

Perpetual Wholesale Australian Share Fund

30 Apr 2011

The Perpetual Wholesale Australian Share Fund (the Fund) is a high quality value-style Australian shares offering that is well regarded by Zenith. Overall, Zenith rates the Fund highly based on its experienced and well resourced investment team that has generated consistent long-term excess returns despite managing a significant level of funds under management (FUM) in Australian equities.

The Perpetual Australian equity investment team is one of the strongest and more stable in the Australian marketplace. The 15 member team is well led by John Sevier, Head of Equities. Sevier is supported by Matt Williams, Deputy Head of Australian Equities & Senior Portfolio Manager, as well as the broader portfolio management team. Matt Williams is the sole portfolio manager of the Fund after the recent departure of John Harbot, who co-managed the Fund with Williams. Zenith considers the departure to be significant given Harbot's experience and senior role within Perpetual, however we believe Williams is one the leading portfolio managers in this sector and have confidence that the depth of the broader investment team can adequately cover Harbot's responsibilities.

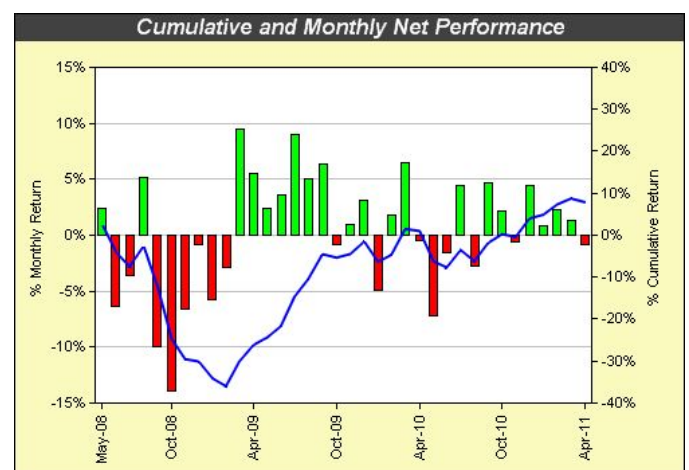
The Fund's performance objective is to generate 2%-3% p.a. (Gross of Fees) above the S&P/ASX 300 Accumulation Index over rolling 3 year periods. In order to achieve the Fund's return objective the Manager employs a clearly structured and robust investment process that aims to identify quality companies at attractive valuations. The security selection process starts by passing the entire stock universe through a quality screen whilst the second stage of the process examines the relative valuation of the stocks that pass the screen. The output from this fundamental research process is an analyst score. Each stock is divided into 1 of 3 different stock tiers based of the company's market capitalisation and is then combined with the analyst ranking of the stock. This in turn then provides the guidance for what the portfolio weights of each stock should be. Williams is responsible for final portfolio construction decisions and making subjective assessments with regard to the makeup of the portfolio. Zenith considers the security selection and portfolio construction processes adopted by Perpetual to be robust and applied in a disciplined, structured manner.

Portfolio monitoring occurs in a formal sense principally through a monthly risk management report that outlines performance and risk factors which include; fund performance attribution, individual analyst performance, portfolio and ranking changes, and BARRA analysis (ex-ante tracking error, risk decomposition, factor exposures, and stock contribution to active risk). Zenith is comfortable that Perpetual's risk management framework is strictly adhered to at all stages of the investment process.

Perpetual manages a high level of funds under management (FUM) which presents additional challenges based on the inability to trade efficiently. As at 28 February 2011, Perpetual managed approximately \$19.6 billion in Australian Equities. Zenith considers the difficulties of managing liquidity, as well as the inevitability of having to disclose substantial shareholdings to the market (most common in smaller companies) as outweighing the advantages of having high FUM. Zenith does however concede that Perpetual has a strong track record of delivering alpha (excess return) over a long-term period despite this FUM barrier. Fees include a management fee of 0.99% p.a. with no performance fee. The overall fee structure is in line with the Fund's long only Australian share peers.

