

## Master Fund Quarterly Report – December 2011

<b>Australian Fund.....</b>	<b>4</b>
Total returns % (after fees) .....	4
Top 10 Stocks.....	4
Market Commentary.....	4
Portfolio Commentary .....	4
Outlook.....	5
<b>Balanced Growth Fund.....</b>	<b>6</b>
Total returns % (after fees) .....	6
Top 10 Stocks.....	6
Market Commentary.....	6
Portfolio Commentary .....	7
Outlook.....	7
<b>Concentrated Equity Fund .....</b>	<b>8</b>
Total returns % (after fees) .....	8
Top 10 Stocks.....	8
Market Commentary.....	8
Portfolio Commentary .....	8
Outlook.....	9
<b>Conservative Growth Fund .....</b>	<b>10</b>
Total returns % (after fees) .....	10
Top 10 Stocks.....	10
Market Commentary.....	10
Portfolio Commentary .....	11
Outlook.....	11
<b>Diversified Growth Fund .....</b>	<b>12</b>
Total returns % (after fees) .....	12
Top 10 Stocks.....	12
Market Commentary.....	12
Portfolio Commentary .....	13
Outlook.....	13
<b>Diversified Income Fund .....</b>	<b>14</b>
Total returns % (after fees) .....	14
Portfolio Composition .....	14
Market Commentary.....	14
Portfolio Commentary .....	15
Outlook.....	15
<b>Ethical SRI Fund .....</b>	<b>16</b>
Total returns % (after fees) .....	16
Top 10 Stocks.....	16

Market Commentary.....	16
Portfolio Commentary .....	16
Outlook.....	17
<b>Geared Australian Fund .....</b>	<b>18</b>
Total returns % (after fees) .....	18
Top 10 Stocks.....	18
Market Commentary.....	18
Portfolio Commentary .....	18
Outlook.....	19
<b>Global Resource Fund (Class B units).....</b>	<b>20</b>
Total returns % (after fees) .....	20
Top 10 Stocks.....	20
Market Commentary.....	20
Portfolio Commentary .....	20
Outlook.....	21
<b>Industrial Fund .....</b>	<b>22</b>
Total returns % (after fees) .....	22
Top 10 Stocks.....	22
Market Commentary.....	22
Portfolio Commentary .....	23
Outlook.....	23
<b>International Share Fund.....</b>	<b>24</b>
Total returns % (after fees) .....	24
Top 10 Stocks.....	24
Market Commentary.....	24
Portfolio Commentary .....	24
Outlook.....	25
<b>Monthly Income Fund.....</b>	<b>26</b>
Total returns % (after fees) .....	26
Fixed Interest Summary .....	26
Market Commentary.....	26
Portfolio Commentary .....	26
<b>Property Income Fund.....</b>	<b>28</b>
Total returns % (after fees) .....	28
Top 5 Stocks.....	28
Market Commentary.....	28
Portfolio Commentary .....	28
Outlook.....	29
<b>Property Securities Fund .....</b>	<b>30</b>
Total returns % (after fees) .....	30
Top 5 Stocks.....	30

Market Commentary.....	30
Portfolio Commentary .....	30
Outlook.....	31
<b>SHARE-PLUS Long-Short Fund.....</b>	<b>32</b>
Total returns % (after fees) .....	32
Top 10 Stocks.....	32
Market Commentary.....	32
Portfolio Commentary .....	32
Outlook.....	33
<b>Smaller Companies Fund.....</b>	<b>34</b>
Total returns % (after fees) .....	34
Top 10 Stocks.....	34
Market Commentary.....	34
Portfolio Commentary .....	34
Outlook.....	35
<b>Split Growth Fund.....</b>	<b>36</b>
Total returns % (after fees) .....	36
Top 10 Stocks.....	36
Market Commentary.....	36
Portfolio Commentary .....	36
Outlook.....	37

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## Australian Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Australian Fund	1,447.26	-0.79	1.97	-7.03	-5.96	-0.34	11.87	0.42	5.94
Benchmark*		-1.44	2.05	-9.83	-10.98	-4.76	7.67	-2.39	4.39

\* S&P/ASX 300 Accumulation Index

### Top 10 Stocks

Stock Name	%
Commonwealth Bank of Australia	11.24
Westpac Banking Corporation	8.64
Telstra Corporation Limited	6.95
BHP Billiton Limited	6.30
ANZ Banking Group Limited	5.60
Orica Limited	4.07
ASX Limited	3.40
BHP Billiton plc	3.20
New Hope Corporation Limited	3.01
News Corporation	2.53
<b>TOTAL</b>	<b>54.95</b>

### Market Commentary

The Australian share market, as measured by the S&P/ASX 300 Accumulation Index rose 2.1% over the quarter. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated \$1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were materials (-2.9%), consumer staples (-2.9%) and consumer discretionary (-0.6%). As a group, industrial stocks (+4.0%) outperformed resources stocks (-2.5%) and large companies (+2.3%) outperformed small companies (-0.6%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

### Portfolio Commentary

The Australian Share Fund underperformed its benchmark during the quarter.

The Fund's largest overweight positions include Australia's largest retail bank Commonwealth Bank, chemicals and explosives manufacturer Orica and coal miner New Hope Corporation. Commonwealth Bank generates a healthy margin on earnings and has grown these consistently over many years. Orica has a

strong balance sheet, great pricing discipline and reduced input costs. The Fund's largest underweight positions include National Australia Bank, Wesfarmers (not held) and Newcrest Mining (not held).

### **Stock Contributors**

Not holding gold miner Newcrest Mining (-12.6%) contributed to relative performance. During the quarter Newcrest announced a reduction in production guidance for the 2012 financial year to 2.43 – 2.55 million ounces of gold, from 2.78 – 2.93 million ounces. The downgrade was driven by continuing production disruptions at the company's Cadia Valley and Lihir sites, in addition to lower feed grades and recoveries from the Telfer mine. Newcrest is not held in the Fund as it is currently considered expensive relative to other quality companies within our investment universe.

Our overweight position to Commonwealth Bank (+8.1%) also contributed to relative performance. The company's share price rose over the quarter despite Standard & Poors downgrading all major banks by one notch. The downgrade is not anticipated to have any material impact on the bank's funding costs. The bank also released its September quarter trading update in November with cash earnings totalling \$1.75 billion for the period. Impairment expense decreased 19 basis points to \$256 million for the quarter, and the group's capital position remains sound with a Tier 1 capital ratio of 9.85%. We continue to like Commonwealth Bank as it generates a healthy margin on earnings and has grown these consistently over many years.

### **Stock Detractors**

Our overweight position to building materials supplier Fletcher Building (-23.1%) detracted from relative performance. The company's share price continued to be impacted by weak residential and commercial construction activity. At its annual general meeting Fletcher reaffirmed its forecast of lower earnings for the first half of the year with profits expected to fall around 10% to NZ\$150 million. Earnings for the full financial year are expected to be similar to the NZ\$359 million pre-unusuals result reported for the previous year. Fletcher provided an update on its Crane Group acquisition stating that the majority of cost synergies have now been realised. Crane is now trading in-line with expectations. We hold Fletcher Building overweight in the Fund with a through the cycle view and therefore expect it to perform well with a recovery in the New Zealand economy.

Our overweight position to bauxite miner and Aluminium smelter Alumina (-24.7%) also detracted from relative performance. The company's share price was impacted by falling aluminium prices during the quarter. Alumina owns 40% of AWAC, a joint venture between Alumina Limited and Alcoa Inc. AWAC is the world's largest bauxite miner with seven mines, and has eight refineries with 17.2 million tonnes per annum of capacity. The company recently held an investor update, where it highlighted the clear trend of alumina being priced based on its own underlying economics rather than being linked to aluminium prices. This has resulted in an increase in realised alumina prices and is expected to assist earnings growth moving forward. With regard to ESG, we have begun a process of engaging with the company on their ESG disclosure. While we are satisfied that Alcoa's management of AWAC's ESG risks is world leading, we would like to see clearer disclosure from Alumina so that the specific AWAC assets are being assessed.

### **Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Balanced Growth Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Balanced Growth Fund	715.80	0.12	2.76	-2.31	-0.05	1.45	5.42	-0.37	3.33
Benchmark*		-0.09	2.19	-2.76	-1.01	1.33	5.12	-0.27	3.99

\* The Benchmark indices are calculated using a weighted combination of the following sector benchmarks:

UBS Bank Bill Index, UBS All Maturities Composite Bond Index, S&P/ASX 300 Accumulation Index, MSCI World ex Aust Accumulation Index (A\$) and MSCI World ex Australia Accumulation Index (Hedged to \$A) (developed component) and MSCI Emerging Markets Index (A\$) (emerging markets component), UBS Australian Government 3 to 5 Year Bond Index and UBS Bank Bill Index plus 3%

### Top 10 Stocks

Stock Name	Country	%
Commonwealth Bank of Australia	Australia	3.99
Westpac Banking Corporation	Australia	3.07
BHP Billiton Limited	Australia	2.71
Telstra Corporation Limited	Australia	2.42
ANZ Banking Group Limited	Australia	2.10
Orica Limited	Australia	1.31
ASX Limited	Australia	1.08
BHP Billiton plc	United Kingdom	0.98
Rio Tinto Limited	Australia	0.95
New Hope Corporation Limited	Australia	0.92
<b>TOTAL</b>		<b>19.53</b>

### Market Commentary

The MSCI World ex Australia Accumulation Index rose 2.0% over the quarter in dollar terms. Most major equity markets staged a recovery in the final quarter of the year, led by the S&P 500 (+11.8%), FTSE 100 (+9.4%) and Euro Stoxx 50 (+6.3%), though returns to Australian investors were impacted by an appreciating currency. In October, European leaders announced an estimated €1 trillion rescue package for indebted governments and banks. This was followed with a Longer-Term Refinancing Operation conducted by the European Central Bank to ease funding pressures. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on Negative Watch, indicating a strong chance of downgrade in the next 6 to 24 months.

The S&P/ASX 300 Accumulation Index rose 2.1% over the quarter as investor sentiment fluctuated similarly in response to news flow from Europe. In major company news, Qantas grounded its entire fleet after being unable to resolve an industrial relations dispute with three unions. Retailers were also in the spotlight following a number of downgrades prior to the Christmas trading period from companies including Billabong, Kathmandu and JB Hi-Fi.

