

The Perpetual Times

February 2011

MONEY MAGAZINE FUND MANAGER OF THE YEAR

www.perpetual.com.au/adviser



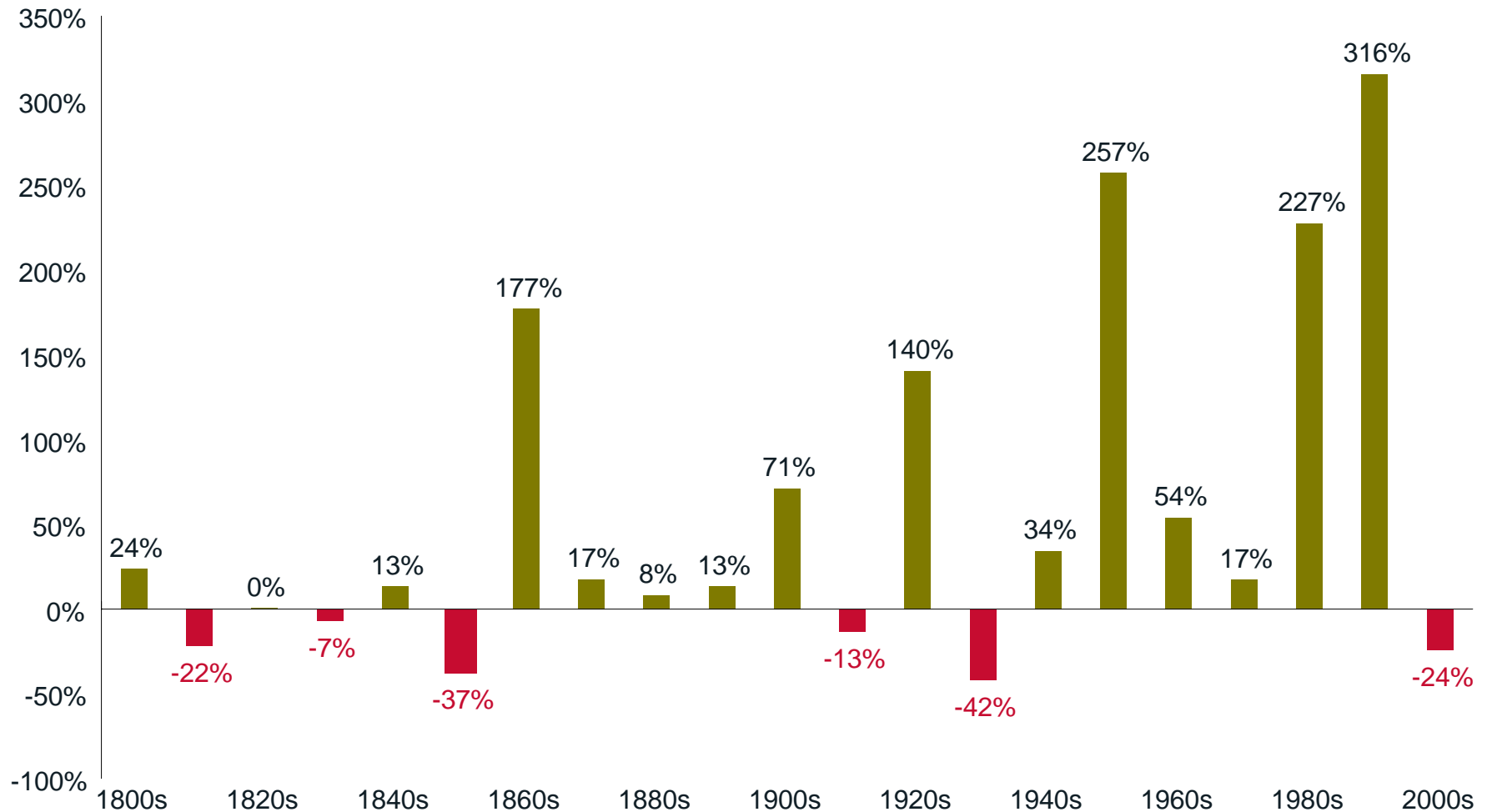
The State of the Union

Matt Sherwood, Head of Investment Markets Research

Perpetual 


Investors may be scarred by US shares

Decade average return: US sharemarket



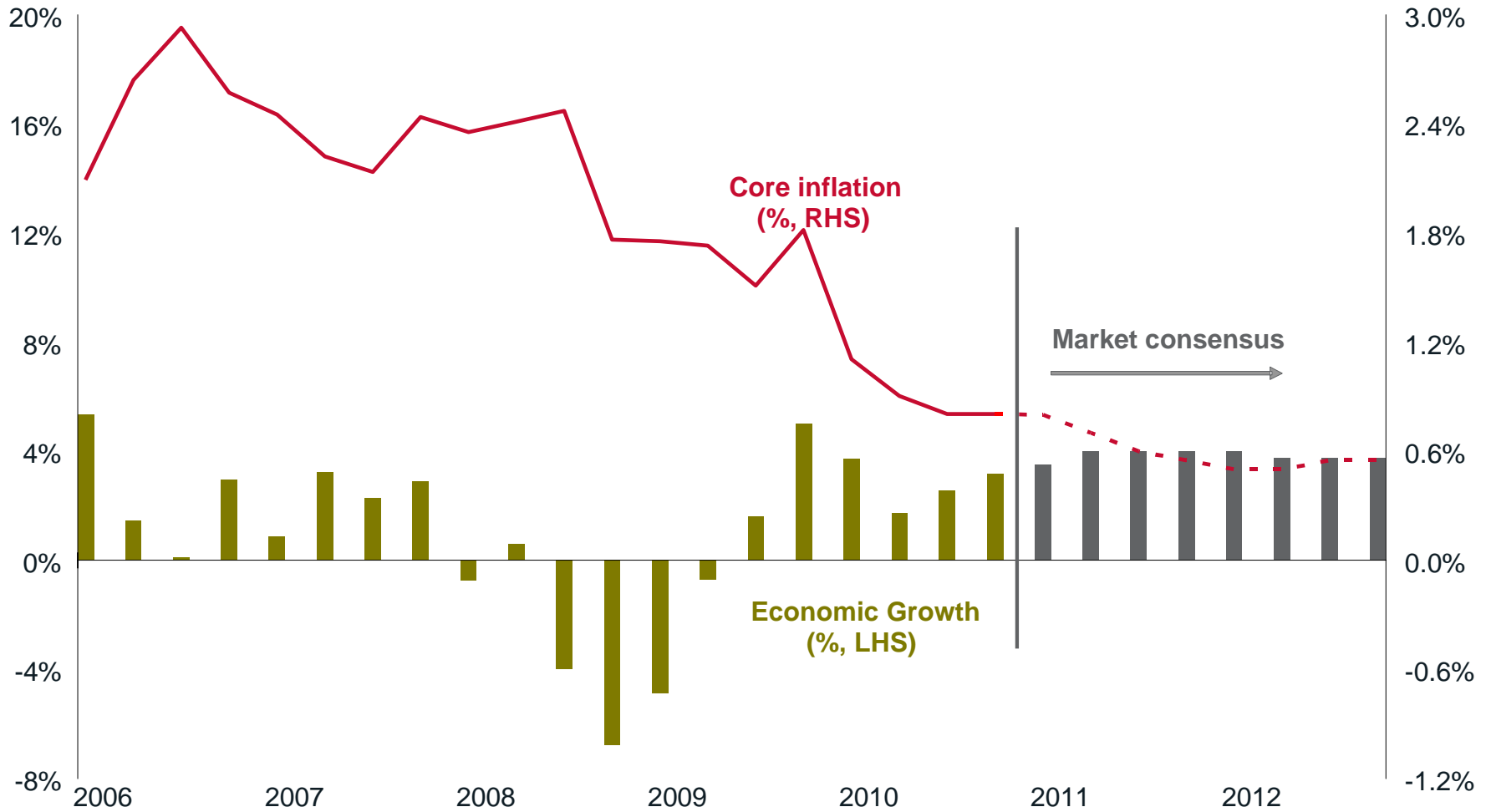
Source: Citigroup, Reserve Bank of Australia and DataStream as at 31 December 2010. US Sharemarket measured by the S&P 500 Price Index.

