

BENEFITS OF ALTERNATIVE INVESTMENTS

Alternative investments can provide greater diversification and more consistent returns when added to a portfolio of traditional assets. At Perpetual, one of the key principles of our investment philosophy is to preserve wealth by minimising downside risk. By enhancing diversification, we are able to provide better downside protection for client portfolios.

TYPES OF ALTERNATIVE INVESTMENTS

1 Growth investments

Growth investments aim to provide long-term capital growth; examples include:

- private equity
- infrastructure
- opportunistic property
- absolute return strategies.

2 Income investments

Income investments aim to provide consistent income and include:

- absolute return strategies
- specialist credit.

RISKS

While opportunistic investments can provide a range of benefits, they do have some risks. There will also be restrictions on accessing your investment funds as the Funds are non-liquid managed investment schemes.

You can find more information on the types of assets available in the Fund and the risks of investing in the current Product Disclosure Statement (PDS).

BENEFITS OF ALTERNATIVE INVESTMENTS



Public markets such as the Australian Securities Exchange (ASX) represent only part of the investment universe. Alternative investments **look beyond public markets** and look at opportunities available in both private and unlisted markets, providing a wider choice of investment opportunities.



Alternative investments are often available in less efficient markets. This can provide greater opportunity for **skilled managers** to enhance portfolio returns compared to the opportunities available in traditional asset classes like listed equities and fixed interest.



Alternative investments generally have a low correlation of returns to investments in traditional asset classes. Adding opportunistic investments to a traditional, balanced investment portfolio may help to **lower the portfolio's volatility and generate more consistent returns**. This is illustrated in further detail on the following page.



Alternative investments seek to profit from investment opportunities through trading strategies that are **outside the traditional 'buy and hold' approach**.



Alternative investments generally **aim to achieve 'absolute' positive returns**, irrespective of the performance of the broader financial markets – even when traditional asset classes experience downturns.



The remuneration of many investment managers in the Alternative investments universe is linked more closely to investment performance, helping to ensure **the interests of investors and investment managers are aligned**.



Alternative investments are often less liquid in nature thereby necessitating an 'illiquidity premium', essentially a higher return to compensate investors for the fact these investments cannot be converted to cash at short notice.

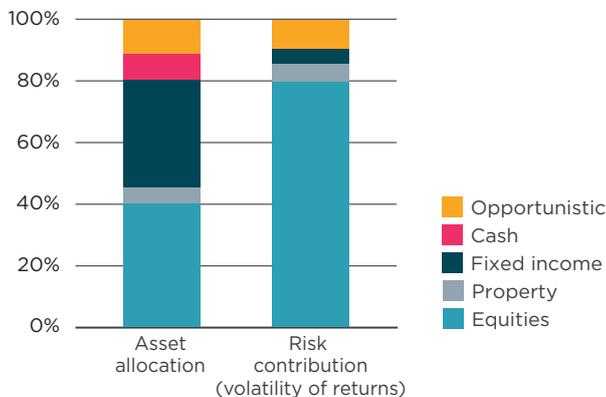


Perpetual has a solid track record of investing in the Alternatives universe. We have been managing Alternatives strategies since 2007 where we combine our own rigorous due diligence with that of our external consultant, Cambridge Associates, to select and access world-class managers.

HOW DO ALTERNATIVES FIT INTO YOUR PORTFOLIO?

A traditional balanced investment portfolio typically has a 40% exposure to equities. However, as illustrated in **Chart 1**, 80% of the return volatility in the portfolio comes from this exposure to shares. This means that portfolio returns are heavily reliant on the performance of equity markets.

CHART 1: A TRADITIONAL BALANCED INVESTMENT PORTFOLIO TYPICALLY HAS 40% EQUITIES



The asset allocation consists of Australian equities (20%), international equities (20%), listed property (5%), Australian fixed income (17.5%), global fixed income (17.5%), cash (10%) and opportunistic investment (5% Growth Opportunities Fund and 5% Income Opportunities Fund).

