

Manager profile

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Company overview

Perennial Investment Partners (Perennial) is a specialist, active investment management firm, operating as a suite of specialist investment management businesses, whose objectives are to deliver superior investment outcomes for clients. Its boutique structure, where investment professionals own equity in the business, was designed to create and foster a specialist investment management culture to allow the investment professionals to focus on what they do best – investing.

Perennial believes its achievements are due to the success of its approach to a partnership business model. Its investment boutiques have won numerous Fund Manager of the Year awards and are often ranked highly amongst its respective peers in delivering superior investment performance to its clients.

Investment philosophy and style – fixed interest

Across all of its specialist boutique managers, Perennial has the following key philosophies.

- **Investors' interests first**

Perennial shares equity ownership of each boutique business with key professionals who work within the business. It believes this boutique structure cultivates an environment where the interests of investors and investment professionals are clearly aligned.

- **Active investment management**

Perennial believes investment markets are not fully efficient, causing asset prices to deviate from fair value. It believes that through the careful research of investment fundamentals and application of a disciplined investment process, market inefficiencies can be identified and exploited by its experienced investment professionals who apply an active investment approach.

- **Independent research**

Perennial believes the cornerstone of its investment process is proprietary in-house research. It conducts independent first-hand research on all securities before inclusion in its investment portfolios and sharing this knowledge between its boutiques ensures all its teams are up-to-date with domestic and global issues.

- **Long-term investing**

Perennial's portfolios are positioned for long-term investment performance outcomes and its objective is to add value in a risk efficient manner over the medium to long term, relative to a recognised market benchmark. Many of its capabilities have a proven and consistent long-term track record with good results relative to its peers.

Perennial is a specialist, active fixed income and cash investment manager. It's strategic in its approach, believing the best decisions are made through the careful assessment of economic and market fundamentals over the medium to long term. It also believes investment markets often get carried away with prevailing market sentiment and because

of this, exploitable opportunities can be created for the long-term investor. Therefore, it can often implement a strategy that's against the current market mood. Perennial believes having the conviction and patience to allow strategies enough time to deliver results enables it to deliver superior, risk-adjusted returns for investors.

Investment process – fixed interest

Perennial's fixed interest investment process consists of three key stages, which include research, strategy formulation and portfolio management.

Stage 1 – Research

Perennial's fair value process involves constantly assessing new information to refine its view of the fair value of interest rates or securities. Where the market deviates from its assessment, this signals an investment opportunity for Perennial. The main areas this research covers are macro-economic, market and individual issuer assessment. This research drives Perennial's investment strategy and identifies mispricing in two main areas – active interest rate management and credit management.

It believes that within these two broad areas a variety of potential value-adding strategies exist. By adopting multiple diversified approaches to add value, Perennial aims to reduce any pressure to take big risks in one area and increase the consistency of its investment returns.

Stage 2 – Strategy formulation

The next step in Perennial's investment process involves translating its research into portfolios and sequentially making the following key decisions.

1. Interest rate decisions – duration and yield curve

The process Perennial uses to build its interest rate strategy involves projecting the path of growth and inflation over the medium term. Each quarter it conducts strategic reviews of these projections and on a weekly basis refines its view based on the latest economic and market releases. In developing its view on interest rates it assesses them in terms of three components – inflation, real yield and risk premiums.

The sum of these three components determines Perennial's view of fair value and formulates its fair value yield curve. By comparing the fair value curve to the current curve, it can identify overshoots or mispricing in both the overall level of rates (duration) and the most attractive areas of the yield curve to express this duration (yield curve positioning).

2. Sector allocation

Perennial allocates capital across the fixed interest sectors, commonwealth government, semi-government, supra-nationals and credit. It considers a variety of factors in assessing which of these areas offer the most compelling investment case in risk-adjusted terms. Factors that impact on Perennial's decision include macro-economics, corporate fundamentals, demand vs supply and valuations.

3. Security selections – credit decisions

Once Perennial has decided the sectors it wishes to have exposure to, it then considers which securities it wishes to hold within the relevant sector. Government and semi-government debt carry little credit risk, so security selection in these sectors is primarily driven by valuation.

In credit sectors, Perennial believes it's important that all investments are of a high quality, when it defines exhibiting a low probability of default and can be easily liquidated. It appreciates that the role fixed interest plays in a well-balanced investment portfolio is to offer diversification away from growth assets such as shares and property. Perennial believes the lower the average credit quality of the fixed interest allocation in the portfolio, the more it will exhibit similar risk and return characteristics to growth assets, and defeat its primary purpose. Therefore, its focus is on investment grade credit quality and choosing securities based on quality, not price. In determining fair value in credit, Perennial categorises risk into the following three components.

- **Default risk** – adequate compensation for the risk of not being paid interest and principal in a timely manner.
- **Credit migration risk** – how stable credit quality is likely to be over the long term.
- **Liquidity risk** – how quickly the investment can be sold and at what cost.

Stage 3 – Portfolio management

At this stage of the investment process, Perennial has developed a strategy which expresses its desired positioning. This portfolio positioning is then expressed consistently across all client portfolios, in accordance with its risk and return guidelines. Importantly, all similar portfolios it manages will have the same strategy in place.

Reason Advance selected Perennial

We believe Perennial operates a logical and well thought-out investment process and its ownership structure strongly aligns management and investor interests. We favour Perennial's strong quantitative credit valuation process and we also have a high regard for the high calibre senior investment team, who have worked together for many years.

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