The inside story ...

Perpetual 


... but the US recovery is strong and sustainable

US economic growth and inflation (%)



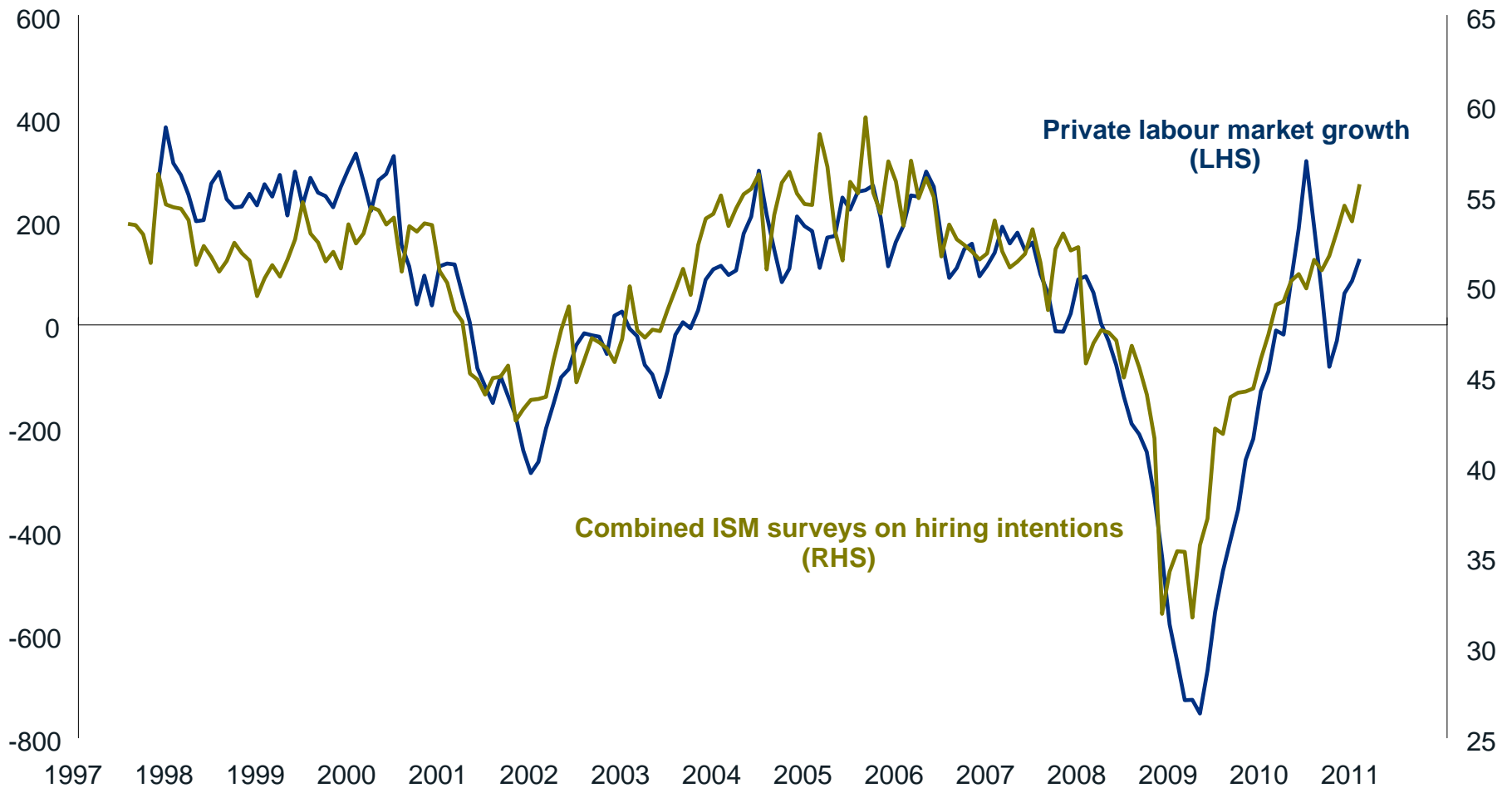
Source: US Department of Labor, US Bureau of Economic Analysis as at 31 January 2011.

The inside story ...