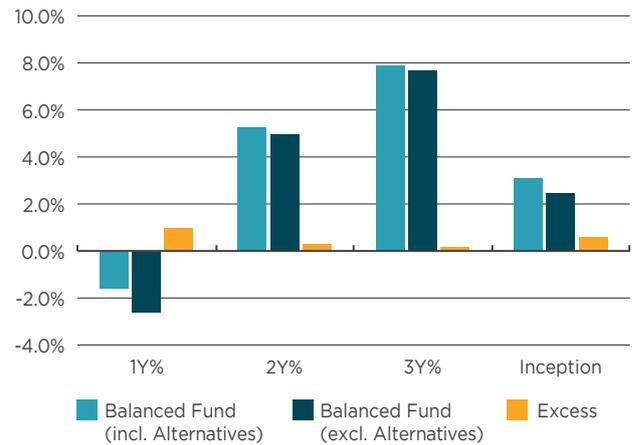
Source: Perpetual, Towers Watson

VALUE TO PERFORMANCE FROM ALTERNATIVE INVESTMENTS (AS AT MARCH 2016)

Charts 2 and 3 show that by adding exposure to opportunistic investments in a traditional portfolio, investors may be able to reduce their portfolio risk and improve returns.

OUR BALANCED FUNDS WITH ALTERNATIVES DELIVERED EXCESS RETURNS

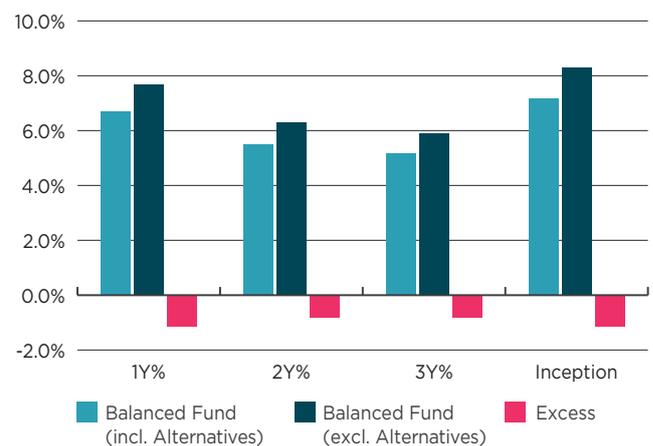
CHART 2: ANNUALISED PERFORMANCE#



Source: Perpetual, 2016

OUR BALANCED FUNDS WITH ALTERNATIVES HAVE BEEN LESS VOLATILE

CHART 3: ANNUALISED VOLATILITY#



Source: Perpetual, 2016

#Performance for our Balanced Funds have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance.

TYPES OF ALTERNATIVE INVESTMENTS

PRIVATE EQUITY

- Investments in unlisted companies and entities that offer the prospect for increases in shareholder value.
- Use business strategies such as product development, market expansion, mergers and acquisitions, and changes to the balance sheet.
- Individually they may have high risk but have the potential for high returns over the long term.

OPPORTUNISTIC PROPERTY

- Investing in property projects with the potential for increases in value, through strategies such as redevelopment or market re-positioning.
- Individually, these investments may have high risk with the potential for high returns over the long term.

INFRASTRUCTURE

- Involves buying listed or unlisted equity or debt securities in companies and/or large projects.
- Includes airports, power, roads, telecommunications, and water supply.
- Infrastructure returns include income and capital growth.
- Generally higher risk investments (usually due to leverage), with the potential for higher returns than cash, mortgages, fixed income, and core property.

ABSOLUTE RETURN FUNDS

- Absolute return funds are actively managed using a broad range of securities and investment techniques.
- They have the potential to generate returns not correlated to broader market conditions, in both rising and falling markets.
- They have varying risk and return characteristics, ranging from fixed interest-like to equity-like investments.