The December quarter began with growing optimism reversing the significant level of risk aversion seen in the previous quarter. Signs of progress emerged with the proposal of a Greek debt restructure and large scale bank recapitalisations. A rally in credit spread was further supported by robust macro data out of the US and the improving trend in corporate earnings.

## Portfolio Commentary

The Balanced Growth Fund outperformed its benchmark during the quarter.

### Asset Allocation

Asset allocation was neutral over the quarter. The portfolio was overweight Australian equities during the quarter with maximum positions held in November and December. Value in the fourth quarter was encouraging as historic price-earnings multiple became relatively cheap against long term government bond yields. Price and earnings momentum also confirmed positive signals. Allocation to fixed income was modestly overweight. A softening domestic economy combined with falling short term local and long term US rates confirmed market advantage to bonds. However, the asset class appeared expensive when measured using inflation-adjusted local to US yields.

### Stock Selection

Excess from stock selection was additive with most asset classes outperforming their respective benchmarks. The Australian equity portfolio outperformed against a broad market sell-off. Commonwealth Bank (CBA) and BHP Billiton supported relative returns over the quarter. CBA's share price rose over the quarter despite Standard & Poors downgrading all major banks by one notch. The downgrade is not anticipated to have any material impact on the bank's funding costs. The bank also released its September quarter trading update in November with cash earnings totalling \$1.75 billion for the period.

The global equities portfolio also outperformed. Our position to Marsh & McLennan contributed to performance over the quarter. Marsh & McLennan is a global provider of risk management services and insurance services via Marsh Inc, and consulting services through the Mercer Group and Oliver Wyman. The company recently reported a strong set of third quarter results with total revenues growing 11% to \$2.8 billion, driven by organic growth of 5% in risk and insurance and organic growth of 6% in consulting.

The fixed income portfolio beat benchmark returns. Superior running yield across all corporate and collateralised sectors was the main driver of excess return. Yield curve management also proved successful mitigating much of the significant bond rally over the quarter.

## Outlook

Our economic outlook for growth has not changed materially in recent months. We continue to expect weaker than normal trend growth in the developed markets. Economic data in the second and third quarters pointed to a slowing of economic activity beyond that caused by the earthquake in Japan. In addition, the extent of negative news, combined with the confidence crisis created by the market downturn and continuing debt issues in Europe and the US, have raised the probability of a recession.

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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.

The outlook for credit markets remains cautiously positive. Demand remains soft though a great deal of negative sentiment has already been priced into the market. As such we see some scope in adding risk opportunistically. Our portfolios at present continue to remain defensive, holding elevated amounts of cash and favouring higher rated credits with shorter spread durations.

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## Concentrated Equity Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Concentrated Equity Fund	719.24	-1.10	1.70	-5.83	-3.85	-0.44	12.19	1.60	6.57
Benchmark*		-1.44	2.05	-9.83	-10.98	-4.76	7.67	-2.39	4.39

\* S&P/ASX 300 Accumulation Index

### Top 10 Stocks

Stock Name	%
Commonwealth Bank of Australia	9.48
Westpac Banking Corporation	8.03
Telstra Corporation Limited	5.90
ANZ Banking Group Limited	4.78
BHP Billiton plc	4.62
BHP Billiton Limited	4.44
Orica Limited	4.30
Rio Tinto plc	4.22
New Hope Corporation Limited	3.99
Crown Limited	3.94
<b>TOTAL</b>	<b>53.70</b>

### Market Commentary

The Australian share market, as measured by the S&P/ASX 300 Accumulation Index rose 2.1% over the quarter. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated \$1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were materials (-2.9%), consumer staples (-2.9%) and consumer discretionary (-0.6%). As a group, industrial stocks (+4.0%) outperformed resources stocks (-2.5%) and large companies (+2.3%) outperformed small companies (-0.6%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

### Portfolio Commentary

The Concentrated Equity Fund underperformed its benchmark during the quarter.

The Fund's largest overweight positions include explosives manufacturer Orica, entertainment group Crown and coal miner New Hope Corporation. Orica has a strong balance sheet, great pricing discipline and reduced input costs. Crown is poised for an earnings uplift while we expect the large capital expenditure

that has taken place over the last few years to slow. The Fund's largest underweight positions include National Australia Bank, Newcrest Mining (not held) and BHP Billiton.

### **Stock Contributors**

Not holding gold miner Newcrest Mining (-12.6%) contributed to relative performance. Over the quarter Newcrest announced a reduction in production guidance for the 2012 financial year to 2.43 – 2.55 million ounces of gold, from 2.78 – 2.93 million ounces. The downgrade was driven by continuing production disruptions at the company's Cadia Valley and Lihir sites, in addition to lower feed grades and recoveries from the Telfer mine. Newcrest is not held in the Fund as it is currently considered expensive relative to other quality companies within our investment universe.

Our underweight position to diversified miner BHP Billiton (-1.7%) also contributed to relative performance. BHP's share price underperformed as the company was impacted by price falls in copper and aluminium as well as a softening in demand for raw materials from China. BHP recently approved the development of the Caval Ridge Mine project and expansion of the Peak Downs Mine in the northern Bowen Basin in Central Queensland. The initial project is expected to add eight million tonnes of capacity per year in export metallurgical coal with a rapid, low cost expansion to 10 million tonnes per year. The Fund's exposure to BHP is held through both the Australian and United Kingdom listings, with the latter trading at significant discount to the Australian share price. BHP is held underweight in the Fund as it is currently considered expensive relative to other quality companies in our universe.

### **Stock Detractors**

Our overweight position to bauxite miner and Aluminium smelter Alumina (-24.7%) detracted from relative performance. The company's share price was impacted by falling aluminium prices during the quarter. Alumina owns 40% of AWAC, a joint venture between Alumina Limited and Alcoa Inc. AWAC is the world's largest bauxite miner with seven mines, and has eight refineries with 17.2 million tonnes per annum of capacity. The company recently held an investor update, where it highlighted the clear trend of alumina being priced based on its own underlying economics rather than being linked to aluminium prices. This has resulted in an increase in realised alumina prices and is expected to assist earnings growth moving forward. With regard to ESG, we have begun a process of engaging with the company on their ESG disclosure. While we are satisfied that Alcoa's management of AWAC's ESG risks is world leading, we would like to see clearer disclosure from Alumina so that the specific AWAC assets are being assessed.

Our overweight position to building materials supplier Fletcher Building (-23.1%) also detracted from relative performance. The company's share price continued to be impacted by weak residential and commercial construction activity. At its annual general meeting Fletcher reaffirmed its forecast of lower earnings for the first half of the year with profits expected to fall around 10% to NZ\$150 million. Earnings for the full financial year are expected to be similar to the NZ\$359 million pre-unusuals result reported for the previous year. Fletcher provided an update on its Crane Group acquisition stating that the majority of cost synergies have now been realised. Crane is now trading in-line with expectations. We hold Fletcher Building overweight in the Fund with a through the cycle view and therefore expect it to perform well with a recovery in the New Zealand economy.

### **Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Conservative Growth Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Conservative Growth Fund	183.64	0.25	2.07	1.35	4.62	4.76	6.50	3.91	5.36
Benchmark*		0.37	2.03	1.77	4.73	4.76	6.04	3.51	5.35

\* The Benchmark indices are calculated using a weighted combination of the following sector benchmarks:

UBS Bank Bill Index, UBS All Maturities Composite Bond Index, S&P/ASX 300 Accumulation Index, MSCI World ex Aust Accumulation Index (A\$) and MSCI World ex Australia Accumulation Index (Hedged to \$A) (developed component) and MSCI Emerging Markets Index (A\$) (emerging markets component), UBS Australian Government 3 to 5 Year Bond Index and UBS Bank Bill Index plus 3%

### Top 10 Stocks

Stock Name	Country	%
Commonwealth Bank of Australia	Australia	1.72
Westpac Banking Corporation	Australia	1.33
BHP Billiton Limited	Australia	1.32
Telstra Corporation Limited	Australia	1.03
ANZ Banking Group Limited	Australia	0.94
Westfield Group	Australia	0.76
Australand Wholesale Property Fund No 6	Unlisted	0.64
Stockland	Australia	0.56
Orica Limited	Australia	0.52
Mirvac Wholesale Hotel Fund	Unlisted	0.44
<b>TOTAL</b>		<b>9.27</b>

### Market Commentary

The MSCI World ex Australia Accumulation Index rose 2.0% over the quarter in dollar terms. Most major equity markets staged a recovery in the final quarter of the year, led by the S&P 500 (+11.8%), FTSE 100 (+9.4%) and Euro Stoxx 50 (+6.3%), though returns to Australian investors were impacted by an appreciating currency. In October, European leaders announced an estimated €1 trillion rescue package for indebted governments and banks. This was followed with a Longer-Term Refinancing Operation conducted by the European Central Bank to ease funding pressures. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on Negative Watch, indicating a strong chance of downgrade in the next 6 to 24 months.

The S&P/ASX 300 Accumulation Index rose 2.1% over the quarter as investor sentiment fluctuated similarly in response to news flow from Europe. In major company news, Qantas grounded its entire fleet after being unable to resolve an industrial relations dispute with three unions. Retailers were also in the spotlight following a number of downgrades prior to the Christmas trading period from companies including Billabong, Kathmandu and JB Hi-Fi.

The December quarter began with growing optimism reversing the significant level of risk aversion seen in the previous quarter. Signs of progress emerged with the proposal of a Greek debt restructure and large scale bank recapitalisations. A rally in credit spread was further supported by robust macro data out of the US and the improving trend in corporate earnings.

## Portfolio Commentary

The Conservative Growth Fund outperformed its benchmark during the quarter.

### Asset Allocation

Asset allocation was neutral over the quarter. The portfolio was overweight Australian equities during the quarter with maximum positions held in November and December. Value in the fourth quarter was encouraging as historic price-earnings multiple became relatively cheap against long term government bond yields. Price and earnings momentum also confirmed positive signals. Allocation to fixed income was modestly overweight. A softening domestic economy combined with falling short term local and long term US rates confirmed market advantage to bonds. However, the asset class appeared expensive when measured using inflation-adjusted local to US yields.

