Perennial Balanced Wholesale Trust

Monthly Report as at 31 May 2012

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	-3.9	-0.9	-4.1	1.6	6.7	-2.1

* Gross Performance. ^ Since Inception: June 1999. **Past performance is not a reliable indicator of future performance.**

- Equity markets fell sharply over May.
- Tactical asset allocation detracted value over the month.
- Despite some reasonable US economic data, the S&P 500 fell 6.3%.

Performance

The Perennial Balanced Wholesale Trust finished the month down 3.9%.

Economic and Policy Trends

There was little to be merry about over May. In Europe, citizen push back against austerity measures in Greece and France led to a renewed round of fretting about the stability of the Euro Area. The inability of Greece to form a government at its last election and the rise of anti austerity parties led policy makers and markets to consider the implications of a Greek exit from the Euro Area. European unease was further exacerbated by renewed concerns about the capital position of Spanish Banks. An uncontrolled Greek exit would do significant economic damage across the globe and is in no one's interest. While some kind of muddle through scenario appears to be the most likely outcome, the region will remain a source of acute uncertainty in the lead up to, and the period immediately after, the second Greek election on 17 June. Some form of a Growth Pact is needed to sit alongside the austerity embedded in the current Fiscal Compact.

Elsewhere, signs of a slowing in the Chinese economy over April elicited a policy response from Chinese policy makers when the Premier noted that China "should continue to implement a proactive fiscal policy and a prudent monetary policy, while giving more priority to maintaining growth". Following that proclamation, infrastructure projects worth around 1.5% of GDP were approved, with start dates for some projects bought forward to the end of May. These steps help support the view that the global economy will gain momentum over the latter part of 2012.

In Australia, data readings following the RBA's 50 basis point easing earlier in the month have been mixed. On the stronger side were March retail sales and building approval data. The labour force proved to be more resilient than expected in April, with larger than expected gains in employment. Wages growth remained solid with the wage cost index rising by 0.9% over the March quarter. On the weaker side were a marked deterioration in Australia's trade position and a softening in business conditions in the NAB Survey. Following the release of the Federal Government's Budget during the month, fiscal policy looks set to have a material dampening effect on the economy over the next 12 months. The growth and inflation outlook provide scope for the RBA to ease monetary conditions further over the months ahead - we are targeting a cash rate of around 3% by the end of the year.

Perennial Balanced Trust Facts:

The Trust aims to grow the value of your investment over the medium to long term by investing in a range of growth and income producing assets, and to provide a total return (after fees) that exceeds the return of its benchmark measured on a rolling three-year basis.

Portfolio Manager: Frank Uhlenbruch	**Risk Profile:** Moderate
Trust FUM (as at 31/05/12): AUD71.8 million	**Minimum Initial Investment:** $25,000
Income Distribution Frequency: Half yearly	**APIR code:** IOF0114AU
Trust Inception date: July 2001	

Equity Market Trends

Equity markets fell sharply over May, driven by fears of contagion from an uncontrolled Greek exit from the Eurozone and concerns about the health of the Spanish banking sector. Despite some reasonable US economic data, the S&P 500 fell 6.3%. Falls were greater in Europe and Japan where Euro Stoxx 50 and Nikkei fell 8.1% and 10.3%, respectively. The MSCI World ex-Australia Accumulation Index in Australian dollars ended down 1.8%, with a weakening Australian currency limiting falls. In Australia, the S&P/ASX 300 Accumulation Index fell 6.7%.

Bond Market Trends

Australian yields ended the month significantly lower, benefitting from the larger than expected cash rate cut and flight to quality flows from renewed Euro Area uncertainty. At the shorter end of the curve, the yield on a three year government bond ended the month 88 basis points lower at 2.13%. At the longer end, the ten year government bond yield ended the month 75 basis points at 2.92%. Sharply falling yields resulted in strong capital gains, with the UBS Composite Bond Index returning 3.1%. The cash sector, as measured by the UBS Bank Bill Index, returned 0.38%.

Investment Strategy

Tactical asset allocation detracted value over the month, as the Australian equity sector underperformed the Australia fixed interest sector. The fall in Australian equities pushed relative valuation measures further in favour of equities back to historically high levels. Accordingly, we continue to persist with our overweight Australian equities strategy.

The fall in Australian yields has seen the fixed interest sector become extremely expensive, with the market factoring in a catastrophic outcome for Europe. We think this is a risk but not the most likely outcome and remain tactically underweight the sector.

		Month %		One Year %	
Sector	Weighting %	Perennial*	Benchmark	Perennial*	Benchmark
Value Australian Shares	21.8%	-7.3%	-6.7%	-10.0%	-9.3%
Growth Australian Shares	22.1%	-8.7%	-6.7%	-11.9%	-9.3%
International Equities	22.9%	-2.6%	-1.8%	-3.7%	-2.0%
Australian Listed Property	5.3%	-1.3%	-1.3%	7.0%	5.6%
Australian Fixed Interest	17.82%	2.22%	3.10%	10.97%	13.21%
Global Property Unhedged	5.4%	-0.1%	0.4%	-	-
Cash	4.69%	0.30%	0.38%	5.16%	4.83%

***Past performance is not a reliable indicator of future performance.**