Perpetual 


... and the labour market recovery is imminent

Combined ISM employment series and private payrolls' growth



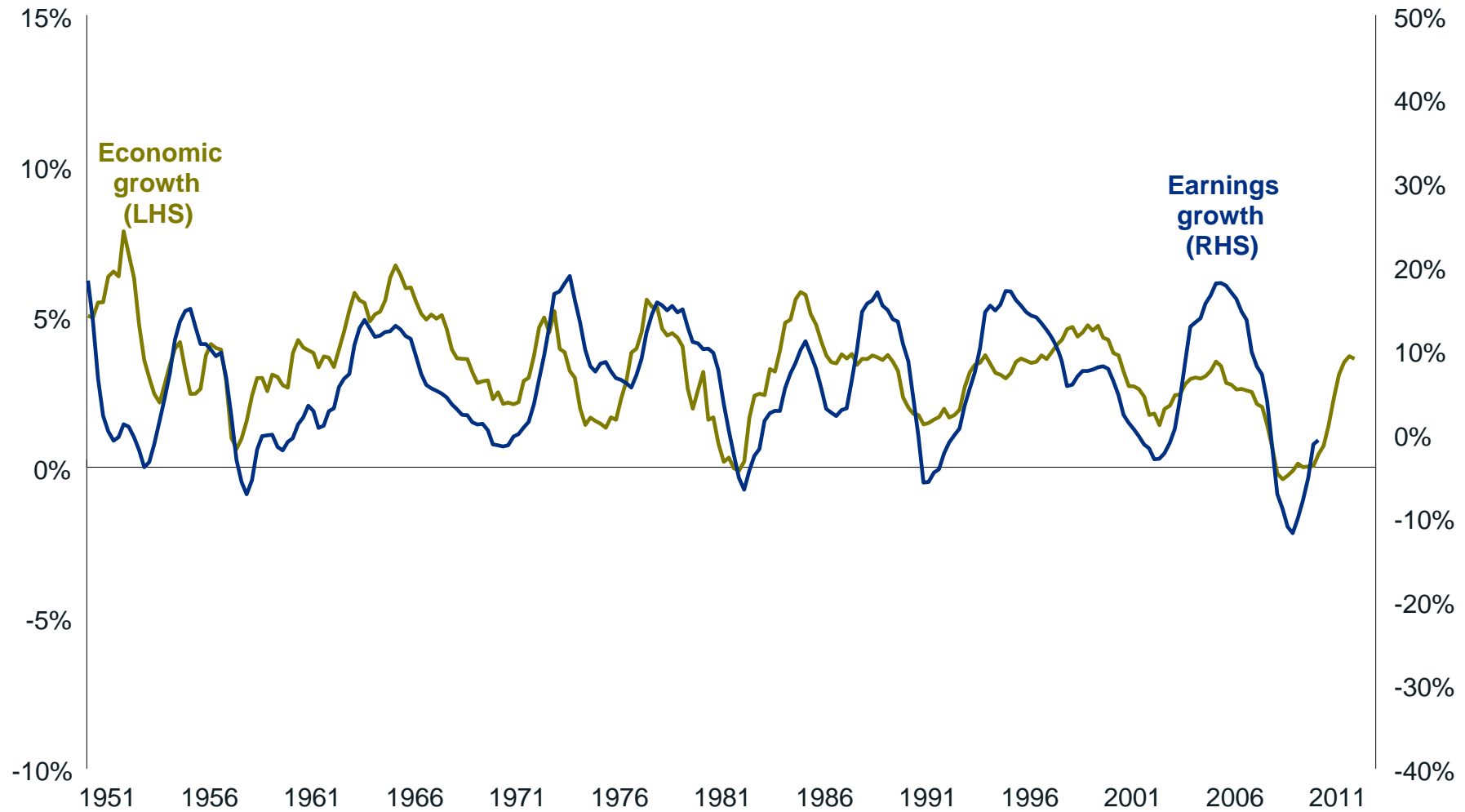
Source: Macquarie Equities as at 31 January 2011.

The inside story ...

Perpetual 


Macro-dynamics – a good environment for US shares

US economic and earnings growth (3-year %pa)



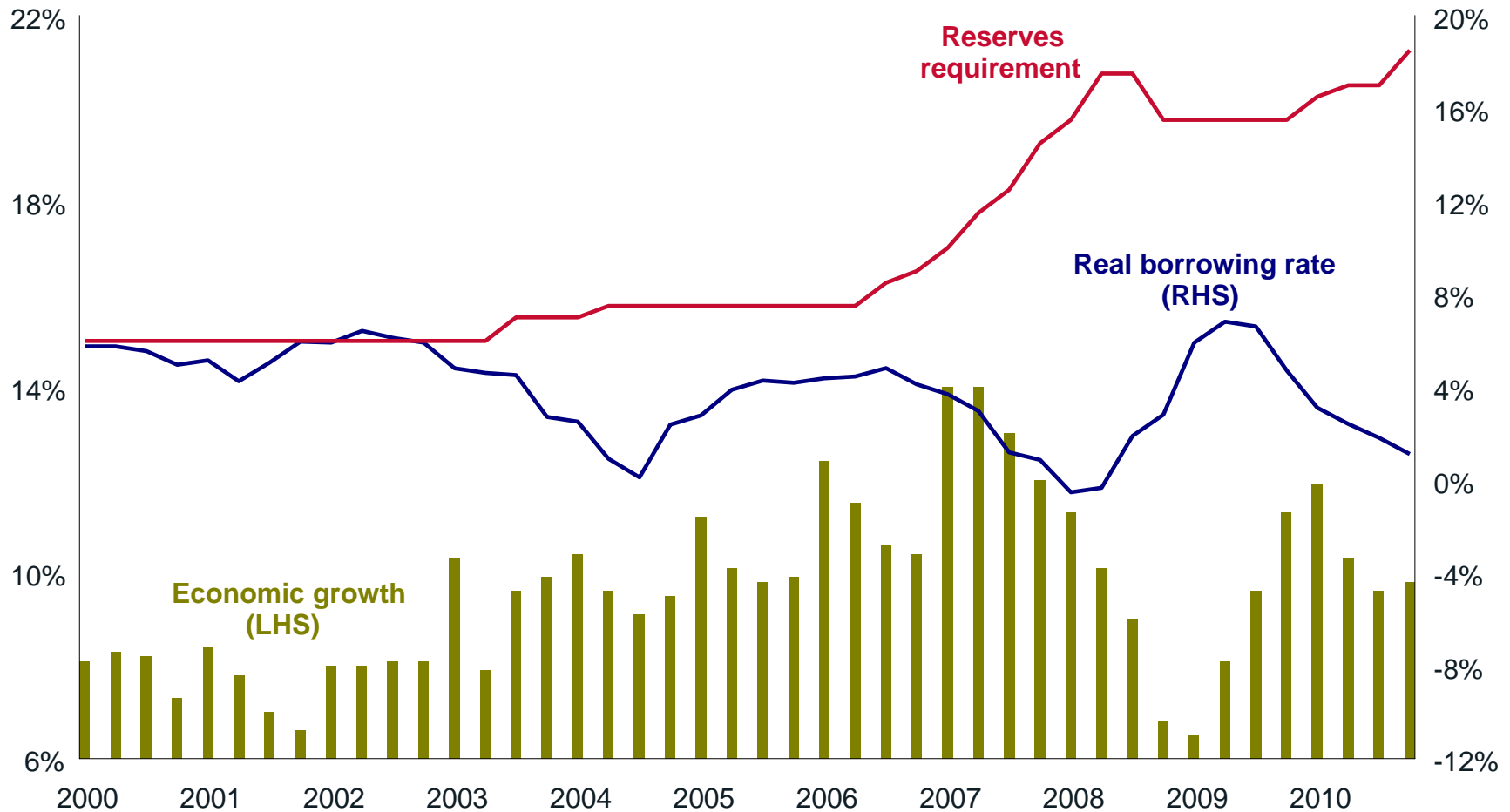
Source: Datastream as at 31 December 2010.