### Stock Selection

Excess from stock selection was additive with most asset classes outperforming their respective benchmarks. The Australian equity portfolio outperformed against a broad market sell-off. Commonwealth Bank (CBA) and BHP Billiton supported relative returns over the quarter. CBA's share price rose over the quarter despite Standard & Poors downgrading all major banks by one notch. The downgrade is not anticipated to have any material impact on the bank's funding costs. The bank also released its September quarter trading update in November with cash earnings totalling \$1.75 billion for the period.

The global equities portfolio also outperformed. Our position to Marsh & McLennan contributed to performance over the quarter. Marsh & McLennan is a global provider of risk management services and insurance services via Marsh Inc, and consulting services through the Mercer Group and Oliver Wyman. The company recently reported a strong set of third quarter results with total revenues growing 11% to \$2.8 billion, driven by organic growth of 5% in risk and insurance and organic growth of 6% in consulting.

The fixed income portfolio beat benchmark returns. Superior running yield across all corporate and collateralised sectors was the main driver of excess return. Yield curve management also proved successful mitigating much of the significant bond rally over the quarter.

## Outlook

Our economic outlook for growth has not changed materially in recent months. We continue to expect weaker than normal trend growth in the developed markets. Economic data in the second and third quarters pointed to a slowing of economic activity beyond that caused by the earthquake in Japan. In addition, the extent of negative news, combined with the confidence crisis created by the market downturn and continuing debt issues in Europe and the US, have raised the probability of a recession.

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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.

The outlook for credit markets remains cautiously positive. Demand remains soft though a great deal of negative sentiment has already been priced into the market. As such we see some scope in adding risk opportunistically. Our portfolios at present continue to remain defensive, holding elevated amounts of cash and favouring higher rated credits with shorter spread durations.

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## Diversified Growth Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Diversified Growth Fund	27.18	0.34	2.54	-0.33	2.29	3.16	5.64	1.77	4.29
Benchmark*		0.10	2.02	-0.83	1.33	2.61	5.21	1.14	4.25

\* The Benchmark indices are calculated using a weighted combination of the following sector benchmarks:

UBS Bank Bill Index, UBS All Maturities Composite Bond Index, S&P/ASX 300 Accumulation Index, MSCI World ex Aust Accumulation Index (A\$) and MSCI World ex Australia Accumulation Index (Hedged to \$A) (developed component) and MSCI Emerging Markets Index (A\$) (emerging markets component), UBS Australian Government 3 to 5 Year Bond Index and UBS Bank Bill Index plus 3%

### Top 10 Stocks

Stock Name	Country	%
Commonwealth Bank of Australia	Australia	2.43
Westpac Banking Corporation	Australia	1.87
Telstra Corporation Limited	Australia	1.52
BHP Billiton Limited	Australia	1.20
ANZ Banking Group Limited	Australia	1.17
Orica Limited	Australia	0.93
ASX Limited	Australia	0.78
BHP Billiton plc	United Kingdom	0.75
New Hope Corporation Limited	Australia	0.70
Australand Wholesale Property Fund No 6	Unlisted	0.63
<b>TOTAL</b>		<b>11.97</b>

### Market Commentary

The MSCI World ex Australia Accumulation Index rose 2.0% over the quarter in dollar terms. Most major equity markets staged a recovery in the final quarter of the year, led by the S&P 500 (+11.8%), FTSE 100 (+9.4%) and Euro Stoxx 50 (+6.3%), though returns to Australian investors were impacted by an appreciating currency. In October, European leaders announced an estimated €1 trillion rescue package for indebted governments and banks. This was followed with a Longer-Term Refinancing Operation conducted by the European Central Bank to ease funding pressures. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on Negative Watch, indicating a strong chance of downgrade in the next 6 to 24 months.

The S&P/ASX 300 Accumulation Index rose 2.1% over the quarter as investor sentiment fluctuated similarly in response to news flow from Europe. In major company news, Qantas grounded its entire fleet after being unable to resolve an industrial relations dispute with three unions. Retailers were also in the spotlight following a number of downgrades prior to the Christmas trading period from companies including Billabong, Kathmandu and JB Hi-Fi.

The December quarter began with growing optimism reversing the significant level of risk aversion seen in the previous quarter. Signs of progress emerged with the proposal of a Greek debt restructure and large scale bank recapitalisations. A rally in credit spread was further supported by robust macro data out of the US and the improving trend in corporate earnings.

## Portfolio Commentary

The Diversified Growth Fund outperformed its benchmark during the quarter.

### Asset Allocation

Asset allocation was neutral over the quarter. The portfolio was overweight Australian equities during the quarter with maximum positions held in November and December. Value in the fourth quarter was encouraging as historic price-earnings multiple became relatively cheap against long term government bond yields. Price and earnings momentum also confirmed positive signals. Allocation to fixed income was modestly overweight. A softening domestic economy combined with falling short term local and long term US rates confirmed market advantage to bonds. However, the asset class appeared expensive when measured using inflation-adjusted local to US yields.

### Stock Selection

Excess from stock selection was additive with most asset classes outperforming their respective benchmarks. The Australian equity portfolio outperformed against a broad market sell-off. Commonwealth Bank (CBA) and BHP Billiton supported relative returns over the quarter. CBA's share price rose over the quarter despite Standard & Poors downgrading all major banks by one notch. The downgrade is not anticipated to have any material impact on the bank's funding costs. The bank also released its September quarter trading update in November with cash earnings totalling \$1.75 billion for the period.

The global equities portfolio also outperformed. Our position to Marsh & McLennan contributed to performance over the quarter. Marsh & McLennan is a global provider of risk management services and insurance services via Marsh Inc, and consulting services through the Mercer Group and Oliver Wyman. The company recently reported a strong set of third quarter results with total revenues growing 11% to \$2.8 billion, driven by organic growth of 5% in risk and insurance and organic growth of 6% in consulting.

The fixed income portfolio beat benchmark returns. Superior running yield across all corporate and collateralised sectors was the main driver of excess return. Yield curve management also proved successful mitigating much of the significant bond rally over the quarter.

## Outlook

Our economic outlook for growth has not changed materially in recent months. We continue to expect weaker than normal trend growth in the developed markets. Economic data in the second and third quarters pointed to a slowing of economic activity beyond that caused by the earthquake in Japan. In addition, the extent of negative news, combined with the confidence crisis created by the market downturn and continuing debt issues in Europe and the US, have raised the probability of a recession.

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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.

The outlook for credit markets remains cautiously positive. Demand remains soft though a great deal of negative sentiment has already been priced into the market. As such we see some scope in adding risk opportunistically. Our portfolios at present continue to remain defensive, holding elevated amounts of cash and favouring higher rated credits with shorter spread durations.

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## Diversified Income Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Diversified Income Fund	283.98	0.47	1.12	1.83	5.85	7.72	7.33	3.96	-
Benchmark*		0.40	1.22	2.47	5.00	4.83	4.38	5.48	5.60

\* UBS Australian Bank Bill Index

### Portfolio Composition

<b>Core Component Ratings</b>	<b>94.77%</b>
Cash	17.64%
AAA	28.76%
AA	18.23%
A	19.07%
BBB	11.06%
<b>Plus Component breakdown</b>	<b>5.23%</b>
BB	0.17%
B	0.10%
CCC	0.00%
CC	0.00%
C	0.00%
D	0.00%
Unrated **	4.96%

- Includes cash and short term bank securities.
- \*\* Includes 1<sup>st</sup> and Mezzanine Mortgages

### Market Commentary

The December quarter began with growing optimism reversing the significant level of risk aversion seen in the previous quarter. Signs of progress emerged with the proposal of a Greek debt restructure and large scale bank recapitalisations. A rally in credit spread was further supported by robust macro data out of the US and the improving trend in corporate earnings. Much of the spread tightening was unwound in November with a continuation of European political and economic events at the centre of the focus. Policy challenges and a series of downgrades in EU sovereigns and corporates continued to weigh heavily on market confidence. Sentiment began to improve towards quarter end with an upbeat assessment of the global outlook. Expectations of credible progress in Europe and coordinated action by the world's central banks saw credit spreads gap tighter globally. A number of successful bond auctions were held and the ECB's three-year long term refinancing operation funding allotment eased fears over the region's worsening debt crisis. In the US, a run of better than expected macro data releases affirmed its resilience.

Perception of corporate default risk eased over the quarter. The Australian iTraxx finished the period at 180bps, 37bps tighter. Cash bond spreads took on an improved tone with A\$ cash spreads drawing some relief from European headlines. The RBA lowered the cash rate by 50bps to 4.25% over the quarter. Australian bonds rallied and swap spreads widened. Bank bill rates fell across the curve. The volatility and uncertainty in the global scene resulted in modest unsecured corporate issuance in the AUD market. A reasonable pace of deal flow in the domestic securitisation markets continued with the total issuance volume of A\$7.5bn across 11 transactions over the quarter.

## Portfolio Commentary

The Diversified Income Fund underperformed its benchmark during the quarter.

Superior running yield generated from positive carry across corporate and collateralised sectors was the main driver of excess return. Adding to performance was a shortening of weighted average lives observed in the non-conforming RMBS sector. Pay-down incomes received on asset backed securities and actives trades also aided performance strongly during the period.

The December quarter observed a broad based widening in credit spreads especially amongst offshore banks and non-conforming RMBS. However, this was easily mitigated by the sectors' attractive running yield.

Albeit marginal spread widening and WAL lengthening, RMBS remained the largest contributor to performance. The sector continued to generate strong running incomes resulting from positive carry. The local bank sector also performed strongly aided by high running yield, while local banks' spreads remained flat to slightly wider.

The portfolio's running yield remains high at 7.31% with the credit spread measured at 3.02% as at the end of the quarter.

## Outlook

The outlook for credit markets remains positive.

Market demand remains soft. However primary issuance volumes remain well below levels previously. Given the elevated funding costs, it is unsurprising to find an absence of opportunistic issuers. Liquidity remains at a lower level with limited appetite among broker/dealers. Given the quantum of these opposing dynamics, the demand and supply technicals continue to remain neutral.

The crisis in the eurozone continues to pose significant downside risk to both sovereigns and banks. In addition, execution risks by EU policy makers remain a key concern. However, credit spreads remain significantly wide within a historic context. At current levels there has been a great deal of negative sentiment already priced into the market. As such we see some scope in adding risk opportunistically. In saying that, our portfolios at present continue to remain defensive, holding elevated cash and favouring higher rated credits with shorter spread durations.