In Zenith's opinion, Perpetual is an excellent candidate as a value orientated fund manager within the Australian marketplace and considers Perpetual's investment style to be a more 'moderate value' as opposed to a 'deep value' investment approach undertaken by its style peers. In terms of investor use of the Fund, Zenith believes the Fund is most effective when blended with growth orientated and/or style neutral products to achieve a diversified exposure to Australian Shares. Zenith rates Perpetual Wholesale Australian Fund HIGHLY RECOMMENDED.

Key Features	Description
APIR Code	PER0049AU
Asset Class	Australian Shares
Sub-Asset Class	Large Companies
Investment Style	Value
Zenith Assigned Benchmark	S&P / ASX 300 (Accum)
Recommended Investment Timeframe	5 + years
Head of Equities	John Sevier
Investment Team Size	15



Performance Analysis

Performance Statistics		5 Yrs	3 Yrs	1 Yr
Performance (% p.a.)	Fund	3.59	2.51	6.81
	Benchmark	2.61	-0.46	4.88
	Median	2.48	0.09	3.13

The Fund's performance objective is to return 2% - 3% p.a. (Gross of Fees) above the S&P/ASX 300 Accumulation Index over rolling 3 year periods. The Fund has generated a consistent level of outperformance above benchmark (S&P / ASX 300 Accumulation Index) and large cap median manager over 3 and 5 year period. Zenith anticipates that value managers will generally underperform the benchmark in prolonged bull markets where fundamentals often get overrun by positive market sentiment.

Zenith is confident that over a full market cycle the Fund will achieve its investment objective based on our assessment of the quality investment personnel as well as the robust investment process employed at Perpetual. In addition, the Fund has historically achieved strong above benchmark returns since its inception in 1986.

Although the Fund isn't income focused it has a semi-annual distribution frequency. The income/growth returns over the past year (31/06 - 01/07) are as follows:

2010/09 Growth 13.48%; Income 4.31%;

2009/08 Growth -21.80%; Income 3.47%;

2008/07 Growth -13.62%; Income 3.10%.

Consistency Analysis

Consistency Statistics		5 Yrs	3 Yrs	1 Yr
Excess Rtn - All Mkts (% of Mths)	Fund	53.33	58.33	66.67
	Median	46.67	47.22	41.67
Excess Rtn - Rising Mkts (% of Mths)	Fund	48.57	60.00	71.43
	Median	42.86	50.00	42.86
Excess Rtn - Falling Mkts (% of Mths)	Fund	60.00	56.25	60.00
	Median	52.00	50.00	40.00

The consistency statistics highlight the Fund's ability to outperform the benchmark through fluctuating market conditions over the medium to long term (3-5+ years). Zenith aims to identify managers who can outperform their respective index greater than 50% of months, over all time periods, which represents a persistence of manager skill.

Zenith expects the Fund to produce a consistent level of outperformance over the investment timeframe prescribed in rising and falling market conditions, in contrary to the Fund's 'deep value' peers.