The inside story ...

Perpetual 


Why isn't Chinese growth slowing?

Chinese economic growth and policy settings



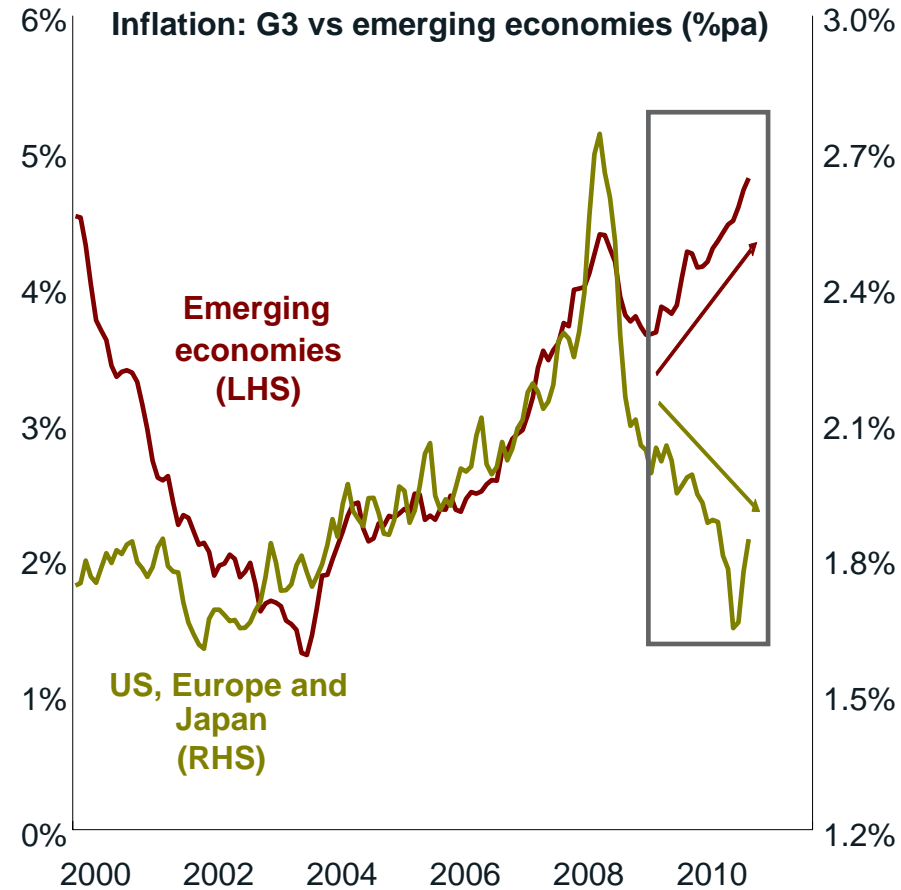
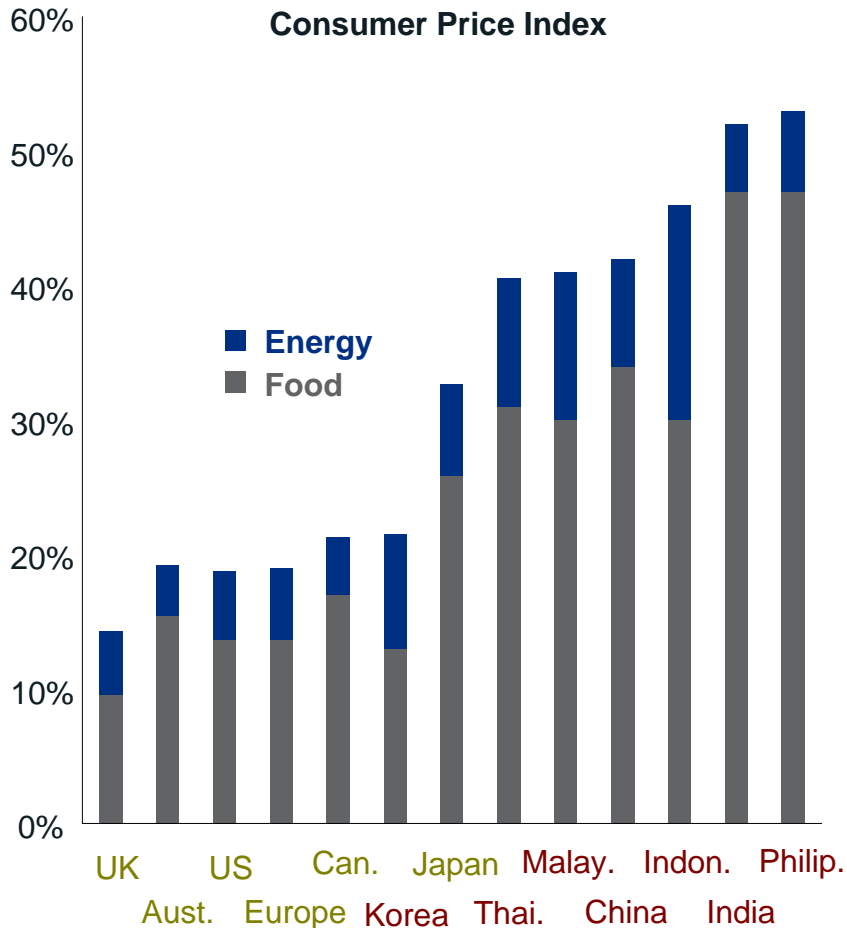
Source: DataStream as at 28 February 2011.

