



Review

2010-11



Perpetual investment review for the year to 30 June 2011

It pays to take the long view

Dear Investor

Please find enclosed your annual statement for 2010 - 2011, detailing how we have managed your money and the transactions you have made over the past year.

I hope you find your statement clear and informative. If you have any questions about your statement or your investments, please get in touch with us.

In February this year I was honoured to become the 26th Managing Director in Perpetual's 125 year history. Over that time, we have witnessed constant social, technological and financial change. The way we operate and the products and services we provide have had to adapt to the broader changes in society.

But some things never change. Our goal as a financial institution is still to help you manage, invest and preserve your wealth so you can achieve your life dreams, whatever they may be. We are still guided by the same values – integrity, transparency, and respect for our clients; and the need for highly qualified people to apply the highest professional standards in managing your money.

It has been another unsettled year for investment markets. Apart from ongoing concerns over the strength of economic recovery and unsustainable government debt in many developed countries, there was a string of other events that affected the markets – natural disasters in Australia, New Zealand and Japan, new minority governments in Australia and the UK, and civil uprisings in the Middle East and North Africa.

There have certainly been plenty of issues to fuel the daily news cycle and keep financial markets on edge. However, most sharemarkets around the world continued to recover from their lows of March 2009, until drifting in the final quarter, while credit markets were relatively stable.

Despite the comparative strength of Australia's economy and government debt position, our sharemarket substantially underperformed most other developed nations, in local currency terms. On the other hand, with the US economy battered by the global financial crisis, a recession and escalating government debt, the US sharemarket posted very strong returns. Unfortunately for Australian investors with unhedged portfolios, any such gains were diminished by the rise in the Australian dollar against the US dollar.

Such is the unpredictable nature of financial markets, from day to day and year to year. That's why, when it comes to investing, it pays to take the long view. Financial markets recover from major crises in fits and starts, but history shows they always stabilise and prosper over time.

History also shows us that we should never lose sight of fundamental investment principles, and the need for diligence in applying them. These are some of the things we've learnt at Perpetual over the past 125 years which we will continue to uphold into the future.

Thank you for entrusting us to manage your money.

Yours sincerely



Chris Ryan
Managing Director and Chief Executive Officer



How markets performed

Financial markets had a mixed year, with a broad range of factors affecting different regions, asset classes and industry sectors.

Most sharemarkets started positively, buoyed by an improving US economy supported by continued financial stimulus. Major emerging markets, including China and India, sustained their strong growth while corporate credit markets continued to stabilise. Indeed, the global economic concerns centred on the need to control emerging inflation.

In Australia, the Federal Election in August 2010 produced a minority government and subsequent proposal for a new carbon tax, as well as a commitment to a revised mining tax negotiated with the industry, although neither had been legislated by year's end.

Despite these legislative risks, the mining boom gained new momentum. Continued strong demand from China in particular, further boosted commodity prices and saw the Australian dollar appreciate to its highest levels against other major currencies since it was floated in 1983.

With the economy growing strongly and the resource sector rolling out massive development programs, the Reserve Bank of Australia remained wary of inflation, although it only raised its target cash rate once during the year, by 0.25% in November 2010 to 4.75%.

In contrast to the mining industry, sectors directly exposed to the higher Australian dollar, such as tourism, suffered, while retailers recorded lacklustre trading due to the increased personal savings levels that have continued since the global financial crisis.

In the second half of the year, several issues converged to unsettle financial markets worldwide.

The unsustainable debt levels of some European governments and lack of confidence in the ability of European authorities to resolve the issue continued to undermine market confidence. To a lesser extent, similar concerns began to surface over the soaring US government debt and their own political gridlock on the issue.

Civil unrest in North Africa and the Middle East created volatility in oil prices and further risks for the global recovery, and the tsunami and nuclear meltdown in Japan slowed down the world's third largest economy.

Together with some signs of fragility in the US economic recovery, and concern over the possible effects of winding back its massive financial stimulus, all these factors combined to weigh heavily on investor sentiment.

However, many emerging markets and some developed economies continued to grow strongly and despite all the bad news and continuing risks, at year's end the global economic recovery was continuing and all major asset classes had recorded positive returns.

Australian shares

Australian shares returned 11.9% in another volatile year for the domestic share market, as measured by the S&P/ASX 300 Accumulation Index. Industrial shares returned 9.2%, as measured by the S&P/ASX 300 Industrial Accumulation Index.

