



## Perpetual Split Growth Fund

### June 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, with lower risk than 100% exposure to either asset class.

**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.

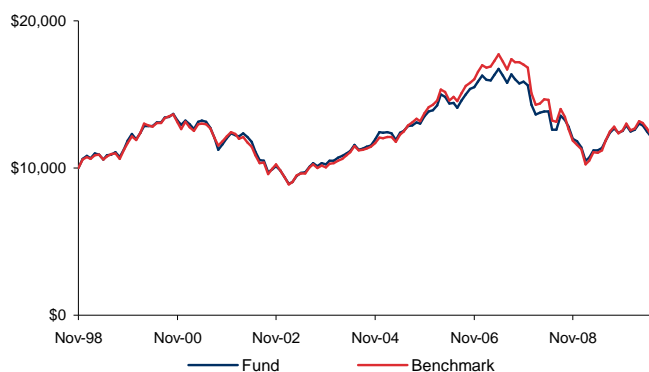
#### Total returns % (after fees) as at 30 June 2010

	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	-3.0	-7.0	-6.2	6.6	-9.5	-0.7	3.2	-0.8
Perp. WealthFocus Investment Advantage	PER0496AU	-2.9	-7.2	-6.4	6.4	-	-	-	-
Perp. WealthFocus Super	PER0109AU	-2.7	-6.4	-5.6	6.9	-8.0	0.0	4.1	-
Perp. WealthFocus Pensions	PER0108AU	-2.9	-6.9	-6.1	7.6	-8.8	0.0	3.9	-
Perp. WealthFocus Term Allocated Pension	PER0349AU	-2.9	-6.9	-6.1	7.6	-8.8	0.0	3.9	-
Split Growth Index <sup>^</sup>		-3.8	-7.4	-6.2	9.1	-10.8	-0.4	3.5	-0.7

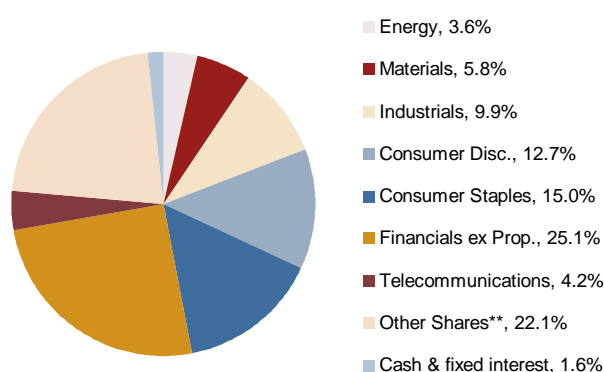
Please note: Performance for Perpetual's complete list of investment funds is available on [www.perpetual.com.au](http://www.perpetual.com.au). Past performance is not indicative of future performance.

<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
Johnson and Johnson
Wal Mart Stores Inc
Novartis
Philip Morris International Inc
Orica Limited

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

	Portfolio	Benchmark
International Shares	59.8%	60.0%
Australian Share	38.0%	40.0%
Liquidity	2.2%	0.0%
Total	100.0%	100.0%

## Market commentary

Global equities in June were impacted by softening US economic data, a sovereign default scare in Hungary along with a cut in Greece's credit rating to "junk" by Moody's. China relaxed the peg to the US dollar as investor focus remained on their economic growth prospects as indicators suggest growth is beginning to slow. Bond yields generally drifted lower as volatility remained at high levels. Defensive sectors generally outperformed. The G20 meeting ended with no global agreement for an international banking levy.

## Portfolio commentary

Our overweight position to telecommunications giant Telstra Corporation contributed to relative performance. Telstra reached an agreement with the NBN Co to participate in the rollout of the fixed national broadband network. The transaction is worth \$11 billion and includes payment for the decommissioning of Telstra's copper network and cable broadband service, and use of its infrastructure. Payments would be made progressively to Telstra. The agreement provides the framework for definitive agreements to be negotiated over the coming months and is a significant step towards the Government's vision for high-speed broadband.

Our holding in Nestle contributed to performance as the Swiss food giant had a strong month. Its returns were underpinned by the continued strong performance of its businesses. Nestle has achieved strong sales growth, increased its margins and recently announced that it expects to increase its revenues from the fast growing emerging market segment. Nestle is also commencing a new CHF10bn buyback programme using proceeds from the completion of its stake in Alcon.

Our overweight position to Australia's oldest bank Westpac Banking Corporation detracted from relative performance. Over the month the company was impacted by concerns of net interest margin compression resulting from funding an expanded mortgage book in a market now influenced by liquidity rationing. Despite these headwinds, we feel Westpac is one of the higher quality banks. We are comfortable with our exposure to the company and believe it is well placed to deliver profit and dividend growth into 2011.

Walgreen reported quarterly earnings below expectations during the month. Its gross margin was weaker due to lower reimbursements from health insurers for drug prescriptions, and selling and administration expenses which grew faster than sales. Despite the difficult economic background, Walgreen is working very hard to improve the things that are in its control. Walgreen also recently introduced beer and wine to its product range. This is boosting sales, increasing traffic and leads to a bigger average basket size. It is shareholder focused and has repurchased \$600 million under its \$2 billion share repurchase program (7.4% of market cap) that it commenced last October.

## Outlook

Talk of slipping back into negative economic growth has risen substantially in recent weeks. This has been prompted largely by a downturn in macro data and ongoing structural worries about the sustainability of the recovery. The trend of earnings revisions has also started to slow down. While we expect a sustained (if weak) growth recovery, markets are like to remain jittery given the lack of visibility. For equity markets, slower earnings growth expectations need not translate to market downside. Valuations have room to absorb slower growth expectations and to still allow for market upside. The portfolio is positioned towards those companies with favourable balance sheet and profitability metrics. Typically, they are high ROE and low leverage companies where EPS and DPS are stable and growing. High quality stocks are starting to outperform low quality stocks following substantial underperformance in 2009 and we expect this trend to continue in the second half of the year.

## 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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