The inside story ...

Perpetual 

The key risk is rising Asian inflation

Composition of consumer price index and inflation: G3 vs emerging economies (% pa)

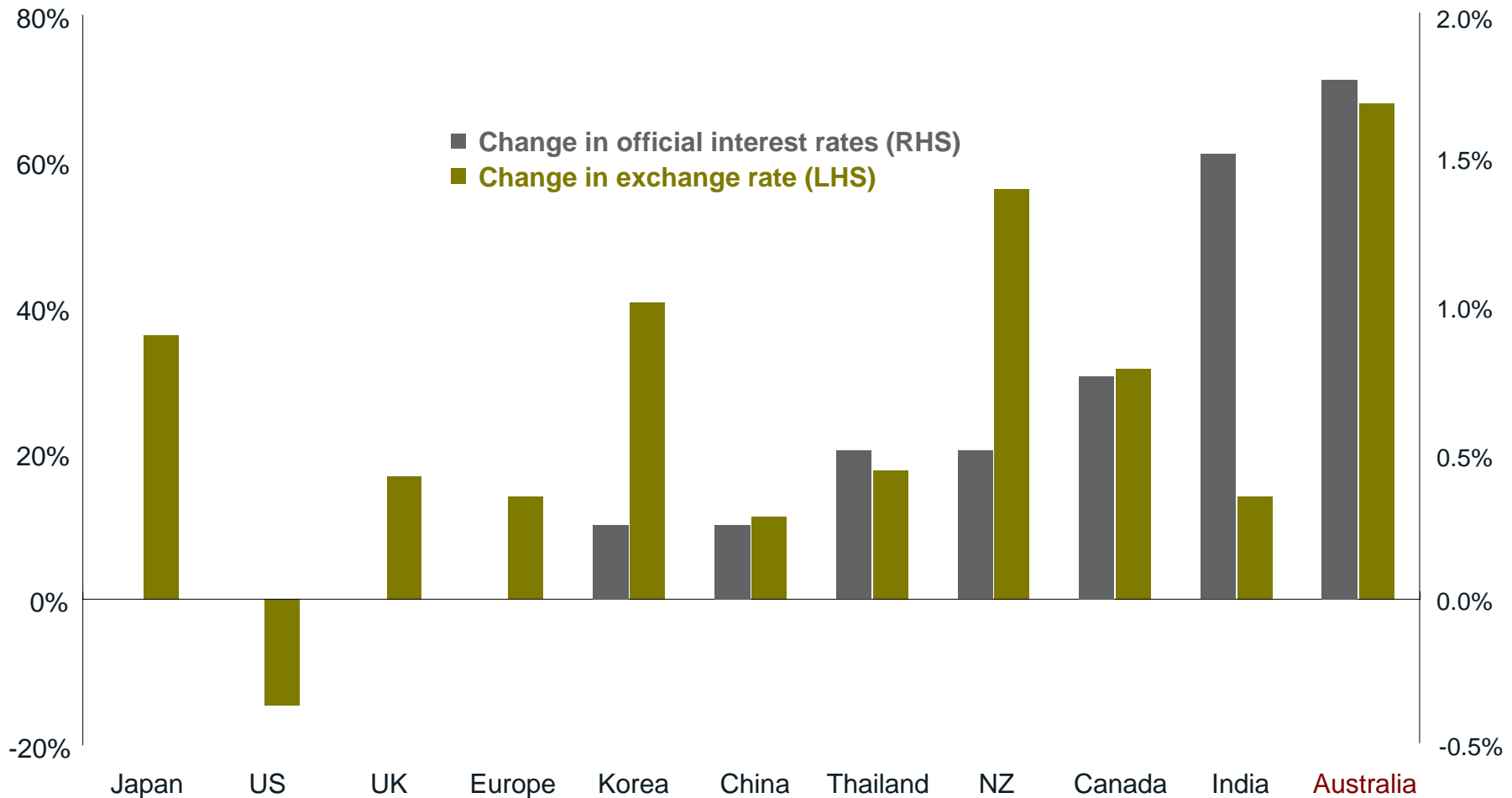


Source: Citigroup, Credit Suisse and Macquarie Equities as at 31 January 2011.

The inside story ...


Australia has experienced more policy headwinds

Change in official central bank interest rates and currency relative to US dollar (%)



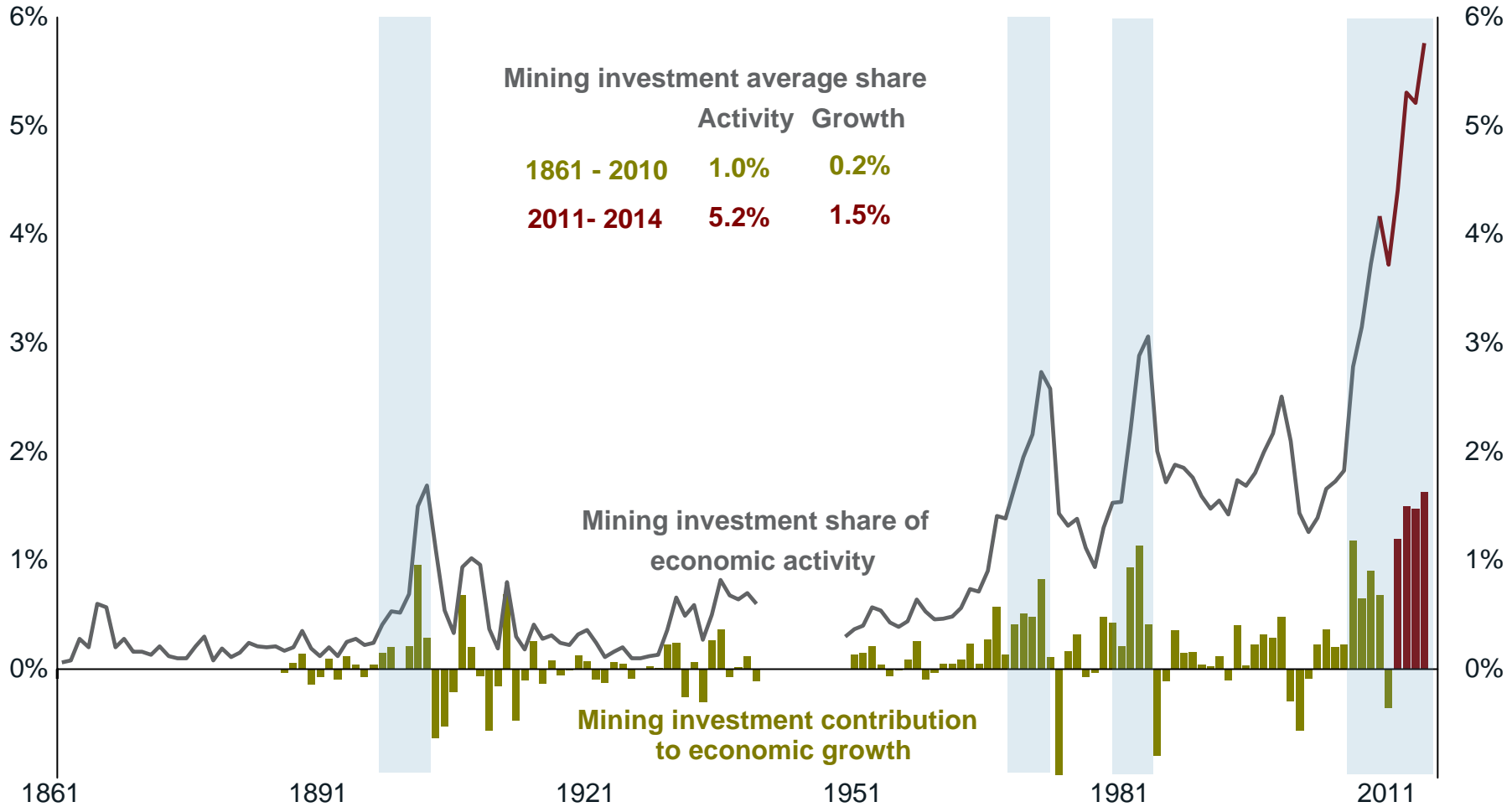
Source: DataStream and Macquarie Equities as at 7 February 2011. Change in USD is calculated using its trade-weighted index.

