companies Fund	4.3	14.9	11.8	14.7	26.2	-2.8	9.1	12.5	16.0
S&P/ASX 300 Smaller Companies Accumulated Index	3.3	14.7	6.7	11.5	24.8	-10.1	4.9	9.3	8.2
Excess	1.0	0.2	5.1	3.3	1.5	7.3	4.2	3.2	7.8
Wholesale Ethical SRI Fund	0.8	3.4	-3.8	4.6	22.7	-2.7	9.1	13.2	-
S&P/ASX 300 Accumulated Index [^]	1.8	5.6	-0.7	4.7	13.0	-7.6	5.4	9.8	-
Excess	-1.0	-2.1	-3.0	0.0	9.7	4.9	3.8	3.4	-
Wholesale Quantitative Long Short Fund	2.3	5.7	1.9	3.5	6.2	-12.5	5.1	-	-
S&P/ASX 300 Accumulated Index [^]	1.8	5.6	-0.7	4.7	13.0	-7.6	5.4	-	-
Excess	0.5	0.1	2.7	-1.2	-6.8	-4.9	-0.3	-	-

International Equities

Global equities finished the month ahead on the prospect of renewed quantitative easing by the Federal Reserve. The S&P500 rallied 3.7%, with the majority of 3Q earnings results ahead of analyst forecasts. Other major indices gains included the NASDAQ, with a gain of 5.9%. The FTSE100 and Euro Stoxx 50 also performed well, gaining 2.3% and 3.5% respectively. The Nikkei225 fell however, slipping 1.8%. The continued weakness of the USD and the relative strength of the AUD detracted from the returns for domestic investors with assets held offshore. The International Share Fund underperformed in October. Contributors to performance included strong performance from Keyence Corp., Omnicom Group and General Dynamics. However, these positives were offset by our holdings in Novartis, Republic Services and M&T Bank Corp.

Gross returns for periods ending Oct 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	2.1	-0.1	-4.1	1.0	-8.5	-7.1	-2.0	-	-
MSCI World ex Aust. Accumulation Index (\$A)	2.5	0.7	-2.2	3.9	-5.7	-9.9	-3.1	-	-
Excess	-0.4	-0.8	-2.0	-2.9	-2.7	2.8	1.1	-	-
International Concentrated Fund	0.0	-3.2	-5.3	-0.2	-8.7	-7.5	-	-	-
MSCI World ex Aust. Accumulation Index (\$A)	2.5	0.7	-2.2	3.9	-5.7	-9.9	-	-	-
Excess	-2.5	-3.9	-3.1	-4.1	-3.0	2.4	-	-	-
Global Resources Fund*	5.0	11.7	10.1	15.9	20.1	1.9	-	-	-
MSCI Custom Resources Index ¹	3.5	6.0	0.3	10.0	12.7	-6.5	-	-	-
Excess	1.5	5.8	9.8	5.8	7.4	8.4	-	-	-

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

Diversified Funds

The balanced growth fund returned 1.45%, outperforming the benchmark by 0.31% over the month. Asset allocation helped to drive performance over the month, with our overweight to Australian Equities contributing to our performance. Stock selection also assisted with performance over the month, with underperformance in Global Equities being more than compensated by the performance in our Australian Equities and Bond portfolios. The fund remains overweight Australian equities, driven by positive value signals. Bonds are moving to a neutral position, following a fall in both cycle and technical scores.

Gross returns for periods ending Oct 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	0.8	1.9	2.5	6.9	7.8	3.9	6.2	7.4	-
Conservative Growth Index	0.7	1.8	2.6	6.5	6.2	1.5	5.1	6.5	-
Excess	0.2	0.1	-0.1	0.5	1.6	2.3	1.1	1.0	-
Wholesale Diversified Growth Fund	1.2	2.4	1.7	6.9	6.5	1.8	5.1	7.3	-
Diversified Growth Index	1.0	2.2	1.8	6.4	5.4	-1.3	4.0	6.1	-
Excess	0.2	0.1	-0.1	0.5	1.1	3.0	1.1	1.3	-
Wholesale Balanced Growth Fund	1.5	2.3	0.6	6.2	5.8	-1.5	3.9	7.3	5.7
Balanced Growth Index	1.1	2.4	1.1	6.8	5.8	-3.4	3.7	6.6	4.5
Excess	0.4	-0.1	-0.5	-0.6	0.0	1.9	0.2	0.8	1.3

Fixed Income Funds

Synthetic spreads as represented by the iTraxx Australia index closed the month tighter by over 9 basis points at 108 points reflecting improved risk appetite on further QE expectations following a host of dismal US data. The iTraxx index however lagged physical spreads' tightening move which finished the month 25 basis points narrower reflecting improved corporate fundamentals. During the month, Tabcorp's (BBB+) demerger plans and the official abandonment of BHP Billiton (A+) and Rio Tinto's (BBB+) iron ore JV pushed iTraxx out wider, while concerns over the status of US home foreclosures which had weighed upon the major US banks had little impact on domestic spreads.

Gross returns for periods ending Oct 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	0.7	1.9	3.3	7.5	6.0	5.6	5.8	-	-
UBS Bank Bill Index	0.4	1.2	2.4	4.5	4.1	5.4	5.7	-	-
Excess	0.3	0.7	0.9	3.0	1.9	0.3	0.1	-	-
High Grade Treasury Fund	0.8	2.1	3.5	8.5	6.3	5.1	5.4	-	-
UBS Bank Bill Index	0.4	1.2	2.4	4.5	4.1	5.4	5.7	-	-
Excess	0.4	0.9	1.1	4.0	2.2	-0.3	-0.3	-	-
Credit Income Fund	0.9	2.5	4.1	11.8	7.1	4.0	4.4	-	-
UBS Bank Bill Index	0.4	1.2	2.4	4.5	4.1	5.4	5.7	-	-
Excess	0.5	1.3	1.6	7.3	2.9	-1.3	-1.3	-	-
Wholesale Diversified Income Fund	0.8	2.3	4.3	11.2	7.3	4.1	5.0	-	-
UBS Bank Bill Index	0.4	1.2	2.4	4.5	4.1	5.4	5.7	-	-
Excess	0.4	1.1	1.9	6.7	3.1	-1.2	-0.7	-	-
Active Fixed Interest Fund	0.4	1.7	5.3	9.2	8.2	8.1	6.4	-	-
UBS Composite Bond Index	0.0	1.0	4.3	7.4	6.1	7.6	6.2	-	-
Excess	0.4	0.7	0.9	1.7	2.0	0.5	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).

INVESTING FOR GENERATIONS

