Perennial Cash Trust

Monthly Report as at 31 December 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.^
Perennial Cash Trust*	0.31	0.94	1.97	4.37	4.82	4.91	4.92
UBS Bank Bill Index	0.29	0.84	1.76	3.97	4.48	4.54	4.55
Value Added (Detracted)	**0.02**	**0.10**	**0.21**	**0.40**	**0.34**	**0.37**	**0.37**
Net Performance	0.29	0.88	1.85	4.14	4.60	4.69	4.70

*Gross Performance. ^Since Inception: July 2008. **Past performance is not a reliable indicator of future performance.**

- The Trust finished the month up 0.31%.
- Sector and security strategies continued to add value over the month by participating in additional spreads being paid by regional banks for 3 to 12 month deposits.
- Current market pricing has the cash rate falling to about 2.5% by mid next year and remaining there until well into 2014.

Performance

Money markets fell in yield over December following the Reserve Bank of Australia's (RBA) decision to cut the official cash rate to the 2009 low of 3%. This decision was very much supported by the weaker domestic economic data that followed including retail sales, credit growth and confidence surveys which were all subdued. Credit markets continued to perform well over the month, with a flurry of new issuance vindicated by the strong investor demand that followed.

The Perennial Cash Trust (the Trust) returned 0.31% for the month and continued its run of outperformance exceeding the UBS Bank Bill Index (the Index) return of 0.29% by 0.02%.

While the funding premiums paid by banks to secure slightly longer maturities, as incorporated within the bank bill swap rate (BBSW), narrowed meaningfully over the month, this was a source of outperformance from bank bills that had previously 'locked' in the additional margins.

Sector and security strategies continued to add value over the month by participating in the additional spreads being paid by regional banks for 3 to 12 month deposits. The Trust also invested in term deposits offered by the 'big four' Australian banks, which continued to pay up for fixed deposits although this premium was less than prior months.

At month end, the weighted average yield of the Trust was 3.42%, as compared to the Index yield of 3.08%.

Market Review

Despite an interest rate cut from the RBA, sluggish economic data and US fiscal cliff uncertainty, yields ended the month slightly higher, though the sector still managed to generate a modest positive return.

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Perennial Cash Trust

The Trust aims to provide investors with a low risk exposure to secure cash investments, and returns that closely track the prevailing level of short-term interest rates. The Trust aims to outperform the UBS Bank Bill Index, over rolling annual periods.

Portfolio Manager: Jay Sivapalan	**Risk Profile:** Low
Trust FUM (as at 31/12/12): AUD757.6 million	**Income Distribution Frequency:** Monthly
Team FUM (as at 31/12/12): AUD6.3 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: July 2008	**APIR code:** IOF0141AU

The RBA cut the cash rate to 3% in early December, with subsequent commentary suggesting that the central bank is in a reactive mindset and will need to see fresh evidence of slowing before being prompted into action again.

Data releases since the RBA's move have been mixed. Consumer sentiment reversed the previous month's gain despite the rate cut. Retail sales were flat in October, while building approvals recorded a sharp fall. Credit demand remains muted and business conditions and confidence were weak in November. With such a start, it is unlikely the economy will grow much faster than the 0.5% gain recorded for the September quarter. Against this backdrop, three and six month bank bills ended the month 19 and 22 basis points (bps) lower at 3.07% and 3.01%, respectively. The yield on a three year government bond ended 5 bps higher at 2.67%.

At the longer end of the curve, the ten year government bond yield ended the month 11 bps higher at 3.27%. Long bond yields got as high as 3.39% on an improving global growth outlook, before rallying into the close of the month on fears that US politicians would not be able to avert a draconian tightening in fiscal policy in early 2013. Given these moves, there was some steepening in the spread between three and ten year government bonds which rose 6 bps to 60 bps.

Credit markets continued their recent tightening trend in December, with the Australian iTraxx Index about 3 bps tighter over the month. Physical credit securities performed better than the Australian iTraxx Index. This was primarily driven by a number of new issuances rushed through before the potential US fiscal cliff, as companies sought to future proof their balance sheets and funding prior to year end. The residential mortgage backed securities (RMBS) market was also quite active, with three large primary deals all pricing at tighter levels than their previous transactions - a sign of health for this sub-sector.

Market Outlook

The latest run of data shows that the economy was most likely running at a sub trend rate at the end of the year. In a significant development, the government stepped back from its commitment to deliver a budget surplus in 2012/2013. This is a welcome development for the economy as it avoids an unnecessarily aggressive tightening in fiscal policy over the first half of 2013 and takes some of the burden off monetary policy.