The inside story ...

Perpetual 

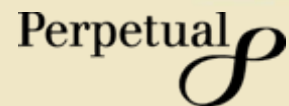
Our largest ever mining investment boom is coming

Mining investment: contribution to economic growth and nominal GDP (%)



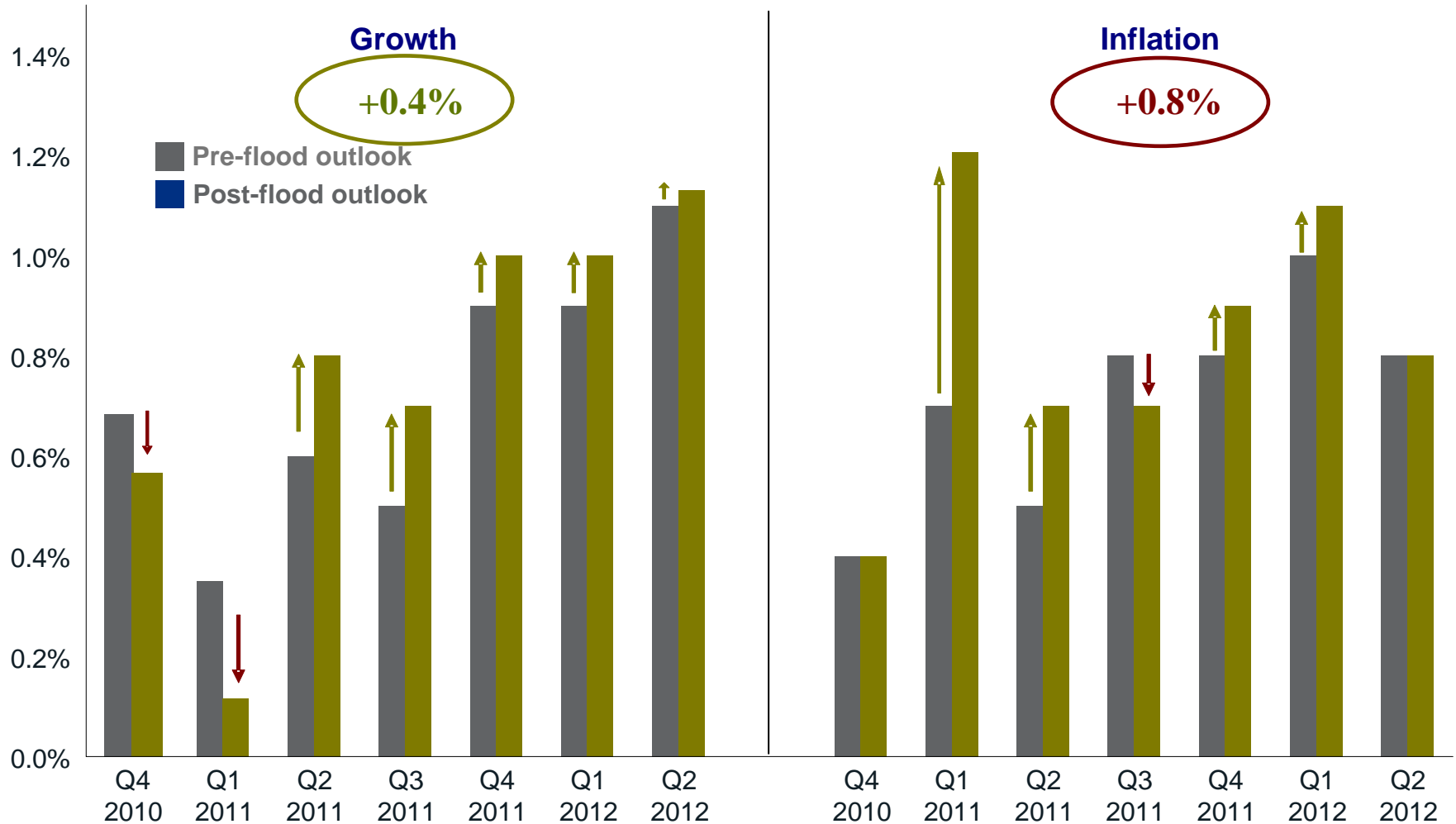
Source: UBS Australia Limited as at 31 January 2011. Forecasts are a database of investment projects from ANZ Bank.

The inside story ...




