

Perpetual's Australian and International Share Funds

In 1934, Benjamin Graham and David Dodd wrote *Security Analysis*, the classic investment theory text which today is still widely accepted as the foundation for fundamental investing.

Graham and Dodd also lectured in economics, with Warren Buffett one of their most successful and well-known students.

When analysing companies, these fathers of fundamental investing said that the "greatest losses result not from buying quality at an excessively high price, but from buying low quality at a price that seems good value".

Graham and Dodd believed that focusing on the characteristics of a company (called company fundamentals) such as balance sheet strength, dividend yield, visibility of earnings and management experience allowed for better and more profitable investment decisions.

Perpetual has a similar belief when managing and investing our clients' money. While valuation is key to the way we invest, quality always comes first, as not every company that appears cheap will perform well over the long term.

Our investment philosophy of investing in quality Australian and global companies at attractive prices, to us, is more than just a motherhood statement or a marketing term.

It is a belief that underpins our investment philosophy and one we apply when managing our clients' money. Irrespective of the latest fad or fashion, our fundamental investment philosophy has never altered.

Our investment approach has paid off

When looking to invest in quality Australian and global companies at attractive prices, we focus our attention on those companies that exhibit characteristics including:

- a track record of earnings and cashflow
- strong interest cover
- a strong balance sheet and sound capital structure
- a conservative level of debt
- a history of dividends
- a sound management team with a strong shareholder focus.

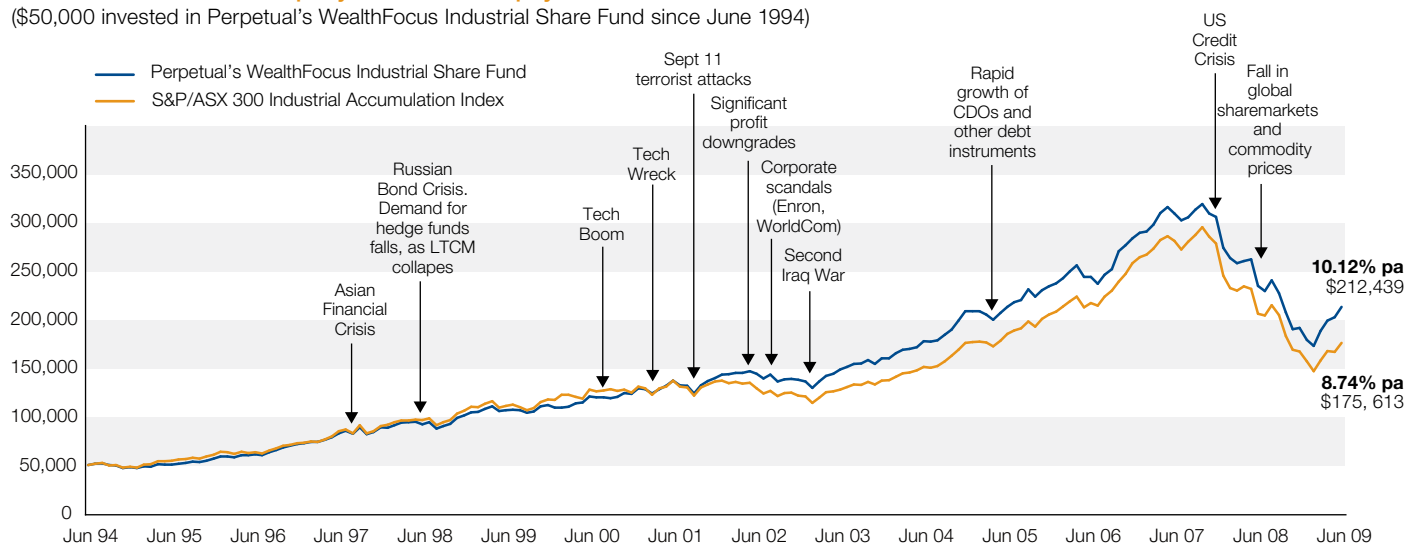
Looking closely at the balance sheet strength and capital structure of companies, in particular, has helped our performance, as we've avoided those companies with high levels of debt whose value is now being eroded by the recent market volatility.

This fundamental approach to investing has allowed our Australian equities team to generate consistent outperformance over the long term (see chart below).

Our global equities team has also significantly outperformed over all time periods (as at 31 December 2008), since taking over management of our international share portfolio in March 2005.

Chart 1 – A focus on company fundamentals pays off

(\$50,000 invested in Perpetual's WealthFocus Industrial Share Fund since June 1994)



Source: Perpetual. Returns 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.

Companies we view favourably

With investors now looking far more carefully at the risks associated with their share investments, companies offering greater security and consistent, long-term returns are now back in favour, which we believe will continue for some time.

The **Australian Securities Exchange (ASX)** is one that we have added to our Australian share portfolios, as it is a quality company we have liked for some time, whose valuation has recently become very attractive.



ASX has one of the cleanest balance sheets in the market, with no debt and plenty of cash. While reduced trading volumes will impact earnings this year, the company remains highly profitable, operates in a near monopoly, has a business model that is easy to understand and a proven management team – all very attractive attributes given the uncertain times.

Within our international share portfolio, **Nestlé** is just one of several diversified global companies that demonstrate many of the strong quality characteristics we like to see at a good price.



As the world's largest food and beverage company, Nestlé owns the dominant brand in many product categories including breakfast cereals, beverages, dairy products, pet care and baby food.

The company has an impressive record of consistent earnings growth, excellent shareholder focus and 12 consecutive years of margin improvement (through price increases without impacting sales), and is one of our key long-term holdings that continues to perform well.

Quality really is your best protection

While we don't have a crystal ball that will tell us how markets will perform in the near future, in these uncertain and difficult times investors are looking for greater security and transparency in their investments, and will be for some time to come.

We believe that our disciplined approach of focusing on quality companies at attractive prices gives our investors:

- the best chance of achieving **consistent returns and dividends** over the long term
- **peace of mind** that these companies will survive even in the most difficult of times.

Just as it was when Graham and Dodd first published their ideas in 1934, we believe this 'old' approach to investing is the key to making better and more profitable investment decisions for our investors now, and in the future.

To learn more about the Australian and international share funds we offer, please contact your financial adviser.

Why invest with Perpetual?

Through times of both prosperity and uncertainty, we have built and protected the wealth of our investors.

Now that investors are returning to more traditional portfolio allocations, investing with Perpetual for both Australian and global shares ensures you will have a portfolio that:

- is offered by **one of Australia's most trusted and successful providers of investment services**, which was established in 1886 and has been managing money on behalf of its clients since then
- has a track record of **strong performance**, especially in times of market stress
- is **managed conservatively** by an investment team with very low turnover, whose senior members have worked together for over 10 years and who have experience in investing **across different market cycles**
- has been **rigorously researched** with a strong focus on **risk management**
- allows you to benefit from the **consistent, long-term earnings growth** of diversified companies, many of which are household names.

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