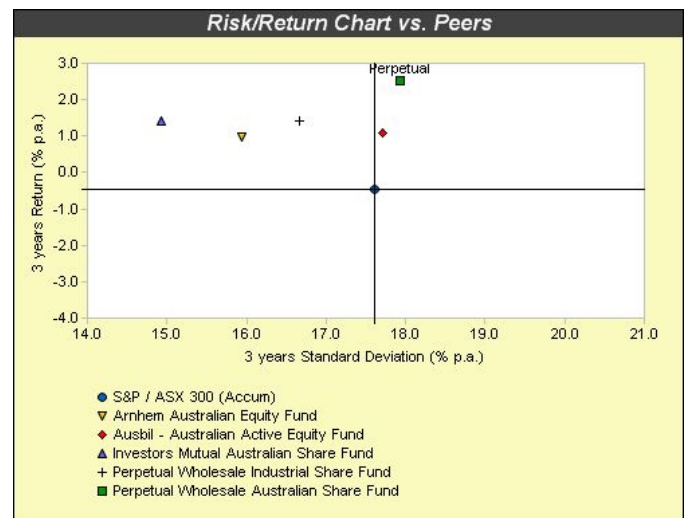
Risk / Return Analysis

Risk / Return Statistics		5 Yrs	3 Yrs	1 Yr
Information Ratio	Fund	0.26	0.98	0.81
	Median	-0.04	0.17	-1.00
Sharpe Ratio	Fund	-0.13	-0.14	0.16
	Median	-0.20	-0.28	-0.16
Standard Deviation (% p.a.)	Fund	15.94	17.93	11.47
	Median	15.76	17.51	11.56
Tracking Error (% p.a.)	Fund	3.74	3.03	2.39
	Median	3.57	3.85	2.06

From a risk-adjusted perspective the Fund's Information ratio and Sharpe ratios are relatively superior in comparison to the median manager across all time periods. Overall, Zenith maintains a high level of confidence in the Manager to achieve the Fund's investment objective.

The Fund does not have a set Tracking Error target range; however it will generally range between 3% - 6%. Over all time periods the Fund's Tracking Error has remained within the Managers expected range.

The risk / return chart highlights the Fund's risk adjusted performance relative to other managers in the universe.



Investment Personnel

Name	Title	Tenure
John Sevier	Head of Equities	17 Yr(s)
Matt Williams	Deputy Head of Australian Equities & Senior Portfolio Manager	18 Yr(s)
Sean Cunningham	Senior Analyst / Portfolio Manager	16 Yr(s)
James Bruce	Senior Analyst / Portfolio Manager	9 Yr(s)
Simon Bridger	Portfolio Manager	2 Yr(s)
Paul Skamvougeras	Portfolio Manager	7 Yr(s)
Charlie Lanchester	Senior Analyst / Portfolio Manager	12 Yr(s)
Jack Collopy	Analyst / Portfolio Manager	10 Yr(s)
Vince Pezzullo	Senior Analyst	3 Yr(s)
Nathan Parkin	Analyst	6 Yr(s)
Maryanne Drewe	Analyst	8 Yr(s)
Garry Laurence	Analyst	3 Yr(s)
Andrew Blakely	Analyst	2 Yr(s)
Andrew Corbett	Analyst	2 Yr(s)
Rosemary Tan	Analyst	1 Yr(s)

Organisation:

Perpetual Limited (Perpetual) is a publicly listed company (ASX ticker: PPT) with a market capitalisation of \$1.4 billion (as at 28 February 2011). Perpetual consists of three core business units comprising Perpetual Investments; Perpetual Private Clients; and Perpetual Corporate Trust. Perpetual Investments manages approximately \$27.6 billion (as at 31 October 2010) across the following asset classes: Australian Equities, Global Equities, Fixed Income and Multi Sector.

In October 2010, Perpetual Limited (Perpetual) had received an indicative, incomplete, conditional and non-binding proposal from Kohlberg Kravis Roberts & Co (KKR) to acquire all of Perpetual's shares via a scheme of arrangement at a price of \$38.00 - \$40.00 per share. In late December 2010, Perpetual's Board advised that discussions with Kohlberg Kravis Roberts & Co. (KKR) had ended after both parties were unable to develop mutually acceptable terms in relation to the proposal and, as a result, KKR's indicative proposal will not proceed.

Investment Team:

The Perpetual Australian equity investment team is one of the strongest and more stable in the Australian marketplace. The team is well led by John Sevier, Head of Australian Equities, who joined the Group in 1994. Sevier is supported by Matt Williams, Senior Portfolio Manager, as well as the broader portfolio management team. Zenith believes that Perpetual has successfully created a culture that promotes individual accountability but also spreads the portfolio management workload between the portfolio management team.

The portfolio management team led by John Sevier consists of Matt Williams, Sean Cunningham, Charlie Lanchester, James Bruce, Simon Bridger and Paul Skamvougeras. Team changes over the past 12 months included the departure of Harbot and the arrival of Skamvougeras (Portfolio Manager) and Nathan Parkin (Analyst) with Sean Cunningham on sabbatical for 12

months (returning October 2011). The level of resources under Sevier provides Zenith with a high level of confidence in Perpetual's ability to adequately cover its investment universe and continually add value for investors in the Fund.