## Ethical SRI Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Ethical SRI Fund	276.79	-0.94	1.87	-7.02	-5.29	-0.64	18.47	0.87	7.00
Benchmark*		-1.44	2.05	-9.83	-10.98	-4.76	7.67	-2.39	4.39

\* S&P/ASX 300 Accumulation Index

### Top 10 Stocks

Stock Name	%
Commonwealth Bank of Australia	10.08
Westpac Banking Corporation	7.94
ANZ Banking Group Limited	5.21
Breville Group Limited	5.10
Telstra Corporation Limited	4.64
NIB Holdings Limited	3.65
Super Retail Group Limited	3.53
ASX Limited	3.28
AMP Limited	2.93
TPG Telecom Limited	2.57
<b>TOTAL</b>	<b>48.92</b>

### Market Commentary

The Australian share market, as measured by the S&P/ASX 300 Accumulation Index rose 2.1% over the quarter. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated £1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were materials (-2.9%), consumer staples (-2.9%) and consumer discretionary (-0.6%). As a group, industrial stocks (+4.0%) outperformed resources stocks (-2.5%) and large companies (+2.3%) outperformed small companies (-0.6%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

### Portfolio Commentary

The Ethical SRI Fund slightly underperformed its benchmark during the quarter.

A feature of this Fund is that has strict ethical and socially responsible (SRI) criteria and therefore a screened investment universe. The Fund's largest overweight positions include small appliance maker Breville Group, health care provider NIB Holdings and leisure retailer Super Retail Group. Breville has strong brand names and prudent capital management. NIB is a well-capitalised business that is growing

above industry trends. The Fund's largest underweight positions include BHP Billiton, National Australia Bank and Wesfarmers. BHP Billiton and Wesfarmers cannot be held as they do not pass the ethical and SRI screening process.

#### **Stock Contributors**

Not holding gold miner Newcrest Mining (-12.6%) contributed to relative performance. During the quarter Newcrest announced a reduction in production guidance for the 2012 financial year to 2.43 – 2.55 million ounces of gold, from 2.78 – 2.93 million ounces. The downgrade was driven by continuing production disruptions at the company's Cadia Valley and Lihir sites, in addition to lower feed grades and recoveries from the Telfer mine. Newcrest cannot be held in the Fund as it does not pass our ethical and SRI screening process due to environmental factors.

Our overweight position to NIB Holdings (+9.9%) also contributed to relative performance. The company's share price rose over the quarter, as data released by the Private Health Insurance Administration Council (PHIAC) showed NIB'S growth in net policyholders continues to exceed the broader industry trend. The company added a net total of 23,614 policy holders for the year to September, representing annual growth of 5.7%. NIB has recently implemented a share buy-back program to repurchase up to 10% of the company's issued capital as it seeks to return surplus capital to shareholders. This follows a capital return of 16 cents per share paid to shareholders in July 2011.

#### **Stock Detractors**

Our overweight position to consumer products and printing company McPherson's (-28.4%) detracted from performance. Although the company reported it's highest ever full-year net profit after tax of \$28.0 million, up 9.3% on the previous year, the company's share price was impacted after it forecasted next year's profit before tax to be 20% lower. During the quarter the company announced a proposed demerger involving spin-off of the company's Printing Group, allowing McPherson's to focus solely on consumer products. Following the proposed demerger, the Printing Group shareholders will also be asked to vote on the proposed acquisition of OPUS Group, an Asia Pacific communication solutions company. We remain comfortable with our position in McPherson's as it is a quality business with a solid asset base, good management and is trading on attractive multiples.

Our overweight position to telecommunications provider TPG Telecom (-4.8%) also detracted from relative performance. The company has recently acquired a 4.4% stake in fellow ISP provider iiNet, following the in-specie distribution of iiNet to Amcom Telecommunications shareholders. TPG added to this holding with additional purchases on market. At its December annual general meeting, the company announced year to date results were tracking against budget, with forecast earnings before interest, tax, depreciation and amortisation (EBITDA) of between \$250 million to \$260 million for the 2012 financial year. This compares to EBITDA of \$234 million in the prior year.

#### **Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Geared Australian Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Geared Australian Fund	340.65	-2.67	1.89	-20.27	-22.05	-10.06	16.17	-12.16	-0.22
Benchmark*		-1.44	2.05	-9.83	-10.98	-4.76	7.67	-2.39	4.39

\* S&P/ASX 300 Accumulation Index

### Top 10 Stocks

Stock Name	%
Commonwealth Bank of Australia	12.07
Westpac Banking Corporation	9.25
Telstra Corporation Limited	7.86
BHP Billiton Limited	6.69
ANZ Banking Group Limited	6.00
Orica Limited	4.36
ASX Limited	3.65
New Hope Corporation Limited	3.23
BHP Billiton plc	3.21
News Corporation	2.71
<b>TOTAL</b>	<b>59.02</b>

### Market Commentary

The Australian share market, as measured by the S&P/ASX 300 Accumulation Index rose 2.1% over the quarter. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated £1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were materials (-2.9%), consumer staples (-2.9%) and consumer discretionary (-0.6%). As a group, industrial stocks (+4.0%) outperformed resources stocks (-2.5%) and large companies (+2.3%) outperformed small companies (-0.6%).

### Portfolio Commentary

The Geared Australian Fund underperformed its benchmark during the quarter.

The Fund's largest overweight positions before gearing include Australia's largest retail bank Commonwealth Bank, chemicals and explosives manufacturer Orica and coal miner New Hope Corporation. Commonwealth Bank generates a healthy margin on earnings and has grown these consistently over many years. Orica has a strong balance sheet, great pricing discipline and reduced input costs. The Fund's largest underweight positions include National Australia Bank, Wesfarmers (not held) and Newcrest Mining (not held).

**Stock Contributors**

Our overweight position to Commonwealth Bank (+8.1%) contributed to relative performance. The company's share price rose over the quarter despite Standard & Poors downgrading all major banks by one notch. The downgrade is not anticipated to have any material impact on the bank's funding costs. The bank also released its September quarter trading update in November with cash earnings totalling \$1.75 billion for the period. Impairment expense decreased 19 basis points to \$256 million for the quarter, and the group's capital position remains sound with a Tier 1 capital ratio of 9.85%. We continue to like Commonwealth Bank as it generates a healthy margin on earnings and has grown these consistently over many years.

Our overweight position to Telstra (+7.4%) also contributed to relative performance. During the quarter Telstra announced that it continued to record strong sales momentum and is on track to achieve its guidance of low single digit percentage growth in total revenue and earnings before interest and taxes, amortisation and depreciation (EBITDA). Over the September quarter, the company continued to record strong growth in mobile customer numbers and had added fixed broadband customers. Telstra also reinforced that it was making substantial progress towards implementing its strategy to add customers, improve customer satisfaction, simplify the company and target growth opportunities. With regards to ESG: Telstra has achieved significant improvements in its environmental performance, has good corporate governance and diversity practices, but could improve supply chain and human rights disclosures given its presence in China and large use and resale of electronics.

**Stock Detractors**

Our overweight position to building materials supplier Fletcher Building (-23.1%) detracted from relative performance. The company's share price continued to be impacted by weak residential and commercial construction activity. At its annual general meeting Fletcher reaffirmed its forecast of lower earnings for the first half of the year with profits expected to fall around 10% to NZ\$150 million. Earnings for the full financial year are expected to be similar to the NZ\$359 million pre-unusuals result reported for the previous year. Fletcher provided an update on its Crane Group acquisition stating that the majority of cost synergies have now been realised. Crane is now trading in-line with expectations. We hold Fletcher Building overweight in the Fund with a through the cycle view and therefore expect it to perform well with a recovery in the New Zealand economy.

Our overweight position to bauxite miner and Aluminium smelter Alumina (-24.7%) also detracted from relative performance. The company's share price was impacted by falling aluminium prices during the quarter. Alumina owns 40% of AWAC, a joint venture between Alumina Limited and Alcoa Inc. AWAC is the world's largest bauxite miner with seven mines, and has eight refineries with 17.2 million tonnes per annum of capacity. The company recently held an investor update, where it highlighted the clear trend of alumina being priced based on its own underlying economics rather than being linked to aluminium prices. This has resulted in an increase in realised alumina prices and is expected to assist earnings growth moving forward. With regard to ESG, we have begun a process of engaging with the company on their ESG disclosure. While we are satisfied that Alcoa's management of AWAC's ESG risks is world leading, we would like to see clearer disclosure from Alumina so that the specific AWAC assets are being assessed.

**Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Global Resource Fund (Class B units)

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Global Resource Fund Class B	3.09	-4.65	8.08	-12.09	-13.91	0.53	15.34	-	-
Benchmark*		-5.23	-0.19	-18.04	-22.72	-10.06	3.17	1.03	9.53

\* MSCI Customized All Countries Resources Index

### Top 10 Stocks

Stock Name	Country	%
BHP Billiton plc	United Kingdom	7.63
Rio Tinto plc	United Kingdom	7.55
Inmet Mining Corporation	Canada	5.84
Antofagasta PLC	United Kingdom	5.34
New Hope Corporation Limited	Australia	5.14
Chevron Corporation	United States	4.86
Xstrata PLC	United Kingdom	4.72
Occidental Petroleum Corporation	United States	4.67
Kenmare Resources	United Kingdom	4.54
Newmont Mining Corporation	United States	4.02
<b>TOTAL</b>		<b>54.30</b>

### Market Commentary

The MSCI Customised All Countries Resources Index returned flat (-0.2%) over the quarter. Global macroeconomic themes continued to drive equity markets, with investor sentiment impacted by rising risk aversion due to the ongoing European sovereign debt crisis. Investors initially shifted the focus of their attention from Greece to Italy and its ability to service its debt. Later in the quarter, the inability of the European Union to facilitate an adequate solution and the likelihood that this may lead to a break-up of the Eurozone created further uncertainty. Concerns on the pace of growth in China also impacted sentiment.

Over the quarter the Australian Federal Government was successful in introducing its controversial carbon tax. The tax will begin at \$23 a tonne from July 2012 and then rise to \$29 by 2015. After this time, the carbon price would be set by the market under an emissions trading scheme. The scheme aims to have an 80% reduction in greenhouse gases by 2050.

