Perennial Socially Responsive Shares Trust

Quarterly Report as at 30 September 2012

	Quarter %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Socially Responsive Shares Trust*	8.5	8.5	14.2	0.8	0.3	-3.9
S&P/ASX 300 Accumulation Index	8.8	8.8	14.5	2.2	1.7	-3.6
Value Added (Detracted)	**-0.3**	**-0.3**	**-0.3**	**-1.4**	**-1.4**	**-0.3**
Net Performance	8.3	8.3	13.0	-0.1	-0.6	-4.8

* Gross Performance Past performance is not a reliable indicator of future performance

- The biggest positive contributor to performance was Newcrest Mining Limited (up 30.0%).
- During the quarter, Brambles Limited and Resmed Inc were added to the Trust.
- Defensive sectors performed strongly with banks (up 11.6%), consumer staples (up 12.3%) and healthcare (up 14.8%).

Trust Performance Overview

The Perennial Socially Responsive Shares Trust (the Trust) finished the quarter up 8.5%, underperforming the S&P/ASX300 Accumulation Index (the Index) by 0.3%. The Index finished up 8.8% for the quarter.

The strongest positive contributor to performance during the period was Newcrest Mining Limited (Newcrest) (up 30.0%). Newcrest benefited from a stronger gold price, which moved from USD1,604 to close at over USD1,770. The move in the gold price followed the announcement of further quantitative easing measures by the US Federal Reserve. The strength in the gold price was enough to offset the production disappointment announced with the September quarterly production guidance released in September. The production guidance of USD460,000 per ounce was well below market expectations. One of the key focus points of the company investor day, held post this reporting period, in October was targeted to shore up investor expectations that the significant volume growth foreshadowed by the company for the next three to five years from the Cadia East and Lihir mobile offshore production unit projects is on track for delivery.

RIO Tinto Limited (not held, down 4.3%) was another position that added value. The underperformance was driven largely by weaker iron ore prices over the quarter following concerns over Chinese economic growth. We continue to see significant valuation upside for the company. Our focus is on the impressive project pipeline which we regard as one of the best from a returns and value creation perspective within the mining industry.

CSL Limited (up 17.9%) also added value. The company report for the financial year met expectation and was supported by more upbeat guidance for the coming year than the market has been used to hearing from the company. The upcoming AGM is expected to see the announcement of another AUD900 million buyback. This will be the forth buyback by the group in as many years.

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio Manager: Lee Mickelburough	**Risk Profile:** High
Trust FUM (as at 30/09/12): AUD52.7 million	**Income Distribution Frequency:** Half yearly
Team FUM (as at 30/09/12): AUD2.8 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: December 2001	**APIR code:** IOF0117AU

The market appears to have started to recognise the value of the research and development portfolio and has reacted to news of two large competing Alzheimer clinical trial failures which is leaving intravenous immunoglobulin with Phase 3 clinical trials results due in March 2013.

PanAust Limited (PanAust) (up 13.6%) added value over the quarter following a strong interim financial report and the company's reiteration of its full year earnings expectations. The strength in the copper price has also contributed meaningfully. We remain confident in the fundamental upside in copper and are confident in the company's ability to execute current projects and meet our expectations.

Fortescue Metals Group Limited (Fortescue) (down 28%) was the biggest detractor to performance over the quarter. Despite the company reporting significant growth in profitability for the year end, the stock fell sharply as it reacted to the fall in the spot iron ore price. The weakness in the iron ore price followed concern surrounding the slower growth rates in China and specifically the Chinese steel mills. By quarter end the destocking of iron ore reserves looked to have found a bottom and the price began to recover. In addition, the company was forced to rethink capital plans and seek approval from its current group of financial partners to pursue current plans. The company was successful in convincing the bankers to stay the course. This process also gave the company enough flexibility to reach higher levels of production that should ultimately deliver lower costs per tonne and highly profitable outcomes for all stakeholders.

Origin Energy Limited (down 7.2%) struggled following its full year profit release and comments that despite cashflow likely to rise in the order of 10%, the bottom line net profit is likely to be flat in 2013. This is due to higher depreciation charges and interest expense than had previously been anticipated. Also, a negative electricity market regulation outcome in Queensland will crimp retail margins in that market in 2013. Despite that, the company's very significant Queensland LNG project is going ahead on budget and underpins the large valuation upside we see in this stock.

Wesfarmers Limited (Wesfarmers) (not held, up 17.8%) also detracted value. The company released its financial year report showing net profit broadly in line with market expectations. The contributions of Coles food and liquor, a focus for the market, delivered improved margins. The more volatile segment was the coal division. Despite the weakness in many coal companies, facing a combination of lower prices and weaker volumes, it appeared that the market is yet to focus on this division of the company which has experienced similar market conditions.

UGL Limited (UGL) (down 12.7%) also detracted value. The stock was weaker following an underwhelming 2012 financial year report. The result included lower than expected profits from its construction and engineering division due to a small number of contracts experiencing cost overruns. The stronger contribution from rail and property services will not be enough to offset the challenges faced in construction this coming year. The property and facilities management division continues to grow strongly, now making up a third of the group's total earnings. This division is not well understood by the market and is a key underlying driver for our valuation.

Trust Activity

During the quarter, Brambles Limited (Brambles) was added to the Trust. Brambles was added back to the Trust during the quarter after being sold earlier in 2012. Brambles failed to sell its Recall document management business which resulted in a $448 million equity raising in June to maintain its credit rating and strong financial position. The company is a global leader in the pallets, containers and document management industries with a high quality management team and the recent period of underperformance provided the opportunity to add to the Trust.