Perpetual has been able to maintain the core of its investment team over the medium term, an achievement that many competitors have been unable to accomplish. Perpetual is one of the more progressive managers Zenith has reviewed in terms of its succession planning. Perpetual's multi-manager approach (which is applied across most of the manager's Australian equities products) has helped Perpetual nurture the portfolio management skills of its analysts, assisted team stability, diversified key person risk and provided a succession planning platform. The Fund is managed by Matt Williams. Portfolio management and analyst remuneration pools are based on the performance of the investment team, but are also linked with the individual achievements of each team member (i.e. analyst's are evaluated based on their respective stock rankings).

The investment team consists of 15 investment professionals including; a Head of Australian Equities, 7 portfolio managers, and 8 analysts. With the exceptions of Sevier and Williams, each team member has specified stock / sector responsibilities, although the number of stocks each team member covers varies based on the individual's portfolio management responsibilities. Sevier and Williams have no set analytical responsibilities allowing them to focus entirely on portfolio management responsibilities. Despite this, both regularly attend management meetings with the analysts and seek to maintain a strong working knowledge on the stocks in their portfolios as the investment analysts undertaking the research.

In terms of depth and experience, Perpetual rates as highly as any domestic equity manager Zenith has reviewed. The majority of the senior investment professionals have spent between 5 to 15 years at Perpetual. In terms of industry experience, only 3 of the 15 members of the investment team have less than 10 years experience. The investment team is also ably supported by well-resourced portfolio dealing and portfolio administration teams.

Overall, Zenith rates highly the overall quality and structure of the Perpetual Australian equities team, and as such we have a high level of confidence in their ability to achieve the Fund's return objective.

Investment Process

Perpetual's investment philosophy is based on 2 fundamental tenets - value and quality. The manager believes that markets are semi-efficient and that opportunities exist for adding value through the selection of quality, well priced securities. Perpetual believes investing in quality companies minimises downside risk, whilst the selection of securities trading at a discount to their intrinsic value will deliver out performance. Perpetual is a classic "fundamental, bottom-up, value-orientated" investor.

Security Selection

The investment process adopted by Perpetual is robust and applied in a disciplined and well structured manner. In Zenith's opinion it is this structure and discipline which has enabled the manager to deliver competitive long term performance despite its high level of funds under management (FUM) in Australian equities.

Perpetual's broad investment strategy enables some of its Australian share funds to identify opportunistic investment's offshore up to a maximum of 20%. The strategic allocation to offshore listed stocks is 0% and investment is only undertaken when it is deemed that the offshore stocks offer significantly better value, and a high degree of conviction exists in the investment case. The Fund's international exposure has been low and sporadic reflecting the opportunistic nature of these decisions. Hedging of the international exposure into Australian Dollars is at the discretion of the portfolio manager. Zenith does not consider investment into international equities to be a material divergence from Perpetual's existing investment process as Perpetual considers a number of offshore listed stocks in determining a reference point for Australian stocks in the same industry. Responsibility for international stock coverage rests with the respective analyst(s).

The Fund has an initial investment universe of over 450 stocks that are both listed in Australia (all stocks on S&P/ASX 300 Index) and on foreign stock exchanges. However, once stock liquidity is assessed, and stocks are fed through Perpetual's four quality filters, the team is left with approximately 250 stocks to monitor.

The security selection process is split up into 2 stages;

The first stage starts by passing the entire universe through a quality screen. Companies must pass all 4 quality tests. These tests include:

- Sound management (a subjective call focusing on; management's track record, capital management, ability to maximise shareholder value, board of directors);
- Conservative debt (debt / equity should be less than 50%, but if not then the following are considered; interest cover must be 3.0 times or greater (5.0 times for pre production companies) & debt payback period is a maximum of 5 years. For the banks the Tier 1 Capital ratio is used);
- Quality of business (a subjective call focusing on; Porter factors including barriers to entry, industry structure, competitive advantage); and
- Recurring earnings with a preference for companies that have a 3 year track record of generating earnings, or a demonstrated ability to provide visible earnings in future (pre production companies are required to be expecting income within 2 years).