### Portfolio Commentary

The Global Resources Fund outperformed its benchmark during the quarter.

Relative to its custom benchmark, the Fund's largest overweight positions include Canada-based global miner Inmet Mining, Australian thermal coal producer New Hope Corporation and UK-based copper miner Antofagasta. The Fund's largest underweight positions include Anglo American (not held), Vale SA and Goldcorp Inc (not held). These companies are not held or held underweight in the portfolio as they are currently considered expensive relative to other quality companies in our investment universe.

With regards to our positions in BHP Billiton and Rio Tinto, we currently prefer the London listed stocks as these are trading at a significant discount to their ASX listed alternatives.

### Stock Contributors

Our overweight position to Inmet Mining (+43.4%) contributed to relative performance. Inmet produces copper, zinc and pyrite. It owns mining operations in Turkey, Finland and Spain as well as a development project in Panama. Over the quarter the company reported third quarter net income from continuing operations of CA\$101 million, up 48.5% on the previous corresponding period. This reflected the continued production increase at its Las Cruces mine in Spain. This was somewhat offset by higher operating costs and lower realised copper prices. At a mining conference in Montreal, Inmet also stated its production figures for 2011 with copper production of 85,200 tonnes, zinc production of 79,900 tonnes and pyrite production of 800,000 tonnes. We like Inmet as it offers exposure to one of the major copper development projects globally. It is also well managed, has a strong balance sheet (with a net cash position) and a proven track record.

Our overweight position to Ireland-based mining and exploration company Kenmare Resources (+28.0%) contributed to relative performance. Over the quarter the company provided an expansion update on its Moma Titanium mine. It highlighted the completion of its dredge manufacturing, the completion of its structural engineering design and significant progress on its equipment procurement and construction work. Its beach landing system is also in place and operating well. Kenmare is held overweight in the Fund as it is well placed to benefit from the ongoing supply constraints for ilmenite, zircon and rutile. It also has assets with greater than 100 years in reserve life and is expected to increase production significantly over the next few years.

#### **Stock Detractors**

Our overweight position to Australian base metals explorer Mirabela Nickel (-16.7%) detracted from relative performance. The company's share price continued to fall after it recently reported a loss of US\$8.4 million for the quarter and US\$45.7 million for the nine months ending 30 September 2011. Despite the result, we remain comfortable with our position in Mirabela. As the company ramps up production over the next year, we expect earnings to increase significantly. The company has a world class deposit with a 23 year reserve life, is a low cost producer and has a simple, proven open pit mine and a conventional sulphide processing plant. It also has sound management and a solid balance sheet.

Our overweight position to US-based gold producer Newmont Mining (-9.2%) detracted from relative performance. The company's share price was impacted by the fall in gold price over the quarter. In company specific news, Newmont reported consolidated revenue of US\$2.7 billion for the third quarter, up 6% from the previous corresponding period. It also generated record cash-flow from continuing operations of US\$1.3 billion, up 48% from the prior year. We continue to like Newmont as it has a strong balance sheet, low cost production, long life projects and strong valuation metrics.

#### **Outlook**

Equity markets continued to be impacted over the month as investors focused once again on the sovereign debt issues in Europe. This continues to create an environment of uncertainty and have implications for global growth. However, the ongoing demand for raw materials from China and India remains strong and continues to benefit many resource companies. In addition, the valuations of many resource companies appear to be factoring in the current global risks and concerns and as a result, many quality resource stocks are trading at a discount to net present value.

We expect markets to remain volatile and as a result, the portfolio remains concentrated, demonstrating conviction in the companies that we like. We continue to favour quality companies with strong balance sheets (many of the companies we own have a net cash position) that are well placed to withstand any future shocks. As such, the portfolio remains invested in companies with long mine lives, access to export markets, low costs and a broad customer base which we believe are well placed to add value over the medium to long-term.

## Industrial Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Industrial Fund	2,397.52	0.10	3.10	-4.35	-2.65	-2.55	9.35	-2.14	3.19
Benchmark*		-0.07	4.02	-4.56	-3.80	-3.18	7.93	-4.01	2.58

\* S&P/ASX 300 Industrials Accumulation Index

### Top 10 Stocks

Stock Name	%
Commonwealth Bank of Australia	11.66
Westpac Banking Corporation	9.47
Telstra Corporation Limited	8.44
ANZ Banking Group Limited	7.70
Orica Limited	5.37
Wesfarmers Limited	4.89
National Australia Bank Limited	4.71
Washington H Soul Pattinson & Company Limited	3.73
Crown Limited	3.66
Brickworks Limited	3.12
<b>TOTAL</b>	<b>62.75</b>

### Market Commentary

The S&P/ASX 300 Industrial Accumulation Index rose 4.0% over the quarter, outperforming the broader market by 1.9%. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated \$1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were consumer staples (-2.9%), consumer discretionary (-0.6%) and information technology (+0.9%). As a group, large industrials (+4.4%) outperformed small industrials (+0.0%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

In major company news, Qantas grounded its entire fleet after being unable to resolve an industrial relations dispute with three unions. Qantas is not in our investment universe. It fails our conservative debt quality filter due to insufficient interest cover. Retailers were also in the spotlight following a number of downgrades prior to the Christmas trading period from companies including Billabong, Kathmandu and JB Hi-Fi.

## Portfolio Commentary

The Industrial Share Fund underperformed its benchmark during the quarter.

The Fund's largest overweight positions include chemicals and explosives manufacturer Orica, investment company Washington H. Soul Pattinson and entertainment provider Crown. Orica has a strong balance sheet, great pricing discipline and reduced input costs. Soul Pattinson has never missed a dividend payment and has not had to raise capital in its century long history. The Fund's largest underweight positions include Woolworths, National Australia Bank and Westfield Group (not held).

### Stock Contributors

Our overweight position to brick and tile manufacturer Brickworks (+17.6%) contributed to relative performance. Brickworks owns 42.9% of Washington H. Soul Pattinson which in turn holds 44.6% of Brickworks. This arrangement has been in place for around 40 years. The company's share price was buoyed after Soul Pattinson, began a formal sales process for New Hope Corporation of which it owns 60%. The potential sale of New Hope opens the possibility of the historical cross-shareholding being unwound. This is expected to unlock significant value in each company.

Our underweight position to consumer staples giant Woolworths (+1.0%) also contributed to relative performance. Woolworths also released its first quarter sales results with total first quarter sales up 4.9%. Although the supermarket and home improvement divisions increased by 5.8% and 6.2% respectively, Big W and general merchandise decreased by 2.7% and 1.6%. Woolworths is held underweight in the portfolio as it is currently considered expensive relative to other quality companies in our investment universe.

### Stock Detractors

Our overweight position to building materials supplier Fletcher Building (-23.1%) detracted from relative performance. The company's share price continued to be impacted by weak residential and commercial construction activity. At its annual general meeting Fletcher reaffirmed its forecast of lower earnings for the first half of the year with profits expected to fall around 10% to NZ\$150 million. Earnings for the full financial year are expected to be similar to the NZ\$359 million pre-unusuals result reported for the previous year. Fletcher provided an update on its Crane Group acquisition stating that the majority of cost synergies have now been realised. Crane is now trading in-line with expectations. We hold Fletcher Building overweight in the Fund with a through the cycle view and therefore expect it to perform well with a recovery in the New Zealand economy.

Our overweight position to respiratory device manufacturer ResMed (-16.0%) also detracted from relative performance. During the quarter the company announced its financial results for September. Although ResMed reported record revenues of \$314.8 million, up 12% over the previous corresponding period (pcp), net income declined 11% on pcp to \$50.5 million. This was largely due to currency exchange rate movements. ResMed's share price was also impacted after its US flow generator sales declined 3%. Market expectations were for a recovery in US generator sales after several months of weak growth. We continue to like ResMed as it has a good growth profile. The company also has a large market share, a history of product innovation and is well placed to benefit from an industry in consolidation.

## Outlook

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

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## International Share Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale International Share	149.81	1.24	3.58	-3.76	-3.06	-5.06	-5.38	-7.50	-2.39
Benchmark*		0.21	2.00	-6.15	-5.34	-3.70	-2.58	-7.53	-1.79

\* MSCI World ex-Australia Accumulation Index A\$

### Top 10 Stocks

Stock Name	Country	%
Wells Fargo & Company	United States	2.61
Marsh & McLennan Companies, Inc.	United States	2.33
Statoil ASA	#N/A	2.25
Unilever N.V.	#N/A	2.16
Zurich Financial Services	Switzerland	2.07
General Electric Company	United States	2.04
JPMorgan Chase & Co.	United States	1.96
The Dow Chemical Company	United States	1.90
Amgen, Inc.	United States	1.86
Pfizer Inc.	United States	1.81
<b>TOTAL</b>		<b>20.97</b>

### Market Commentary

Global equity markets, as measured by the MSCI World ex Australia Accumulation Index rose 2.0% over the quarter in dollar terms. Most major equity markets staged a recovery in the final quarter of the year, led by the S&P 500 (+11.8%), FTSE 100 (+9.4%) and Euro Stoxx 50 (+6.3%), though returns to Australian investors were impacted by an appreciating currency. The European sovereign debt crisis remained the key focus of investors over the quarter. Political leaders agreed on a number of new measures to alleviate liquidity and funding pressures amongst financial institutions and sovereigns. The European Central Bank (ECB) also acted by cutting the benchmark policy rate by 50 basis points to 1%, reducing the cost of USD swap funding and conducting a Longer-Term Refinancing Operation (LTRO).

### Portfolio Commentary

The International Share Fund outperformed its benchmark during the quarter.

The Fund's largest overweight positions include global professional services firm Marsh & McLennan, Norwegian oil producer Statoil and financial institution Wells Fargo & Co. The Fund's largest underweight positions include IBM, Nestle and Procter & Gamble (all not held).

Management of this Fund: 15/8/2011 Wellington Management as sub-advisor, from 18/3/2005 to 14/8/2011 PI Investment Management Limited, from 21/4/1997 to 17/3/2005 Fidelity International Limited as sub-advisor

### Stock Contributors

Our position to Marsh & McLennan (+13.6%) contributed to relative performance over the quarter. Marsh & McLennan is a global provider of risk management services and insurance services via Marsh Inc, and consulting services through the Mercer Group and Oliver Wyman. The company recently reported a strong

set of third quarter results with total revenues growing 11% to \$2.8 billion, driven by organic growth of 5% in risk and insurance and organic growth of 6% in consulting. Foreign exchange gains also aided revenues as the US Dollar weakened against most major currencies.

