

Perpetual Investments

PERPETUAL GEARED AUSTRALIAN FUND

October 2012

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest in quality shares.

Benchmark: S&P/ASX 300 Accumulation Index[^]

Mgmt cost: 1.95% pa (GAV)

Buy / Sell spread: 0.75% / 0.00%

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Seven years or longer

FUND BENEFITS

Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

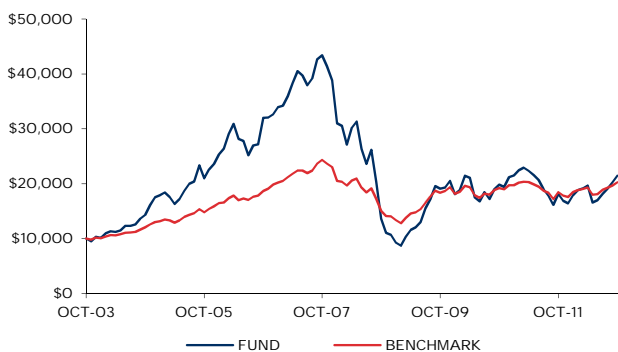
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

TOTAL RETURNS % (AFTER FEES) AS AT 31 October 2012

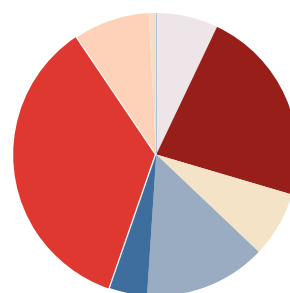
	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Investment Advantage	PER0492AU	5.8	18.1	9.0	18.0	4.1	-	-	-
Perp. WealthFocus Super	PER0223AU	5.3	15.6	10.2	20.5	6.6	-9.0	3.6	-
Perp. WealthFocus Pensions	PER0147AU	5.5	17.2	11.3	22.9	7.7	-8.8	4.4	-
Perp. WealthFocus Term Allocated Pension	PER0341AU	5.5	17.2	11.3	22.9	7.7	-8.8	4.4	-
S&P/ASX 300 Accumulation Index [^]		2.9	7.4	4.9	9.9	3.4	-3.6	4.6	-

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

GROWTH OF \$10,000 SINCE INCEPTION*



PORTFOLIO SECTORS¹



ENERGY, 7.1%
MATERIALS, 22.5%
INDUSTRIALS, 7.5%
CONSUMER DISC, 14.0%
CONSUMER STAPLES, 4.3%
FINANCIALS EX PROP, 35.3%
TELECOMMUNICATIONS, 8.6%
OTHER SHARES**, 0.8%
CASH AND FIXED INTEREST, 0.0%

TOP 10 STOCK HOLDINGS¹

BHP Billiton	9.4%
Westpac Banking Corporation	9.3%
Commonwealth Bank of Australia	9.1%
Telstra Corporation Limited	8.6%
ANZ Banking Group Limited	5.9%
Orica Limited	5.0%
Rio Tinto	4.4%
News Corporation	3.9%
QR National Limited	3.8%
Insurance Australia Group Limited	3.6%

PORTFOLIO FUNDAMENTALS¹

	PORTFOLIO	BENCHMARK
Price / Earnings	13.4	13.1
Dividend yield	4.7%	5.0%
Price / Book	1.8	1.7
Debt / Equity	30.6%	38.9%
Interest cover	12.8	9.2
Return on Equity	14.1%	13.3%

*Source: Factset

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose by 2.9% during October. Domestically the market was driven by outperformance in more defensive, high dividend yielding sectors such as telecommunications and property trusts. During October, many listed Australian Companies held their Annual General Meetings (AGM), which provided a forum for management to update the market on the company's performance. Commentary from this AGM season has been slightly more upbeat, despite trading conditions remaining soft, forward outlook statements are showing signs of improvement and generally full year guidance has been maintained. During October, the RBA cut interest rates by 0.25% early in the month, in an attempt to boost economic growth.

