



## Perpetual Split Growth Fund

July 2010

### Fund facts

**Investment objective:** To provide investors with long term capital growth through investment in a mix of international and quality Australian industrial shares, in order to diversify risk between asset classes.

**Benchmark:** Split Growth Index<sup>^</sup>  
**Mgmt cost:** 2.10%  
**Buy / Sell spread:** 0.46% / 0.00%  
**Investment style:** Active, fundamental, disciplined, value  
**Suggested minimum investment period:** Five years or longer

### Fund benefits

Provides investors with 100% exposure to long-term growth opportunities across Australian industrial shares and international shares. The fund is run by high quality investment teams.

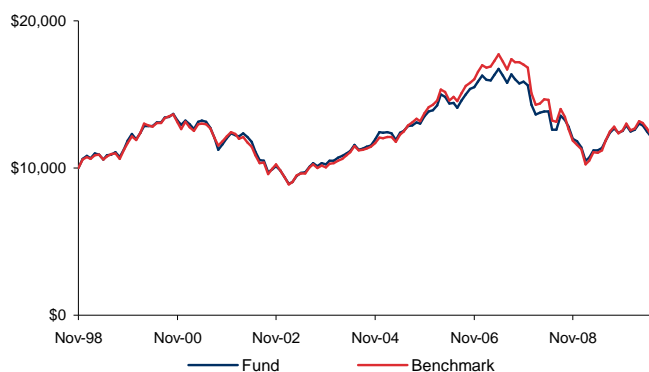
### Total returns % (after fees) as at 31 July 2010

	APIR	1 mth	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	7 yrs pa	10 yrs pa
Perp. WealthFocus Investments	PER0064AU	1.1	-5.0	-2.1	3.1	-8.2	-1.0	2.8	-0.7
Perp. WealthFocus Investment Advantage	PER0496AU	1.5	-5.1	-1.9	3.2	-	-	-	-
Perp. WealthFocus Super	PER0109AU	2.1	-3.5	-0.8	3.9	-6.5	-0.1	3.8	-
Perp. WealthFocus Pensions	PER0108AU	1.8	-4.4	-1.4	3.8	-7.3	-0.3	3.6	-
Perp. WealthFocus Term Allocated Pension	PER0349AU	1.8	-4.4	-1.4	3.8	-7.3	-0.3	3.6	-
Split Growth Index <sup>^</sup>		2.2	-4.4	-0.5	5.1	-9.2	-0.6	3.2	-0.4

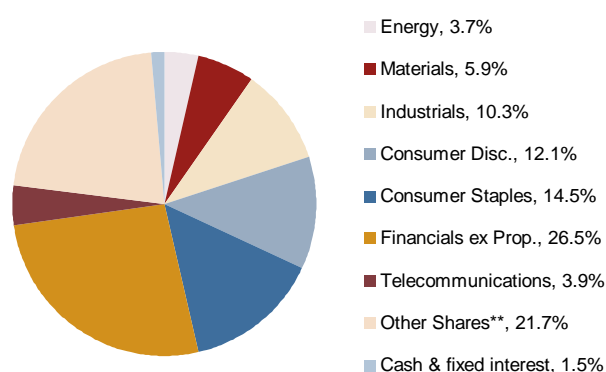
Please note: Performance for Perpetual's complete list of investment funds is available on [www.perpetual.com.au](http://www.perpetual.com.au). Past performance is not indicative of future performance.

<sup>^</sup> Split Growth Index is a blend of 60% MSCI World ex Aust. Accumulation Index and 40% S&P ASX300 All Industrials Index

### Growth of \$10,000 since inception (WFI Fund)



### Portfolio sectors<sup>1</sup>



### Top 10 stock holdings<sup>1</sup>

Commonwealth Bank of Australia
Westpac Banking Corporation
ANZ Banking Group Limited
Telstra Corporation Limited
Nestle SA
Philip Morris International Inc
Wal Mart Stores Inc
Johnson and Johnson
Novartis
Orica Limited

### Asset allocation<sup>1</sup>

	Portfolio	Benchmark
International Shares	58.6%	60.0%
Australian Share	39.4%	40.0%
Liquidity	2.0%	0.0%
Total	100.0%	100.0%

## Market commentary

Global equities rose steadily through the month on a gradual unwinding of risk aversion. Most major markets posted a healthy return, with the US and the UK standout performers with Japan lagging behind. Banks outperformed, aided by only seven of ninety-one European banks "failing" the much-anticipated stress tests. Defensive sectors generally underperformed. The strong Australian dollar detracted from absolute returns for domestic investors with assets held offshore.