Commodity prices and mining stocks rose, due to supply constraints and ongoing demand from China. The mining boom also forced up the Australian dollar which peaked at \$US1.10 at the end of April 2011. Industrial shares had mixed fortunes based on sector and stock-specific factors.

Resource stocks outperformed industrial stocks over the financial year. At a sector level, Materials (+20.5%), Utilities (+14.6%) and Consumer Staples (+11.4%) were the best performers, while the underperforming sectors were Information Technology (-13.8%), Telecommunication Services (-0.7%) and Consumer Discretionary (-0.3%).

International shares

International shares produced returns of 22.3% in their local currencies over the year, as measured by the MSCI World ex Australia Index (net return). However, unhedged returns to Australian investors were severely reduced by the continued rise of the Australian dollar, returning only 2.7% in Australian dollar terms. Over the year the Australian dollar appreciated 26.8% against the US dollar, 18.1% against the British pound and 7.1% against the Euro.

In similar fashion to the preceding financial year, international shares achieved strong gains prior to Christmas, triggered by the announcement of a second round of stimulus by the US Federal Reserve, while commodities also rallied sharply due to strong emerging market demand.

Despite losing momentum over the second half of the year due to heightened risks over government debt, political instability and mixed signals on economic growth, most developed markets were still substantially higher for the year.

Property

The Australian listed property sector recorded total returns of 5.9% for the financial year as measured by the S&P/ASX 300 A-REIT Accumulation Index. There was some divergence in the performance of the sub-sectors, with office property performing strongly as leasing activity improved across capital cities. Industrial property also performed well while retail property was softer due to subdued consumer sentiment.

After recapitalising following the global financial crisis, the sector as a whole now has much lower gearing levels and has refocused on its core business of owning and managing Australian properties.

The most notable corporate activity for the year was the demerger from Westfield Group of Westfield Retail Trust, a new entity for the Group's Australia and New Zealand based assets, which includes its major redevelopment in central Sydney.



Fixed income

Australian fixed income returned 5.55% over the financial year, as measured by the UBS Australian Composite Bond Index. International fixed income returned 10.51% in \$US, as measured by the Barclays Capital Global Aggregate Index.

Despite bouts of volatility stemming from global issues, the extra yield investors demand to hold Australian corporate bonds compared to Australian government bonds, declined over the year. This reflected improved corporate fundamentals and strong investor demand.

Internationally, corporate credit spreads remained firm in response to additional stimulus by central banks and continued low cash rates. In particular, spreads on financial sector bonds tightened, based on positive results from stress tests and the comfort of more stringent capital and liquidity requirements.

Internationally, the performance and security of government bonds diverged widely based on each country's government finances, economic strength and prospects.

Mortgages

Despite the overall modest credit growth, Australian mortgages continued to generate consistent income over the year. Business credit resumed growth after a period of contraction. In contrast, growth in household credit softened in the latter part of the year, as did housing prices in several cities.

Cash

Cash continued to provide protection from general market volatility but yields changed little over the financial year. Despite proclaiming a bias towards higher rates to maintain a lid on inflation the RBA only raised its cash rate once during the year, by 0.25% to 4.75% in November 2010. Cash returns over the year were 4.98%, according to the UBS Bank Bill Index.

Stick to your principles

Whatever the economic and financial market conditions, some key investment principles continue to stand the test of time.

1 Understand what you are investing in

It's vital to understand the nature of an investment so you can decide whether it meets your circumstances and objectives. For example, shares can grow wealth over the long term but their value can fluctuate greatly through market cycles, so they may not be suitable if you want capital stability. Equally, fixed income investments can provide reliable income and capital stability but generally will not provide capital growth over the long term.

2 It's the long-term results that matter

While investment valuations can fluctuate greatly based on the current market sentiment and short-term outlook, over the long term, valuations should reflect an investment's actual returns and prospects. Trying to time entry and exit from an investment to take advantage of short-term market momentum is difficult and can cement losses and result in missing out on future gains.

3 Risk is just as important as returns

We all invest to make returns but all investments carry risks. It's always important to carefully weigh up potential returns against potential risks. While it can't be eliminated, risk can be mitigated by focusing on quality investments with tangible and sustainable earnings, prudent debt levels, simple and transparent structures, and which are managed by experienced professionals.