Our position to global chemicals and manufacturing company Dow Chemical (+22.1%) also contributed to relative performance. The company is a provider of plastics, chemicals and agricultural products, employing approximately 50,000 people worldwide. In October, Dow reported third quarter earnings of \$0.62 per share, in line with analyst estimates. Sales were \$15.1 billion, an increase of 17% on the prior corresponding period driven by a combination of pricing and foreign exchange gains. Management expects that cash flow from operations will total \$35 billion over the course of the next five years, providing the opportunity to pay down debt, fund capital expenditure and return funds to shareholders.

Our position to Statoil (+12.7%) contributed to relative performance. Statoil is the largest operator on the Norwegian continental shelf, and has the technical responsibility for the world's most extensive subsea pipeline system for the transport of gas. During the quarter Statoil announced the \$4.7 billion acquisition of Brigham Exploration. The Brigham purchase provides access to key acreage in the Bakken and Three Forks regions. Current production levels are approximately 21,000 barrels of oil equivalent per day, with the potential to increase significantly in the coming years.

#### **Stock Detractors**

Our position to Japanese developer Daito Trust Construction (-12.2%) detracted from relative performance. Daito Trust operates building construction and real estate businesses in Japan. The company's share price fell despite announcing strong first half results, with operating profit reaching ¥39.5 billion. This was above guidance of ¥35.4 billion. Orders in November confirmed the company's positive momentum, totalling ¥48.9 billion. This was a rise of 18% on the previous corresponding period and marks the fifth consecutive month of double-digit growth.

Our position to multinational insurance holding company Tokio Marine Holdings (-18.4%) also detracted from relative performance. During the quarter Tokio announced the acquisition of Delphi Financial for US\$2.7 billion in order to grow earnings in the North American insurance market and to achieve synergy benefits with existing North American operations. The move comes as a number of Japanese entities are considering offshore purchases backed by a strong currency. Tokio Marine agreed to pay a significant premium of approximately 70% over Delphi's recent trading levels, which may have added to negative sentiment towards the stock in the short term.

#### **Outlook**

Our economic outlook for growth has not changed materially in recent months. We continue to expect weaker than normal trend growth in the developed markets. Economic data in the second and third quarters pointed to a slowing of economic activity beyond that caused by the earthquake in Japan. In addition, the extent of negative news, combined with the confidence crisis created by the market downturn and continuing debt issues in Europe and the US, have raised the probability of a recession.

We do however believe that recent globally coordinated efforts toward economic recovery should have positive implications for equity markets. We have been encouraged that policymakers around the globe are finally embracing the severity of the sovereign debt crisis and its potential impact on global economic stability. While details remain limited, and future weeks and months will provide more clarity, it does appear that government leaders are beginning to react in a coordinated and potentially meaningful way. As a result of this response, we have taken the opportunity to add a modest amount of economic exposure back to the portfolio.

## Monthly Income Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Monthly Income Fund	543.15	0.30	1.08	1.92	3.94	4.20	4.12	4.97	5.32
Benchmark*		0.40	1.22	2.47	5.00	4.83	4.38	5.48	5.60

\* UBS Australian Bank Bill Index

### Fixed Interest Summary

Issuer Classification	0 to 6 Months	6 Months to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
Bank	40.47%					40.47%
Corporate Bonds	8.72%					8.72%
Mortgage Backed Securities						50.80
Other						
International						
<b>Total</b>	49.20%					<b>100.00%</b>

### Market Commentary

The Reserve Bank of Australia (RBA) lowered the official cash rate in November and December by a total of 50 basis points (bps) to 4.25%. The December rate change marked the RBA's first consecutive rate cut since February 2009. With inflation expected to be consistent with the 2-3 per cent target in 2012 and 2013, their decision was largely driven by uncertainty in Europe.

### Portfolio Commentary

The Monthly Income Fund underperformed its benchmark during the quarter.

The Fund is invested in quality mortgages with attractive loan-to-valuation ratios that are secured by income-producing properties, as well as deposits, money markets and fixed income securities.

### Important changes

We recently wrote to all investors about the important changes we are making to the Perpetual Monthly Income Fund so that we can return capital to all investors as soon as possible. The key changes are:

We closed the Fund on 17 October 2011 so we can commence returning capital to all investors. We expect to make the first capital repayment in March 2012, amounting to at least 25% of capital, with further capital repayments every six months until all the Fund's mortgage loan assets and other securities mature.

Investments in the Fund or re-investment of distributions are no longer available  
We are no longer offering quarterly withdrawals from the Fund  
Investors will continue to receive monthly income payments

Please refer to the Frequently Asked Questions on the Perpetual website for further information.

## Property Income Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Property Income Fund	10.06	-1.24	3.24	-2.48	1.83	1.26	2.41	-8.23	-1.18
Benchmark*		0.28	2.09	6.72	11.69	8.42	5.75	-3.13	2.92

\* UBS Australian Government 3 to 5 Year Bond Index.

### Top 5 Stocks

Stock Name	%
Westfield Group	12.10
Stockland	9.35
Westfield Retail Trust	7.11
GPT Group	4.71
Mirvac Group	4.70
<b>TOTAL</b>	<b>37.96</b>

### Market Commentary

The listed property sector, as measured by the S&P/ASX 300 Property Accumulation Index rose 3.8% over the quarter, outperforming the broader equities market which posted a 2.1% gain. Australian REIT's also outperformed the local equity market over the calendar year by 9.4%, providing a -1.6% return versus -11.0% for the S&P/ASX300 index. This is the first time the listed property market has outperformed broader equities since 2006. Interestingly, excluding the negative contribution from Westfield Group (-13.2%), the remainder of the listed property market would have provided investors with positive total returns over the calendar year.

Diversified Property (6.5%) was the strongest performing sub-sector this quarter, with Stockland Trust Group (13.7%), Charter Hall Group (23.5%) and Aspen Group (10.2%) all posting solid returns. Commercial property (6.0%) also provided strong returns rounding off a stellar year that saw the sub-sector post 22.2% returns for 2011. Retail property (1.6%) although positive, was the weakest performing sub-sector. Global macro uncertainty, consumer sentiment and a challenging Christmas period for Australia's retail industry weighted on returns for listed Retailers and Retail landlords alike.

In direct market activity, sales volume was well above average through October and November but tapered off significantly in December. Three of the top ten transactions (by size) for 2011 occurred during the month of October including the sale of QV1 Tower (\$310m), by SAS Trustee Corporation to Commonwealth Superannuation Corp for \$310m, Cairns Central Shopping Centre (\$226m) by Westfield Group to the Australian Prime Property Fund and Grocon's 25% interest in 161 Castlereagh St, Sydney (\$198m) to Industry Superannuation Property Trust. On a flow of funds basis, international investors accounted for the lion's share of funding with net investments of \$2.8b versus a net divestment of \$1.6 billion for domestic investors.

### Portfolio Commentary

The Property Income Fund outperformed its benchmark during the quarter.

### Stock Contributors

Our position to diversified property entity, Stockland Trust Group (+13.7%) was the largest contributor to quarterly performance. The December quarter provided a welcome reprieve for investor's after general consumer sentiment, retail sales and residential property data weighed on profit growth expectations and subsequently, market value, for the majority of 2011. October brought positive news regarding the

cessation of legal action by the Sunshine Coast Local Council regarding the groups Caloundra South residential development, the largest project ever undertaken by Stockland. Changes in forward interest rate expectations, continued residential sales momentum for the group through October and November, confirmation of FY12 earnings guidance, and management's on market buy back rounded off the encouraging news flow and no doubt contributed to the market price turnaround. Based on current fundamentals we continue to view Stockland as cheap relative to its competitors.

Our position to Charter Hall Group (+23.5%) provided the largest positive contribution to relative performance. Charter Hall has over \$10 billion of funds under management across the office, retail, industrial and residential sectors. Charter Hall was sold off heavily during the June and September quarters as sentiment was impacted by news flow surrounding related funds, particularly the Charter Hall Office REIT, as it explored liquidations of its US portfolio and a bid to replace Charter Hall as the responsible entity. The December quarter did however provide a welcome reprieve with the announcement of an improved offer for the Australian Charter Hall Office portfolio and confirmation that the group will be retained as responsible entity. We continue to see value in Charter Hall on the basis of its conservative balance sheet and reliable growth prospects.

### **Stock Detractors**

Our holdings in the diversified listed property group GPT (-0.9%) provided a mild detraction from quarterly performance. There was no significant news flow over the quarter, other than announcements relating to new leasing commitments for the Eagle Street, Brisbane development (now ahead of target) and the announcement that a \$200m extension project for the Wollongong Central Shopping Centre was given the green light. Throughout the year GPT sold its US seniors housing portfolio, upgraded its 2011 earnings guidance to 7% growth and began an on market buyback program, currently averaging a 16.6% discount to stated net tangible assets. GPT's property portfolio has continued to perform well with solid occupancy levels and rental stability. All the above factors were largely well received by investors with GPT advancing 10.5% to December 2011, a result that placed GPT amongst the top five positive contributors to fund performance this year.

Our position to Australian residential land developer and funds manager Peet Ltd (-31.6%) detracted from performance this quarter. The stock has struggled for most of 2011 but saw the biggest falls in November when management confirmed FY12 earnings guidance at 60% below market expectations. Management stated that weak Victorian property market conditions have led to a 40% downgrade in sale volume forecasts across the business for FY12. The anticipated drop in revenue has also raised fears that the group may be heading towards a breach of key lending covenants, a point management has strongly contested, reiterating that their operations have over 100 years of history and that they continue to maintain strong relationships with their lenders. We no longer hold a position in this stock and our very limited absolute exposure level stock ensured that the subsequent negative performance had only minimal impact on overall performance.