Events in Europe also helped underpin a strong result from the Australian market which rallied after a period of sustained selling to the end of June 2010. Another factor driving this result was the removal of the Resources Super Profits Tax in favour of a Minerals Resource Rent Tax. The best performing sectors were industrials, financials and materials.

## Portfolio commentary

Our overweight position to the world's largest industrial explosives maker Orica (+10.5%) contributed to relative performance. During the month the company spun off its DuluxGroup paint and garden products business as a separately listed entity. The demerger should allow Orica to concentrate on the mining sector which they perceive as less volatile and with more growth potential. Although a costly step (the transaction will cost nearly \$100 million), we feel that this move is an overall positive for the business and will help provide focus for the board and management.

BNP Paribas recovered strongly during the month after falling in the second quarter on concerns related to its exposure to Greek government bonds. We felt that this had been unjustified and there had been an indiscriminate nature to the sell off of French banks. Taking advantage of the depressed valuation we increased our holding by 50bp at the beginning of July.

Our overweight position to Fletcher Building (-3.5%) detracted from relative performance. The company recently announced that it will incur an unusual expense of NZ \$30 million in its financial results for the 2010 financial year. The expense arises from significant taxation changes announced by the New Zealand Government in its budget in May 2010 which result in the company being required to increase its provision for deferred tax. The changes include the elimination of depreciation on buildings for tax purposes and a reduction in the corporate tax rate from 30% to 28% effective 1 July 2011. We expect Fletcher Building to benefit as New Zealand infrastructure and residential construction gains further traction.

Johnson & Johnson delivered a mixed quarterly performance with earnings in line with expectation, though revenue was lower than estimated. Management also lowered its earnings guidance range for 2010 by 3%, on account of the impact of several product recalls. While the recalls are undoubtedly a serious issue it must be viewed as a short-term negative and the company's consumer business should stabilise in 2011. Johnson & Johnson has a robust drug pipeline and appears to be in transition to a new set of growth drivers. The company's strong free cash flow (\$14.2bn in 2009) and high levels of share repurchase should allow it to continue to grow earnings.

## Outlook

Macro-economic themes such as European sovereign debt and concerns over a possible United States double-dip recession continue to dominate the global equity markets. However, the local market is more vulnerable to the pace of growth in China rather than the issues stemming from Europe. Domestically investors are focused on the local reporting season with keen interest being paid to company outlook statements for clues on the potential for earnings growth. Attention is focused on whether profits are being driven by revenue growth or internal cost cutting. Although the equity markets were up over the month, the recent pull-back has created renewed opportunity to find value. We continue to monitor company results and search for quality companies at attractive valuations for inclusion into the portfolio.

## What are...?

Industrial shares are companies that are engaged in the production or sale of goods or services, as distinct from resource or mining stocks. Industrial shares make up approximately two thirds of the Australian sharemarket by market capitalisation.

## Why Perpetual

Perpetual is one of Australia's most experienced investment services groups, with an enduring passion for protecting and growing our clients' wealth.

Founded in Sydney in 1886 as Perpetual Trustees, we've helped generations of Australians invest and manage their wealth through all market conditions.

## Perpetual process

Perpetual's investment philosophy is a fundamental, conservative bottom-up approach to stock picking, focusing on identifying quality companies that represent good value.

The process is based on comprehensive internal company research using four filters - sound management, conservative debt, quality of business and recurring earnings. Portfolios are constructed by experienced portfolio managers within a pre-determined risk framework.

## Did you know?

Perpetual's research shows that a portfolio mix of 60% international shares and 40% Australian industrial shares with regular rebalancing can produce a lower risk profile with only a moderate impact on the return compared to an investment of 100% in either asset class. Furthermore our analysis indicates that blending global equities with Australian industrial shares produced both higher returns and lower levels of volatility than using a broader portfolio of Australian shares.

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The following funds are not open to new investment: Nil Entry Split Growth Fund.

\* Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries.

\*\* Other Shares may include Healthcare, Property Trusts, Information Technology, Utilities and GICS unspecified/international stocks.

<sup>1</sup> Fund information in this document is relevant to the Wholesale option unless stated.

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## Further information

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