Perpetual Protected Investments

How do we protect your portfolio?

Perpetual Protected Investments is structured so that at the **protection end date** your portfolio value will be at least equal to your initial investment amount. This means you need to remain invested in the product until the protection end date to get the full benefit of the protection strategy.

During the recent abnormal market volatility, almost all investments have been impacted by the general market downturn. We explain the key features of the protection strategy here.

Protecting your investment with dynamic management

At any given time, each investment strategy you have chosen may consist of fund units (in the underlying funds you selected), a cash account (to receive distributions and pay fees) and call options (a tool we use as part of the protection strategy).

Initially, each investment strategy was 100% invested in fund units. Since then we have monitored each investment strategy on a daily basis and, where necessary, switched your fund units in and out of call options. As the value of your fund units drops, the percentage of call options in the investment strategy increases.

When a fund's unit price drops, we determine the ratio of fund units and call options in the investment strategy by firstly calculating what we call your **portfolio protection floor**. This is the hypothetical amount that you would need to invest in fixed interest investments (for example in an interest bearing bank account) to make sure that your current portfolio value grows to an amount at least equal to your original investment by the protection end date.

We use the *portfolio protection floor* to help us decide how much of your portfolio to keep invested in fund units and how much to invest in call options.

For example, let's assume:

(i) your current protected amount is $10,000 (the minimum investment),

(ii) it is exactly seven years to the protection end date;

(iii) an interest rate of 6% pa, and

(iv) fees at the rate of 0.75% pa.

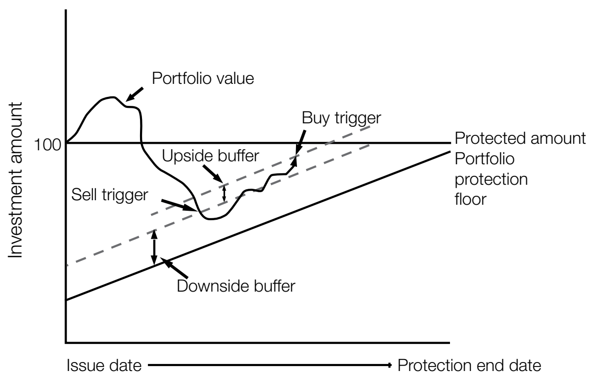
We would calculate that you would need to invest approximately $7,100 in fixed interest investments today to grow to $10,000 at the protection end date. Therefore, in this example, your portfolio protection floor today would be $7,100.

We monitor your portfolio value and the portfolio protection floor daily, as they change with market movements and changes in interest rates.

We keep a 'downside buffer' between the portfolio protection floor and your portfolio value. If your portfolio value falls into this buffer, we will sell some of your fund units to buy call options. This is called a 'sell trigger' (See Chart 1 below).

If the fund unit price recovers and your portfolio value rises back above the 'upside buffer', we will exercise your call options to buy back into fund units. This is called a 'buy trigger' (see Chart 1 below).

Chart 1 – Buy and sell triggers



Source: Perpetual

Chart 1 - A 'sell trigger' means some of your fund units will be sold to buy call options. A 'buy trigger' means call options will be exercised to buy back into fund units in your chosen funds.

Importantly, as explained above, the portfolio protection floor is determined by reference to current interest rates. Lower interest rates will raise the portfolio protection floor, resulting in a greater potential for sell triggers (allocation away from fund units into call options) than when interest rates are higher. This is because the downside buffer is reduced in size (see Chart 1 above).

In the recent market conditions, we have seen both sustained falls in unit prices as well as a substantial drop in the relevant market interest rate. It is therefore likely that your portfolio now contains a portion of call options as a result of your portfolio value hitting sell triggers.

While our main aim is to protect your capital, we also look to maximise your exposure to *fund units*, as this is where there is the greatest potential for capital growth.

A sharp fall in unit prices, however, may result in a substantial allocation of your portfolio away from *fund units* into *call options and cash.* This reduces your exposure to the *fund* and your ability to participate in future gains made by the *fund*. If the fall is significant enough, you may have no allocation to *fund units* and no exposure to the *fund*.

If your portfolio becomes 100% invested in *call options* and cash, you will only receive your *initial investment back* when the *call options* are exercised at the *protection end date.* In other words, you must remain invested in **Perpetual Protected Investments** until the protection end date to recover your initial investment amount.

Any amount withdrawn prior to the protection end date is not capital protected and you must repay a proportionate amount of any loan to any amount withdrawn. You remain liable to pay interest on any loan amounts until the maturity date or early repayment, irrespective of the performance of your investment.

INVESTING FOR GENERATIONS

Perpetual

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Further information

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www.perpetual.com.au/structuredproducts.htm