### **Outlook**

The listed and unlisted property sectors have largely completed the long rebuilding phase that was necessitated by the severity of the global financial crisis. Recent years have seen management teams raise capital and dispose of underperforming assets in order to restore balance sheet strength. A renewed focus on traditional rent collection activities has also occurred at the expense of riskier and more volatile development and fund management revenue streams. From a market fundamentals perspective we enter 2012 with the sector trading at an 11.6% discount to stated Net Tangible Assets (ex Westfield), REIT sector gearing around 28.3% and a REIT Earnings per Unit (EPU) yield of 8.5%. Its noteworthy that both gearing and EPU at these levels has not been seen since the early 2000's, with the gap between REIT EPU and the domestic 10 year bond yield at levels surpassed only by those witnessed during the height of the global financial crisis.

## Property Securities Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Property Securities Fund	25.74	-2.34	4.07	-4.24	-1.13	-0.87	2.13	-17.01	-7.04
Benchmark*		-2.55	3.81	-4.64	-1.56	-1.12	2.32	-15.19	-5.71

\* S&P/ASX 300 Property Trust Accumulation Index

### Top 5 Stocks

Stock Name	%
Westfield Group	23.20
Stockland	14.03
Westfield Retail Trust	9.98
Mirvac Group	7.47
GPT Group	6.82
<b>TOTAL</b>	<b>61.51</b>

### Market Commentary

The listed property sector, as measured by the S&P/ASX 300 Property Accumulation Index rose 3.8% over the quarter, outperforming the broader equities market which posted a 2.1% gain. Australian REIT's also outperformed the local equity market over the calendar year by 9.4%, providing a -1.6% return versus -11.0% for the S&P/ASX300 index. This is the first time the listed property market has outperformed broader equities since 2006. Interestingly, excluding the negative contribution from Westfield Group (-13.2%), the remainder of the listed property market would have provided investors with positive total returns over the calendar year.

Diversified Property (6.5%) was the strongest performing sub-sector this quarter, with Stockland Trust Group (13.7%), Charter Hall Group (23.5%) and Aspen Group (10.2%) all posting solid returns. Commercial property (6.0%) also provided strong returns rounding off a stellar year that saw the sub-sector post 22.2% returns for 2011. Retail property (1.6%) although positive, was the weakest performing sub-sector. Global macro uncertainty, consumer sentiment and a challenging Christmas period for Australia's retail industry weighted on returns for listed Retailers and Retail landlords alike.

### Portfolio Commentary

The Property Securities Fund outperformed its benchmark during the quarter.

The Fund's largest overweight positions included BWP Trust, Charter Hall Retail REIT and Charter Hall Office REIT. The portfolio's largest underweight positions include Westfield Group Australia, Goodman Group and Commonwealth Property Office Fund.

### Stock Contributors

Our overweight position to Charter Hall Group (+23.5%) provided the largest positive contribution to relative performance. Charter Hall has over \$10 billion of funds under management across the office, retail, industrial and residential sectors. Charter Hall was sold off heavily during the June and September quarters as sentiment was impacted by news flow surrounding related funds, particularly the Charter Hall Office REIT, as it explored liquidations of its US portfolio and a bid to replace Charter Hall as the responsible entity. The December quarter did however provide a welcome reprieve with the announcement

of an improved offer for the Australian Charter Hall Office portfolio and confirmation that the group will be retained as responsible entity. We continue to see value in Charter Hall on the basis of its conservative balance sheet and reliable growth prospects.

Our overweight position to diversified property group, Stockland Australia (+13.7%) was also a contributor to relative quarterly performance. The December quarter provided a welcome reprieve for investor's after general consumer sentiment, retail sales and residential property data weighed on profit growth expectations and subsequently, market value, for the majority of 2011. October brought positive news regarding the cessation of legal action by the Sunshine Coast Local Council regarding the groups Caloundra South residential development, the largest project ever undertaken by Stockland. Changes in forward interest rate expectations, continued residential sales momentum for the group through October and November, confirmation of FY12 earnings guidance, and management's on market buy back rounded off the encouraging news flow and no doubt contributed to the market price turnaround.

### **Stock Detractors**

Our underweight position to Goodman Group (+2.2%) detracted from the fund's relative performance over the quarter. Goodman posted a modest positive return for the December quarter after heavy selling in the September quarter saw the share price fall by over 17.0%. Goodman is an owner, developer and manager of premium industrial property throughout Asia Pacific and Europe. We remain mindful that despite decent medium to long term prospects, particularly with regard to the Australian operations, circa 30% of revenues are currently sourced from European development activities and are particularly susceptible to economic weakness. Our decision to maintain an underweight exposure to Goodman through 2011 (albeit at varying degrees) has been an overall net positive contributor to annual fund performance.

Our underweight position to the Commonwealth Property Office Fund (+9.9%) was also a detractor from performance. Commonwealth Property Office Fund represents the only pure domestic office vehicle in the market place. Following the completion of fund asset sales, the trust's overall gearing level is expected to fall to 14.5%, a very low ratio relative to market peers. It also offers a solid occupancy rate of over 96.0%, a 5.3 year weighted average lease expiry and has recently implemented an on-market buyback of between 2-4% of outstanding stock. Despite these quality characteristics we maintain our underweight position given what we feel are superior relative value opportunities on offer elsewhere.

### **Outlook**

The listed property sector has largely completed the long rebuilding phase that was necessitated by the severity of the global financial crisis. Recent years have seen management teams raise capital and dispose of underperforming assets in order to restore balance sheet strength. A renewed focus on traditional rent collection activities has also occurred at the expense of riskier and more volatile development and fund management revenue streams. From a market fundamentals perspective we enter 2012 with the sector trading at an 11.6% discount to stated Net Tangible Assets (ex Westfield), REIT sector gearing around 28.3% and a REIT Earnings per Unit (EPU) yield of 8.5%. Its noteworthy that both gearing and EPU at these levels has not been seen since the early 2000's, with the gap between REIT EPU and the domestic 10 year bond yield at levels surpassed only by those witnessed during the height of the global financial crisis.

Despite these strengths the sector is not immune from broader macroeconomic issues. Residential property market indicators remain choppy and weakness in consumer spending is likely to continue weighing on retail trusts. Additionally, evidence of a structural shift to on-line retailing as opposed to a mere cyclical downturn in domestic retail sales may place further pressure on traditional bricks and mortar landlords. However, we believe that these factors provide a solid platform for longer term performance and our insistence on holding quality trusts at attractive valuations while avoiding more speculative vehicles will help to ensure that REIT investors are better placed to weather prevailing economic and structural headwinds.

## SHARE-PLUS Long-Short Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale SHARE-PLUS Long-Short Fund	90.60	-2.40	2.12	-5.77	-4.52	2.29	12.49	1.72	6.14
Benchmark*		-1.44	2.05	-9.83	-10.98	-4.76	7.67	-2.39	4.39

\* S&P/ASX 300 Accumulation Index

### Top 10 Stocks

Stock Name	%
BHP Billiton plc	8.80
Commonwealth Bank of Australia	7.31
Westpac Banking Corporation	6.43
Telstra Corporation Limited	5.77
Rio Tinto plc	4.69
Orica Limited	4.08
ANZ Banking Group Limited	4.06
Oil Search Limited	4.02
Magellan Financial Group Limited	3.71
Insurance Australia Group Limited	3.69
<b>TOTAL</b>	<b>52.56</b>

### Market Commentary

The Australian share market, as measured by the S&P/ASX 300 Accumulation Index rose 2.1% over the quarter. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated \$1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors over the quarter were utilities (+8.3%), telecommunications (+7.0%) and industrials (+6.4%). The worst performing sectors were materials (-2.9%), consumer staples (-2.9%) and consumer discretionary (-0.6%). As a group, industrial stocks (+4.0%) outperformed resources stocks (-2.5%) and large companies (+2.3%) outperformed small companies (-0.6%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

### Portfolio Commentary

The SHARE-PLUS Long-Short Fund outperformed its benchmark during the quarter.

The Fund's largest overweight positions include fund manager Magellan Financial Group, entertainment group Crown and oil and gas producer Oil Search. Magellan Financial Group is experiencing significant growth in funds under management. Crown is poised for an earnings uplift while we expect the large capital expenditure that has taken place over the last few years to slow. The Fund is underweight National Australia Bank and Wesfarmers (not held). The largest short positions in the Fund at the end of the quarter

were Fortescue Metals Group, Westfield Retail Trust and WorleyParsons. At the end of the quarter, the Fund was positioned 112% long (including cash) and 12% short.

### **Stock Contributors**

Not holding gold miner Newcrest Mining (-12.6%) contributed to relative performance. During the quarter Newcrest announced a reduction in production guidance for the 2012 financial year to 2.43 – 2.55 million ounces of gold, from 2.78 – 2.93 million ounces. The downgrade was driven by continuing production disruptions at the company's Cadia Valley and Lihir sites, in addition to lower feed grades and recoveries from the Telfer mine. Newcrest is not held in the Fund as it is considered expensive relative to other companies in the universe.

Our overweight position to Magellan Financial Group (+19.5%) also contributed to relative performance. The company's share price regained some ground after underperforming in November. In early December, Magellan announced funds under management of \$2.8 billion as at the end of November. This consists of retail funds under management of \$1.3 billion and wholesale funds under management of \$1.5 billion. The company has experienced significant growth in funds under management over the last year, driven by a combination of positive investment performance and consistent inflows into the Magellan Global Fund. We expect this momentum to continue in the medium term.

### **Stock Detractors**

Our overweight position to bauxite miner and Aluminium smelter Alumina (-24.7%) also detracted from relative performance. The company's share price was impacted by falling aluminium prices during the quarter. Alumina owns 40% of AWAC, a joint venture between Alumina Limited and Alcoa Inc. AWAC is the world's largest bauxite miner with seven mines, and has eight refineries with 17.2 million tonnes per annum of capacity. The company recently held an investor update, where it highlighted the clear trend of alumina being priced based on its own underlying economics rather than being linked to aluminium prices. This has resulted in an increase in realised alumina prices and is expected to assist earnings growth moving forward. With regard to ESG, we have begun a process of engaging with the company on their ESG disclosure. While we are satisfied that Alcoa's management of AWAC's ESG risks is world leading, we would like to see clearer disclosure from Alumina so that the specific AWAC assets are being assessed.