SPECIALIST CREDIT

- Specialist credit securities are non-traditional fixed income investments.
- Have similar characteristics to traditional fixed interest investments.
- Target high returns (high yield and convertible bonds) at the expense of liquidity (ability to exit the investment) and generally have higher credit risk.

OTHER INVESTMENTS

- Investments of an opportunistic nature that fall outside the other categories.
- Risk and return characteristics depend on the specific elements of each investment opportunity.

ACCESSING PERPETUAL PRIVATE'S OPPORTUNISTIC INVESTMENTS

Investors can access opportunistic investments through the following two funds:

PERPETUAL GROWTH OPPORTUNITIES FUND

Aims to provide long-term capital growth through investment in a diversified portfolio of private equity funds, infrastructure funds, opportunistic property funds, absolute return funds and other listed and unlisted investments consistent with the Fund's investment approach.

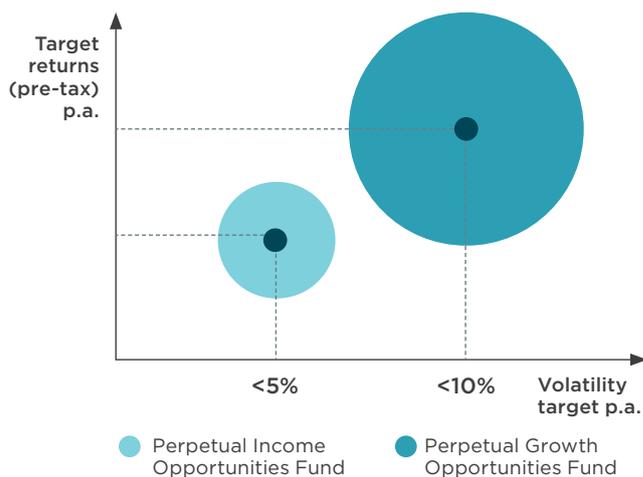
- Long-term capital growth
- Low risk of loss over rolling 7-year periods
- Lower correlation to equity risk

PERPETUAL INCOME OPPORTUNITIES FUND

Aims to provide consistent income through investment in a diversified portfolio of absolute return funds, specialist credit funds and other investments consistent with the Fund's investment approach.

- Consistent income
- Low risk of a negative annual return
- Limited correlation to duration and equity risk

CHART 4: DIFFERENCE IN VOLATILITY BETWEEN INCOME AND GROWTH OPPORTUNITIES FUNDS



Source: Perpetual, 2016

OUR INVESTMENT PHILOSOPHY

Our investment philosophy is shaped by our cumulative experiences and observations:

Alpha (excess returns)	We believe that alpha or the opportunity to achieve superior returns exists and can be achieved by identifying investment skill and taking a realistic approach towards risk and return.
Success	Organisational success is dependent on the alignment of interest, thorough research, disciplined governance and accountability.
Risk	Unintended risks can be mitigated with comprehensive due diligence, avoiding excessive leverage, transparency and a focus on quality management.
Opportunity	Preparation, core relationships and access are key ingredients for opportunistic investment.

WHY PERPETUAL?

Perpetual is one of Australia's leading wealth managers, having protected, managed and grown the wealth of our clients, generation after generation, for over 124 years.

Perpetual's multi-manager investment team rigorously researches and selects specialist investment managers for their particular capabilities so they combine effectively to achieve a fund's objectives. Leading external consultants are also used to provide research on the investment managers, emerging opportunistic investments and portfolio construction.

Perpetual Private Wealth, part of the Perpetual Group, is a specialist financial advice business that can provide expert advice on all aspects of investing, including wealth accumulation and protection, superannuation and retirement, taxation, charitable trusts and estate planning. The advice and services you choose from Perpetual Private Wealth can be as specific or as broad as you need.

To learn more about the benefits of adding alternative investments to a traditional portfolio, please phone Perpetual Private on 1800 631 381.

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MORE INFORMATION

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