We continue to hold the view that the growth and inflation outlook will allow room for further modest monetary easing in the first half of 2013. With the mining boom peaking earlier than expected and business and consumers holding a defensive mindset, further easing would help underpin a recovery in the interest rate sensitive sectors of the economy.

At the time of writing, markets were pricing in a low in the cash rate of around 2.5% over the second half of 2013. This is not that far from our own view and in the main, we continue to regard the shorter end of the curve as fair value. We still regard the longer end of the curve as expensive, offering investors insufficient protection against an improvement in risk appetite or an improvement in the economic outlook. The sell-off over the first half of December was a reminder of the price action that can occur on an improving economic outlook and a pick up in risk appetite. While we believe a major sell-off at the long end of the curve is still some time away, given offshore policy settings, we continue to hold a modest strategic defensive duration bias.

We continue to hold our structurally positive view on credit during periods of prolonged low interest rates given strong investor demand for any yield pick-up. While credit spreads have come in, they remain at, or above, longer term levels. We continue to maintain an overweight allocation to these sectors. Within the corporate sector, our emphasis is on large financials and particularly the senior debt of the 'big four' Australian banks, listed property trusts and selected infrastructure/utility debt.

Investment Strategy

The following is a summary of the key strategies in the Trust:

Interest rates: At the end of the month, the duration position of the Trust was as follows:

Modified Duration	Years
Trust	0.12
Index	0.13
Active Position	-0.01

Interest rates – neutral duration: Only minor changes were made to the Trust's duration position during December, including taking some profit when bonds sold off and slightly reducing the magnitude of our short duration stance. Current market pricing has the cash rate falling to about 2.5% by mid next year and remaining there until well into 2014. This is not too

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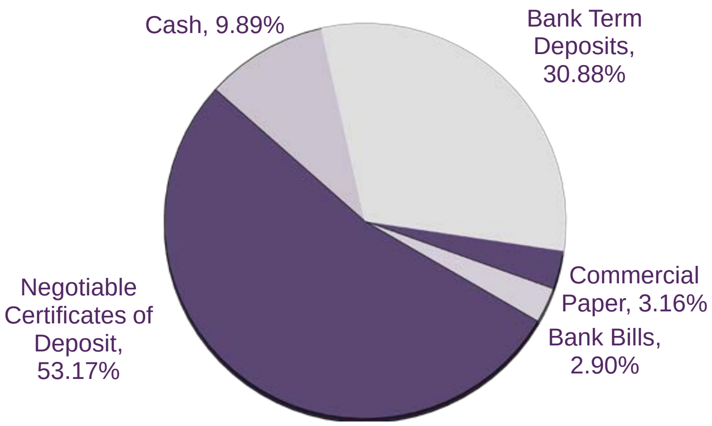
different from our assessment of 'fair value' at the shorter end of the yield curve. However, we have a more cautious view on longer term yields as they can be susceptible to better economic data and policy settings offshore although we acknowledge the risks are not imminent. However, bank bill pricing still has some funding premiums embedded, albeit these are now lower and are therefore not necessarily as expensive as one might conclude. Therefore, we have a broadly neutral duration stance.

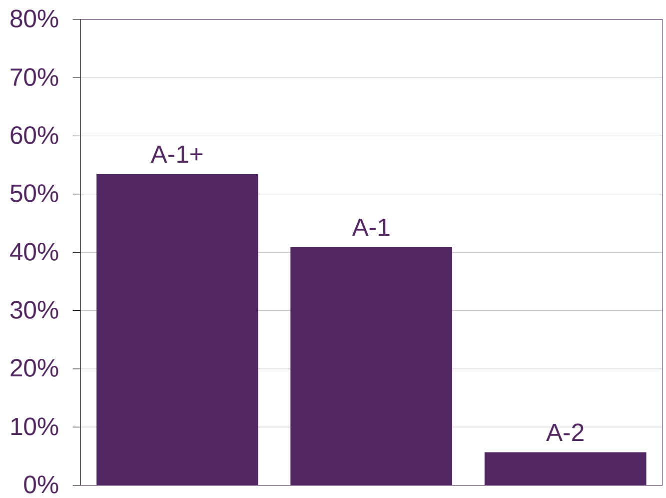
Sector allocation: Regional and Australian branches of some large global banks have continued to pay a premium to attract deposits. These premiums have reduced, however we believe is it still worth investing in a portion of the Trust. We continue to selectively access the term deposits of the 'big four' Australian banks which offer attractive yields while ensuring that a spread of maturities exists within the Trust to improve its overall flexibility.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



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