Policy settings are 12 months ahead of the economy

Quarterly economic growth and inflation (%pa, pre and post floods)



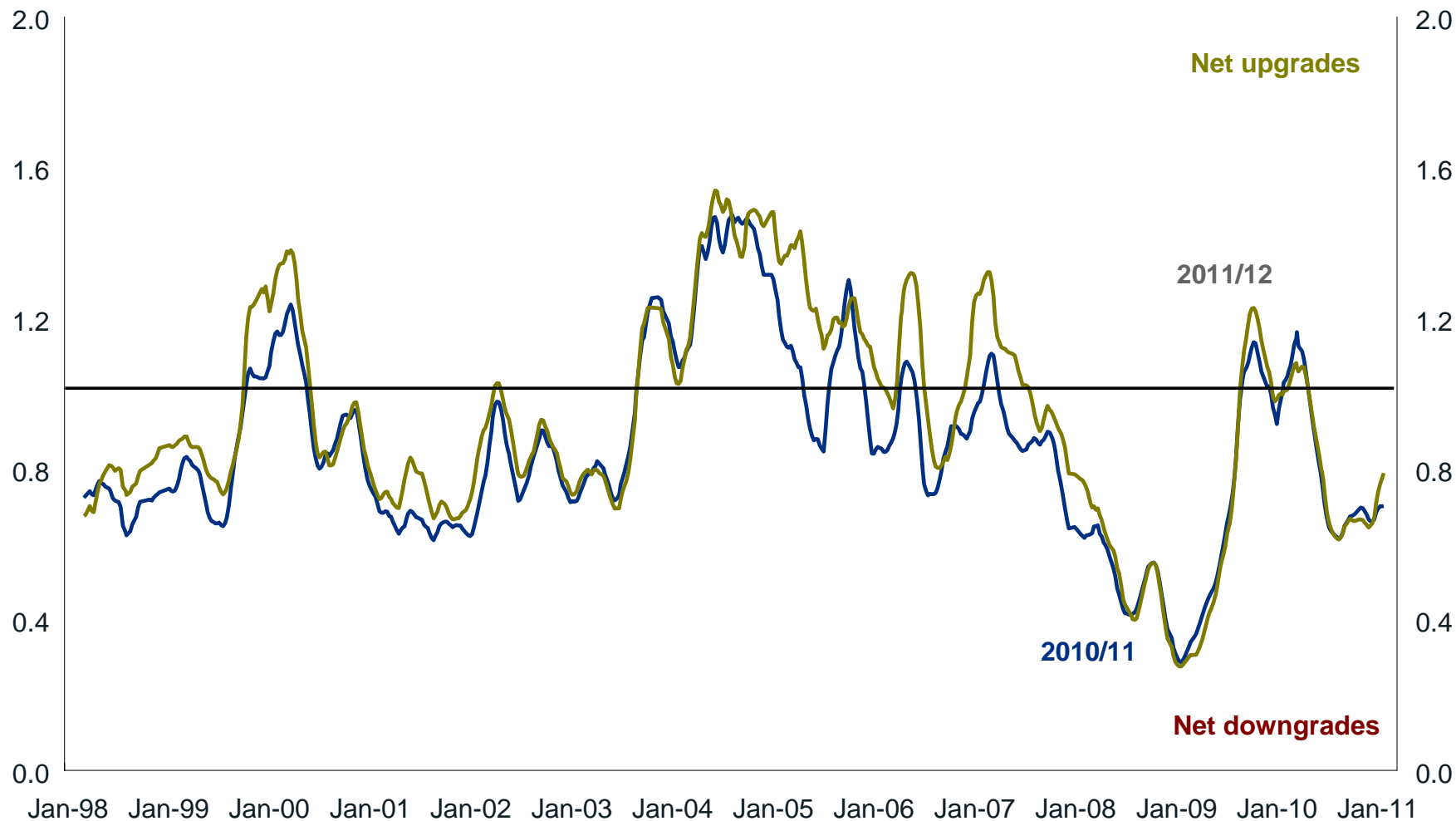
Source: Perpetual Investments as at 21 January 2011.

The inside story ...

Perpetual 


Earnings – in downgrade territory for nine months

Ratio of earnings upgrades to downgrades



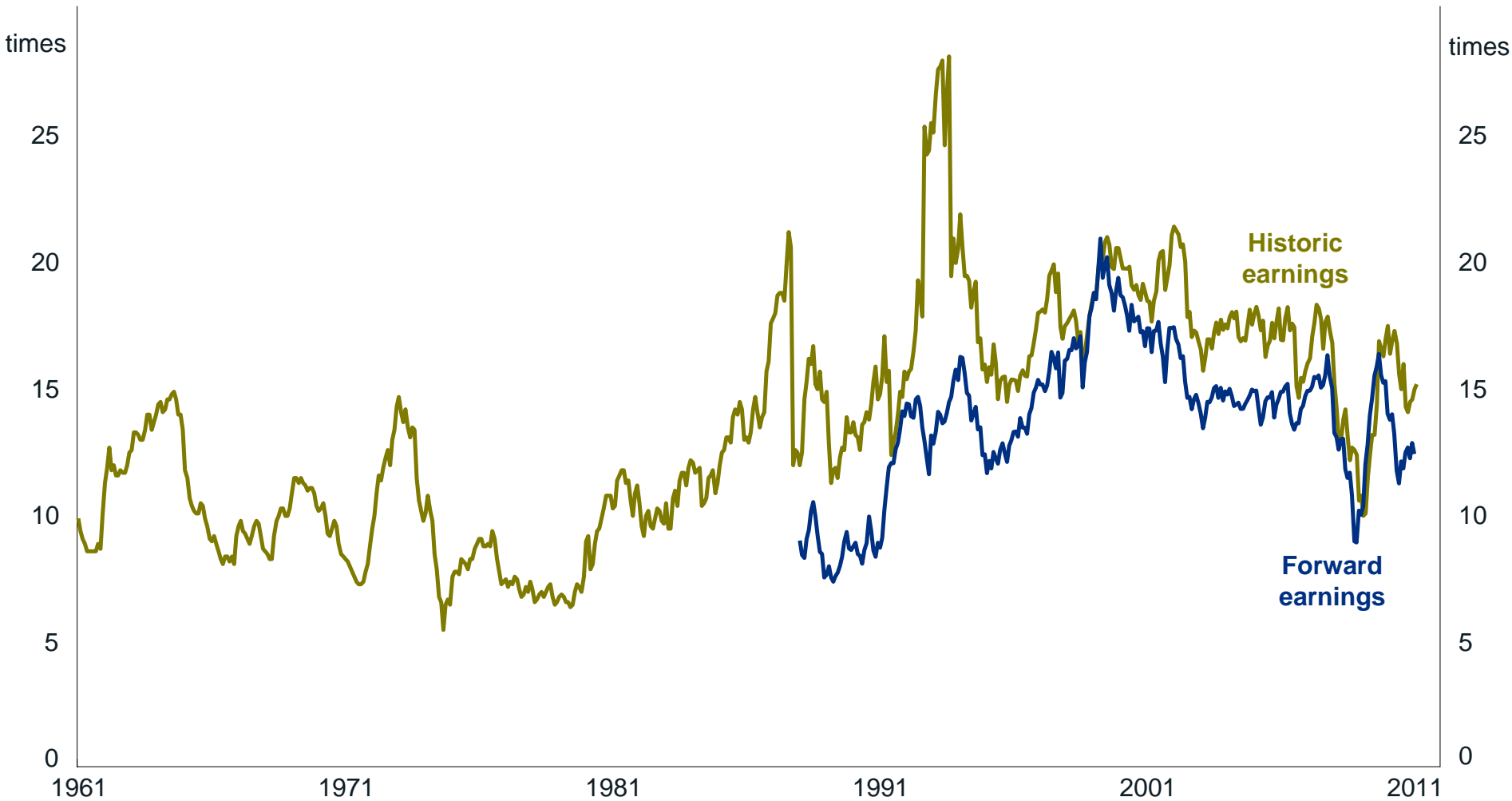
Source: Macquarie Equities as at 31 January 2011.