Our overweight position to electronics retailer JB Hi-Fi (-25.7%) also detracted from relative performance. The company's share price fell heavily during December following the release of an update on recent trading. Sales gained momentum in the second quarter, resulting in an improvement in comparative store sales growth from -3.5% for the first quarter to -1.8% for the five months to November. Unfortunately for JB Hi-Fi the improved sales performance was unable to offset a reduction in gross margin due to a high level of discounting from competitors. The company anticipates earnings before interest and tax will decline approximately 5% in comparison to the prior year, subject to trading performance in the crucial Christmas season. We have increased our position to JB Hi-Fi following the sell off as the company's valuation has become increasingly attractive.

### **Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Smaller Companies Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Smaller Companies	223.69	-4.49	0.18	-10.52	-13.58	3.95	20.04	0.81	5.53
Benchmark*		-4.30	-0.60	-12.32	-21.43	-5.75	11.83	-5.18	3.00

\* S&P/ASX Small Ordinaries Accumulation Index

### Top 10 Stocks

Stock Name	%
New Hope Corporation Limited	4.46
Mineral Resources Limited	4.41
Cardno Limited	4.12
Super Retail Group Limited	3.45
The Reject Shop Limited	3.07
Alacer Gold Corp.	3.05
CSR Limited	2.87
Mirabela Nickel Limited	2.83
RCR Tomlinson Limited	2.78
SAI Global Limited	2.73
<b>TOTAL</b>	<b>33.76</b>

### Market Commentary

The S&P/ASX Small Ordinaries Index fell 0.6% over the quarter, underperforming the broader market by 2.7%. Investor sentiment fluctuated in response to the news flow from Europe. In October, European leaders announced an estimated \$1 trillion rescue package for indebted governments and banks. This was followed with an unprecedented Longer-Term Refinancing Operation (LTRO) conducted by the European Central Bank in December, to provide funding at attractive rates. Despite these measures, Standard & Poors placed six AAA-rated Eurozone members on negative watch, whilst Fitch lowered France's rating outlook to negative. Upside surprises in US economic data provided some positive news, pointing to resilience in the world's largest economy.

The best performing sectors in smaller companies over the quarter were utilities (+16.6%), energy (+10.6%) and property trusts (+8.9%). The worst performing sectors were health care (-8.6%), information technology (-7.8%) and financials ex-property (-5.8%). As a group, small industrial stocks (+0.0%) outperformed small resource stocks (-1.4%).

In domestic economic news, the Reserve Bank of Australia reduced the cash rate by a total of 50 basis points to 4.25% citing risks to the economy from the Eurozone crisis and a moderation in inflation expectations. The Australian dollar rose against the US dollar to end the year at \$1.02.

### Portfolio Commentary

The Smaller Companies Fund outperformed its benchmark during the quarter.

The Fund's largest overweight positions include coal producer New Hope Corporation, engineering service provider Cardno and diversified mining service provider Mineral Resources. New Hope has a large cash balance and a good land bank. Cardno has good operating cash flow and solid organic growth. The Fund's largest underweight positions include Beach Energy, Aurora Oil and Gas and Adelaide Brighton. Beach

Energy and Adelaide Brighton pass our quality filters but are not held as there is currently better relative value elsewhere. Aurora Oil and Gas is not held as it does not pass our quality filters.

**Stock Contributors**

Our overweight position to integrated engineering company RCR Tomlinson (+19.5%) contributed to relative performance. During the quarter the company advised that it had extended its contract performance bonding facility with Assetinsure. The bonding facility extends RCR's insurance bonding capacity from \$20 million to \$43 million. RCR stated that the facility would be partly used for the recent contract award from Fortescue Metals Group. We like RCR Tomlinson as it is experiencing growth in revenue, is expanding its underlying margin and continues to reduce its debt.

Our overweight position to Cardno (+11.6%) also contributed to relative performance. During the quarter Cardno announced two acquisitions. This first was the purchase of Geotech Solutions, a small geotechnical engineering, environmental and construction materials testing firm based in Newcastle. The acquisition is expected to further strengthen Cardno's presence in New South Wales and enhance its testing capabilities. Cardno also acquired town planning consultancy Humphreys Reynolds Perkins. The acquisition is expected to contribute approximately \$11 million in annual revenue, \$3 million in earnings before and interest and tax and is expected to be earnings per share accretive in the current financial year. We like Cardno as it has a solid balance sheet, proven management and low downside-risk to earnings.

**Stock Detractors**

Our overweight position to magnetite iron ore producer Northern Iron (-54.3%) detracted from relative performance. In October, Northern Iron released its quarterly activities report. Production was 305 kilo-tonnes, down 17% on the previous quarter. This was due to a four week outage on the primary mill and unplanned downtime on the vertical plate pressure filter. Concentrate sales were also down 15% on the previous quarter. Despite the result, we remain comfortable with our position in Northern Iron. Its mine in Norway has a long life of around 18 years and produces quality iron with very low levels of impurities. The company also has a restructured balance sheet.

Our overweight position to bauxite miner and Aluminium smelter Alumina (-24.7%) also detracted from relative performance. The company's share price was impacted by falling aluminium prices during the quarter. Alumina owns 40% of AWAC, a joint venture between Alumina Limited and Alcoa Inc. AWAC is the world's largest bauxite miner with seven mines, and has eight refineries with 17.2 million tonnes per annum of capacity. The company recently held an investor update, where it highlighted the clear trend of alumina being priced based on its own underlying economics rather than being linked to aluminium prices. This has resulted in an increase in realised alumina prices and is expected to assist earnings growth moving forward. With regard to ESG, we have begun a process of engaging with the company on their ESG disclosure. While we are satisfied that Alcoa's management of AWAC's ESG risks is world leading, we would like to see clearer disclosure from Alumina so that the specific AWAC assets are being assessed.

**Outlook**

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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. On a separate note, the recent interest rate cuts by the RBA indicate that on a relative basis, many companies offering fully franked dividends represent good value. These are likely to gather investor attention as term deposit rates appear less attractive.

## Split Growth Fund

### Total returns % (after fees)

Perpetual	Size \$m	1 mth	3 mth	6 mths	1 yr	2 yrs pa	3 yrs pa	5 yrs pa	7 yrs pa
Wholesale Split Growth Fund	27.85	0.83	3.42	-3.97	-2.84	-3.99	0.53	-5.07	0.04
Benchmark*		0.10	2.85	-5.43	-4.60	-3.36	1.72	-5.96	0.10

\* The Split Growth Benchmark index is calculated using a 40/60 weighted combination of the following sector benchmarks: S&P/ASX 300 Industrials Accumulation Index and the MSCI World ex-Aust Accumulation Index A\$

### Top 10 Stocks

Stock Name	Country	%
Commonwealth Bank of Australia	Australia	4.68
Westpac Banking Corporation	Australia	3.80
Telstra Corporation Limited	Australia	3.39
ANZ Banking Group Limited	Australia	3.09
Orica Limited	Australia	2.16
Wesfarmers Limited	Australia	1.96
National Australia Bank Limited	Australia	1.89
Wells Fargo & Company	United States	1.55
Washington H Soul Pattinson & Company Limited	Australia	1.50
Crown Limited	Australia	1.47
<b>TOTAL</b>		<b>25.49</b>

### Market Commentary

The MSCI World ex Australia Accumulation Index rose 2.0% over the quarter in dollar terms. Most major equity markets staged a recovery in the final quarter of the year, led by the S&P 500 (+11.8%), FTSE 100 (+9.4%) and Euro Stoxx 50 (+6.3%), though returns to Australian investors were impacted by an appreciating currency. Nonetheless, the European sovereign debt crisis remained the key focus for investors during the quarter.

The S&P/ASX 300 Industrials Accumulation Index rose 4.0% over the quarter as investor sentiment fluctuated similarly in response to news flow from Europe. In major company news, Qantas grounded its entire fleet after being unable to resolve an industrial relations dispute with three unions. Retailers were also in the spotlight following a number of downgrades prior to the Christmas trading period from companies including Billabong, Kathmandu and JB Hi-Fi.

### Portfolio Commentary

The Split Growth Fund outperformed its benchmark during the quarter.

### Stock Contributors

Our position to Marsh & McLennan contributed to performance over the quarter. Marsh & McLennan is a global provider of risk management services and insurance services via Marsh Inc, and consulting services through the Mercer Group and Oliver Wyman. The company recently reported a strong set of third quarter results with total revenues growing 11% to \$2.8 billion, driven by organic growth of 5% in risk and insurance and organic growth of 6% in consulting. Foreign exchange gains also aided revenues as the US Dollar weakened against most major currencies.

Our overweight position to brick and tile manufacturer Brickworks also contributed to relative performance. Brickworks owns 42.9% of Washington H. Soul Pattinson which in turn holds 44.6% of Brickworks. This arrangement has been in place for around 40 years. The company's share price was buoyed after Soul Pattinson, began a formal sales process for New Hope Corporation of which it owns 60%. The potential sale of New Hope opens the possibility of the historical cross-shareholding being unwound. This is expected to unlock significant value in each company.

### **Stock Detractors**

Our position to Japanese developer Daito Trust Construction detracted from quarterly performance. Daito Trust operates building construction and real estate businesses in Japan. The company's share price fell despite announcing strong first half results, with operating profit reaching ¥39.5 billion. This was above guidance of ¥35.4 billion. Orders in November confirmed the company's positive momentum, totalling ¥48.9 billion. This was a rise of 18% on the previous corresponding period and marks the fifth consecutive month of double-digit growth.

Our overweight position to respiratory device manufacturer ResMed also detracted from relative performance. During the quarter the company announced its financial results for the quarter. Although ResMed reported record revenues of \$314.8 million, up 12% over the previous corresponding period (pcp), net income declined 11% on pcp to \$50.5 million. This was largely due to currency exchange rate movements. ResMed's share price was also impacted after its US flow generator sales declined 3%. Market expectations were for a recovery in US generator sales after several months of weak growth. We continue to like ResMed as it has a good growth profile. The company also has a large market share, a history of product innovation and is well placed to benefit from an industry in consolidation.

### **Outlook**

Our economic outlook for growth has not changed materially in recent months. We continue to expect weaker than normal trend growth in the developed markets. Economic data in the second and third quarters pointed to a slowing of economic activity beyond that caused by the earthquake in Japan. In addition, the extent of negative news, combined with the confidence crisis created by the market downturn and continuing debt issues in Europe and the US, have raised the probability of a recession.

The Australian sharemarket continues to be impacted by the ongoing sovereign debt issues in Europe and global economic uncertainty. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand any future shocks. 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.