4 Diversify to reduce your risk

Normal economic cycles and market shocks affect all types of investments, but they affect them in different ways and to different degrees. Diversifying across a range of investments with different characteristics can reduce the impact of one investment's return on your total portfolio.

5 Invest on evidence, not emotion

Financial markets and the broader economy are subject to the collective sentiment of investors and the general public. Beware of market mood swings which can become very powerful, particularly during times of uncertainty, as emotion overtakes the facts.

6 Good advice and planning can be your best investment

If you don't have a clear financial plan or investment strategy then it can be hard to measure your progress and make decisions about your investments. A professional adviser can be invaluable not just for their knowledge and expertise, but the fact that they can provide an objective perspective to help keep you on track to achieve your goals.



Be an informed investor

If you want to learn more about investing, a wealth of information is available on our website, including explanation of different asset classes, the value of diversification and how to get the most out of super.



Product updates

WealthFocus Wholesale differential fees

From mid-August 2011, differential fees will be available via Perpetual WealthFocus Wholesale Investment Advantage, Perpetual WealthFocus Wholesale Super Plan and Perpetual WealthFocus Wholesale Pension Plan (WealthFocus Wholesale) on accounts where no initial or ongoing commission is payable to a financial adviser or other intermediary and the member agrees to receive all communications about their account electronically. The differential fees will not be available if your financial adviser or other intermediary rebates initial or ongoing commissions. WealthFocus Wholesale Super Plan accounts, where we only pay commission to financial advisers on insurance, will be able to access the differential fees, as long as they meet the criteria.

For those members who qualify for the differential fees available via WealthFocus Wholesale, we will not charge contribution fees and we will pay a management fee rebate. The minimum initial investment for WealthFocus Wholesale is \$25,000 per product. For more information on WealthFocus Wholesale, you should refer to the relevant product disclosure statement, which will be available from mid-August 2011 via our website or by contacting us.

Perpetual recognised in investment awards

Perpetual has been recognised as the Best Fund Manager in the *Money* magazine Best of the Best Awards 2011, for the fourth time out of the eight years it has been awarded. Our Wholesale Ethical SRI Fund won Ethical Investor Fund of the Year in the Australian Sustainability Awards and our SHARE-PLUS Long-Short Fund won the Australian Equities Long Short category at the Money Management/Lonsec Fund Manager of the Year Awards.



Superannuation financial assistance levy 2010-11

In April 2011, the Commonwealth Government announced that it would provide financial assistance through a \$55 million grant to members of the four superannuation funds that were formerly under the trusteeship of Trio Capital Limited.

When a super fund regulated by the Australian Prudential Regulation Authority (APRA) has become the victim of fraud or similar misadventure, the trustee can apply to the Commonwealth Government for a grant to recover all or part of the loss. If the Commonwealth Government agrees to issue a grant, it may later recover the grant from other APRA regulated superannuation funds. In this way, the APRA regulated superannuation industry covers the cost of protecting itself.

The Commonwealth Government is seeking to recover the financial assistance grant through the compulsory Financial Assistance Levy (FAL) which is payable by all APRA regulated super funds. As WealthFocus Super and Pension Plans are part of an APRA regulated super fund we have paid the FAL amount calculated by APRA as an abnormal operating expense.

The flood levy and superannuation payments

The Federal Government has introduced a flood levy from 1 July 2011 that applies to individual taxpayers with a taxable income of more than \$50,000 in 2011/12, including those who receive lump sum superannuation and pension payments which form part of their taxable income.

Payments from the Perpetual WealthFocus Super and Pension Plan may be affected by the levy. For more information, go to www.perpetual.com.au/flood-levy

Fund annual reports

Annual Financial Reports for investments for the year ended 30 June 2011 will be available online by 30 September 2011. Annual Financial Reports for super and pension plan members will be available online by 31 December 2011. You can also request hard copies by phoning us on 1800 022 033.

This brochure has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and Perpetual Superannuation Limited (PSL) ABN 84 008 416 831, AFSL 225246, RSE L0003315 as trustee of the Perpetual WealthFocus Super and Pension Plans. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The relevant Product Disclosure Statement (PDS) issued by PIML or PSL should be considered before deciding whether to acquire a product. The PDS can be obtained by phoning 1800 022 033 or visiting www.perpetual.com.au. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.



Further information

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