The inside story ...

Perpetual 


Valuations may be 'fair', but where is the value?

Australian sharemarket P/E ratios



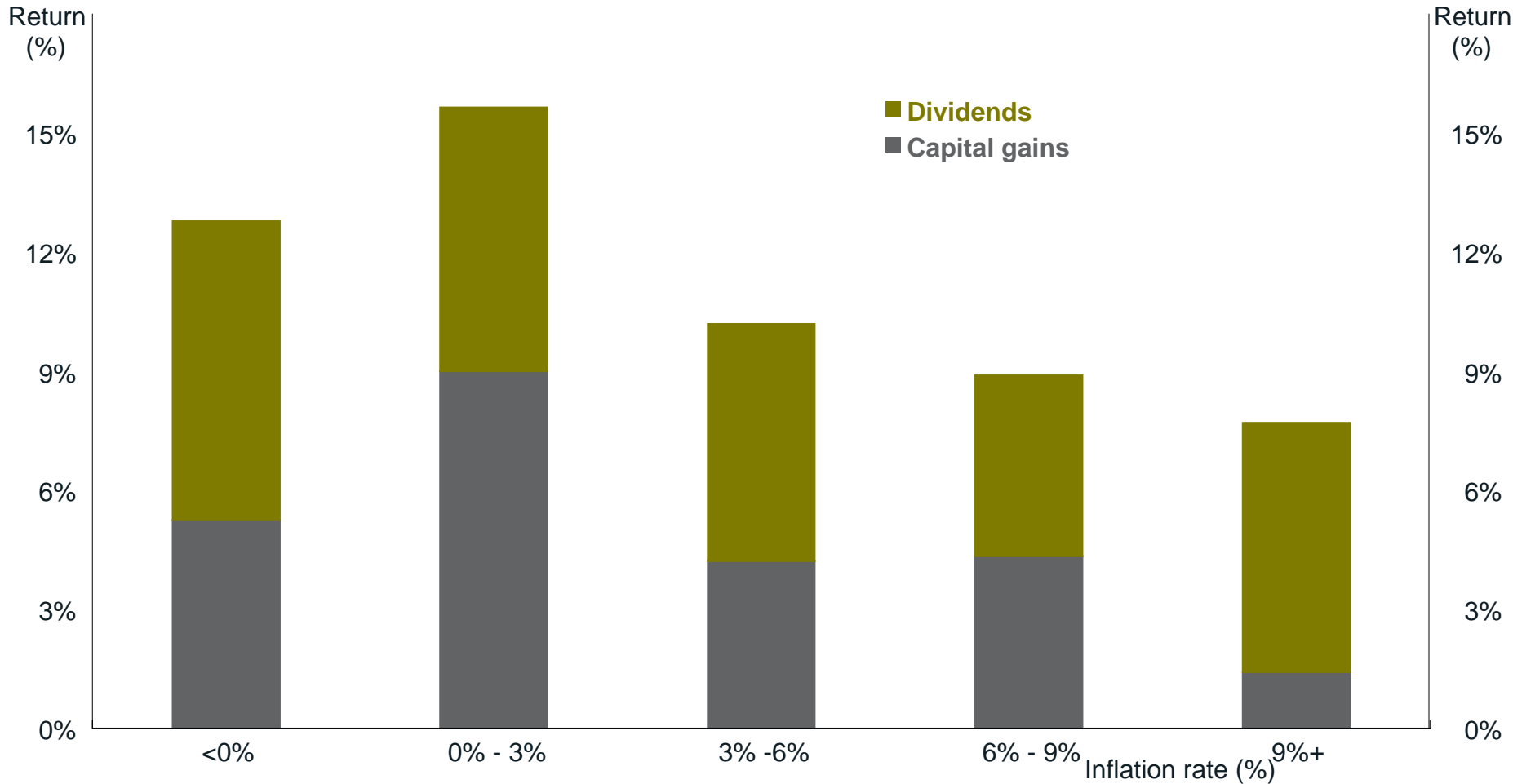
Source: Reserve Bank of Australia, UBS Australia Limited and Citigroup as at 31 January 2011.

The inside story ...

Perpetual 


The Australian sharemarket prefers low inflation

Australian sharemarket average calendar returns and inflation: 1882-2010 (%)



Source: Australian Stock Exchange as at 21 January 2011. Excludes the extreme impact of 1975, 1980, 1983 and 2008 on the annual return. Australian sharemarket measured by the Blended All Ordinaries Index.

The inside story ...

Perpetual 

Portfolio implications

- Global and Australian economies - robust in 2011 and 2012
- Earnings growth need to improve for local shares to move higher
- Valuations – skewed by resource earnings
- The era of ‘cheap money’ is over

A much better environment, but patience is required

The inside story ...

Important note

This presentation has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 for financial advisers only. It is general information only and is not intended to provide you with financial advice. 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 product disclosure statement (PDS) for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the Fund(s). The PDS can be obtained by calling 1800 062 725 or visiting www.perpetual.com.au. No company in the Perpetual Group (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.

The inside story ...

Perpetual 