The best performers for the month were Telecommunications (+5.7%), Property Trusts (+5.3%) and Industrials (+3.6%). The worst performers were Information Technology (+0.3%), Energy (+1.1%) and Utilities (+1.1%). As a whole, industrials (+3.2%) outperformed resource stocks (+2.0%), whilst large cap stocks (+3.0%) outperformed small companies (+1.3%).

In major corporate news, Graincorp received a takeover offer from US-based agricultural company ArcherDaniels-Midland for \$11.75 per share, a 32.8% premium to last traded price. CSL announced a \$900m buyback, over the next 12 months. At their AGM, Chairman Brian McNamee confirmed that global demand for their products was growing at 6-7%, and reaffirmed full year guidance. The NSW Government also gave the approval for Crown to build a new Hotel and VIP Gaming precinct at the Barrangaroo site, Crown rose 6.8% over the month.

PORTFOLIO COMMENTARY

The underlying Fund's largest overweight positions include telecommunications provider Telstra, explosives manufacturer Orica and media company News Corporation. Orica has a strong balance sheet, great pricing discipline and reduced input costs. The Fund's largest underweight positions include Wesfarmers (not held), CSL (not held) and National Australia Bank (not held).

The overweight position to diversified miner Rio Tinto (+6.7%) contributed to relative performance. Rio performed well during the month, after reporting a strong September quarterly. The iron ore division set a new record for production, at 67Mt, de-risking the full year guidance targets for iron ore. Mined copper production was up 21%, on the prior year and production of thermal coal rose 21% during the quarter. Rio's share price performance was also boosted by the continued recovery of the spot iron ore price. The portfolio manager likes Rio given it has an excellent stable of low cost, long-life assets and a strong balance sheet. The portfolio manager believes Rio has a competitive cost advantage over the marginal iron ore producer, and therefore is more resilient in a weaker commodity price environment.

The underweight position (not held) to gold mining and exploration company, Newcrest Mining (-9.3%) contributed to relative performance. During the month, Newcrest announced disappointing first quarter production. Output had fallen 22% due to technical setbacks and a dispute with landowners at one of their projects. Gold output for the quarter was 460,425 troy ounces compared to 587,310 in the previous quarter. Newcrest Mining is not held in the portfolio as it is considered expensive relative to other quality companies in the investment universe.

The overweight position to global media empire, News Corporation (-1.1%) detracted from relative performance. During October, the advertising market showed further signs of deterioration in Australia, with agency advertising bookings recording a 4.3% fall for the quarter. In the US, broadcast ratings for the fall season were weak, with Fox ratings down 24%. The portfolio manager likes News Corporation due to its strong earnings growth potential and attractive valuation supported by an ongoing buyback.

The overweight position to investment company Hills Holdings (-33.6%) detracted from relative performance. Hills Holdings announced disappointing 1Q13 results during the month, including net profit down 45% on prior period. The portfolio manager has sold the holding in Hills Holdings, as earnings growth appears to be weak in the near term and the outlook is uncertain.

OUTLOOK

Global markets remain hampered by significant political and economic uncertainty. The Australian market is not immune from these forces; however, during periods of uncertainty and volatility, patient investors are often presented with the opportunity to acquire very high quality companies at attractive valuations. We believe there are a number of such opportunities at present. Further, recent interest rate cuts have also increased the relative attractiveness of sound, fully franked dividend streams offered by quality equities in comparison to declining term deposit rates. Our investment process, favouring quality companies with strong balance sheets ensures that we are well placed to withstand periods of economic weakness. 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.

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*No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) 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 contribution or withdrawal fees or taxation (except in the case of superannuation funds). Past performance is not indicative of future performance.

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

^ Benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

† Fund information in this document is relevant to the Wholesale option unless stated.

* The chart represents the Wealthfocus Investment option up until its termination where the chart then tracks the Wealth Focus Investment Advantage option.

MORE INFORMATION

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