Examples of stocks which fail this screen include highly geared companies. This screening process is undertaken using both internal data and broker / consensus numbers. In addition to the screening filter a formal report is prepared on the company. This report outlines how the company meets the set test criteria and also identifies any key risk indicators associated with the company that may impact its balance sheet and / or profit and loss statement.

The second stage of the process examines the relative valuation of the stock. Perpetual adopts a flexible approach to stock valuation which tailors its method based upon the nature of the company in question. For example, cyclical stocks may be valued using an assessment of potential P/E (Price to Earnings ratio) based on normalised market conditions, whilst growth companies may be valued using current price vs. future growth prospects, NPV and historic and forecast P/E. Whilst this flexibility in valuation techniques may be deemed a risk in certain cases, Zenith is confident that Perpetual has the depth

and experience of personnel, as well as an appropriate level of peer debate to undertake this approach successfully.

The output from the fundamental research process is an analyst score which indicates the analyst's conviction in the stock and the expected level of outperformance that the stock will provide. The rating is used as one of the primary communication tools between the analyst and portfolio manager. Each stock is ranked either 1 (Strong overweight - substantial outperformance), 2 (Overweight - strong outperformance), 4 (Underweight - underperformance / relative pricing too high) or 5 (Strong underweight - substantial underperformance/relative pricing too high). Stocks are not allowed to be rated 3 (hold) to promote conviction of analyst's recommendations, which is a ratings structure that Zenith endorses. Ratings are then updated on an ongoing basis and are distributed to all analysts and portfolio managers.

In Zenith's view, Perpetual's investment process operates within a solid framework with all the necessary risk controls. Furthermore the process has stood the test of time and has proven to be both repeatable (out performance over multiple periods) and transferable (delivered positive returns under the guidance of different Heads of Australian Equities, John Sevier - 2002 to present and Peter Morgan - 1994 to 2002).

Portfolio Construction

Inputs into the portfolio construction process are driven by analyst stock ranking scores, and the risk management constraint and guidelines in place. The portfolio is usually built by giving analyst best ideas first priority in terms of portfolio allocation. However, this is subject to the stock's availability, liquidity and the portfolio's bias. Matt Williams is responsible for final portfolio construction decisions. Zenith is comfortable with this subjective overlay and we believe that Williams is expertly qualified to make the final portfolio construction decisions.

Each stock is divided into 1 of 3 different tiers based on the stocks market capitalisation: large (tier A), medium (tier B) and small (tier C). The market capitalisation tier is then combined with the analysts' stock ranking of 1, 2, 4 or 5. Both factors are combined to generate a buy or sell recommendation and a recommended portfolio weighting. The recommended portfolio weighting and stock ranking are primarily used by the analysts to construct their respective hypothetical portfolios (that is tied to their remuneration) and as a guide for the portfolio managers to assess the analysts level of conviction in a stock. The subjective input of Williams and investment team remains the key determinant in the overall portfolio construction decision.

With regards to the "Buy" and "Sell" guides for Tier C stocks this indicates that the Fund will tend to hold stocks ranked 1 and not stocks ranked 2, 4 or 5 although Williams has discretion over the weighting relative to the index or whether to hold the stock at all.

All the above mentioned stock guidelines relative to the index are given an additional 50% allowable range to account for price changes. For example, the +5.0% constraint on tier A stocks with a ranking of 1 can move to +7.5%. Perpetual also has a strong sell discipline. Companies are sold from the portfolio if the stock fails the stock selection criteria, or if the stock's valuation reaches an excessive and unsustainable level.

Overall, Zenith is impressed by Perpetual's portfolio construction process and the subjective overlay provided by Williams. We are confident that this approach allows each analyst views and ranking on stocks to be appropriately conveyed to the portfolio manager and that recommendations will be given warranted consideration in the determination of the final portfolio.

Risk Management

Portfolio Constraints	Description
Security Numbers	30 to 80 Not targeted
Weight - Security Rel. Index (%)	-5% to 5% Where price change occurs limits can be extended to +7.5% above index
Weight - Resources Sector (%)	-15% to 15% Portfolio weighting to resources relative to index
Weight - Holding Rel. Issued Capital (%)	max: 15% Perpetual may hold a max. 15% of the issued capital in a company
Weight - Overseas Listed Companies (%)	max: 20% Strategic allocation is 0%, investment offshore is only undertaken opportunistically
Cash (%)	max: 10%
Portfolio Turnover (% p.a.)	40% p.a. to 100% p.a. Not targeted

In addition to the constraints in the above table, the portfolio also has informal guidelines including an expected tracking error range of 3%-6% p.a. (not targeted). In addition, Perpetual monitors for unintended & significant exposures to BARRA risk factors.

Portfolio monitoring occurs in a formal sense principally through a monthly risk management report that outlines performance and risk factors. Examples of factors considered in the report include; fund performance attribution, individual analyst performance, portfolio and ranking changes, and BARRA analysis (ex-ante tracking error, risk decomposition, factor exposures, and stock contribution to active risk).

Zenith is comfortable that Perpetual's risk management framework is strictly adhered to at all stages of the investment process. Zenith is impressed at the level of intensive due diligence undertaken on each company that is represented in the portfolio, as well as the constraints placed on the portfolio, which we consider to be adequate in controlling the portfolio's exposures without constraining the ability to add value.

Risks of the Fund

As is the case with all Australian equities based products, the biggest risk to this Fund is a sustained downturn in the Australian equity market, which could lead to negative performance. This risk can be significantly reduced by investors adopting a medium to long-term (3 - 5 years) investment time frame when investing in this Fund.

A prolonged bull market where fundamentals get overrun by positive market sentiment poses one of the most significant risks for any value orientated manager. During these periods

growth stocks tend to outperform their value peers as investors chase returns, although absolute returns provided to investors should still be positive.

Having high levels of funds under management (FUM) presents additional challengers to Perpetual, as high FUM has the potential to hamper a fund manager's ability to trade efficiently. As at 28 February 2011, Perpetual managed approximately \$19.6 billion in Australian Equities (approx. 1.7% of the ASX/S&P 300 Accumulation Index Market Capitalisation). There are some benefits to managing a significant level of FUM (other than the ability to financially support a large investment team and specialist equity dealers), the manager has greater access to lines of stock and can unwind positions by participating in block trades. Despite these potential advantages Zenith considers the difficulties of managing liquidity, as well as the inevitability of having to disclose substantial shareholdings to the market (most common in smaller companies) as outweighing the advantages of having high FUM.

Key person risk is associated with the departure of John Sevier and/or Matt Williams, which would be regarded as a considerable loss; however, this risk is significantly mitigated by Perpetual's strong succession planning and team depth. The manager also has a solid transition track record after implementing a seamless changeover of the Head of Equities posting in 2002. In Zenith's opinion this can be largely attributed to the structured and robust nature of the underlying investment process which is readily transferable.

Applications of the Fund

In Zenith's opinion, Perpetual is a highly rated value orientated fund manager, in comparison to its domestic peers. Although a number of strong candidates have been endorsed in this investment style, each possesses slightly different characteristics which may better suit different client risk profiles. Zenith considers Perpetual's investment style to be more 'moderate value' as opposed to a 'deep value' investment approach undertaken by its style peers.

Zenith believes that with regards to an investor's overall exposure to this asset class, a style neutral approach (i.e. a blend of both value and growth managers), will deliver consistent returns over the medium to long run and remove some of the volatility which would otherwise be experienced if taking on a style bent or skew.

Fees

A management fee of 0.99% p.a. applies to the Fund, which Zenith considers to be reasonable in comparison to the Fund's peers.

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