Resmed Inc (Resmed) was also added to the Trust. Resmed is the leading player in the fast growing continuous positive airway pressure segment for the treatment of obstructive sleep apnoea and associated co-morbidities (such as heart failure and diabetes). Resmed has the leading offer in both flow generators and masks. Growth has reaccelerated with new product launches and changed industry preferences to auto setting devices playing to Resmed's strengths. We expect Resmed to achieve top quartile growth and return on invested capital and the company has an exceptionally strong balance sheet with AUD800 million of cash. We assess the stock as significantly undervalued, with upside potential if the Australian dollar weakens given a significant portion of the cost base is in Australian dollars.

Several stocks were sold off heavily during the quarter and showed significant valuation upside based on our research estimates and we took advantage of this weakness to increase positions in Origin Energy Limited, Brambles, Resmed, QBE Insurance Group Limited, Origin Energy Limited, Incitec Pivot Limited, Fortescue Metals Group Limited and Lend Lease Group.

Following periods of strong share price performance during the quarter Westpac Banking Corporation, ANZ, Woodside Petroleum Limited and Bank of Queensland

Limited were trimmed in the quarter. James Hardie Industries SE, Arrium Limited (formerly OneSteel Limited) and Mermaid Marine Australia Limited all approached valuation and were sold from the Trust.

Market Overview

Equity markets performed well during the September quarter, bouncing off the decline witnessed in the previous period. Defensive sectors performed strongly with banks (up 11.6%), consumer staples (up 12.3%) and healthcare (up 14.8%) among the best and all outperforming the Index. Materials lagged, only rising 6.5% and held back by a falling iron ore price and concerns about China's economic growth prospects.

The quarter also contained the financial year 2012 profit reporting season, which was generally seen to have met expectations but admittedly, they had been lowered in the months preceding August. Most of the company outlook statements were cautious and with the level of uncertainty in the domestic economy, let alone, international markets, that was not surprising. On balance, we saw downgrades to the 2013 company profit forecasts.

Corporate activity was modest, with private equity approaches to Billabong International Limited the one notable exception. One characteristic of the quarter was the scaling back of a number of resource projects, which reflected rising costs and falling commodity prices. The highest profile of these were the BHP Port Hedland Outer Harbour expansion and the Olympic Dam extension. A number of other projects in the coal and iron ore industries that had been proposed were under funding pressure during the quarter and may not proceed. This in turn will have ramifications for the mining construction and supplies industries.

Offshore equity markets were generally stronger, with the exception of Japan, which eased slightly. US indices rose by close to 6% over the quarter and with the European Central Bank (ECB) moves in September, a number of European markets bounced by almost 10%.

There was little economic news to cheer about in the September quarter. In Australia, the RBA left the cash rate on hold at 3.5%, unemployment remained steady at 5.1% (the participation rate fell, hiding the decline in employment) and business confidence measures were largely unchanged. Chinese GDP growth slowed from 8.1% to 7.6% and its manufacturing measures contracted in each of the three months.

While European economic growth deteriorated during the quarter, the ECB unveiled a credible plan to ease the region's debt crisis. The ECB intends to purchase one to three year government securities if the relevant country has had its debt reduction program approved by Brussels. In the US, the economy seemed to be stuck in a holding pattern with manufacturing static, unemployment down marginally, consumer sentiment virtually unchanged but inflation down to 1.9%.

The AUD edged up marginally against the USD despite deteriorating bulk commodity prices, it finished the quarter at USD1.04.

Commodity prices diverged with bulks down sharply (the iron ore price fell 22% over the quarter), base metals stronger, gold up 11% and oil rising 16%.

Environmental, Social and Governance Issues

The forthcoming AGM season and the proxy voting process is now becoming a focus for investors. In particular, the remuneration reports which are under scrutiny due to the 'two strikes' rules that now apply if over 25% of shareholder votes go against the adoption of the remuneration report.

Perennial Growth has one stock in the portfolio (UGL Limited) that had in excess of 25% of votes against last year and are facing a second strike. This, in theory could then lead to a resolution for a board spill, something no company would relish the prospect (or cost). We have had discussions with both companies on the report they have put together for 2012 and without yet seeing the full details, we expect improvements. Crown face the additional problem that it's largest shareholder, Consolidated Press Holdings Limited, is unable to vote its stake on these matters so the 25% threshold can be reached with only 13% of the votes being lodged against the remuneration report. The outcomes on both will be known in about a months time.

The fact that both companies have consulted with institutional shareholders is a positive outcome and in both cases, improved processes are being made. We would hope that other listed companies will continue to consult with shareholders on these matters even if they get a comfortable yes vote rather than waiting for an issue to come up and turn it the other way.

In other areas, the Carbon Tax was instituted on 1 July 2012 and its impact is now through the system in power bills and other areas that the price increase will impact. In investment markets, virtually nothing is heard of it any more and even including the price of carbon, wholesale electricity prices are where they were three years ago. One aspect that has been evident is that Australians, both at home and in business are using considerably less electricity than at any stage over the past three years – which is ultimately a good thing.

Asset Allocation as at 30 September 2012

Stock Name	Trust Weight %	Index Weight %
Energy	13.2%	6.8%
Materials	13.4%	21.7%
Industrials	7.0%	6.7%
Consumer Discretionary	1.8%	3.6%
Consumer Staples	0.0%	8.5%
Health Care	11.0%	4.3%
Financials-x-Real Estate	36.6%	34.0%
Real Estate	3.5%	7.2%
Information Technology	2.1%	0.7%
Telecommunication Services	0.0%	4.8%
Utilities	2.9%	1.8%
SPI Futures	5.6%	-
Cash	2.9%	-

Rounding accounts for small +/- from 100%.

Top Ten Holdings as at 30 September 2012

Stock	Trust Weight %	Index Weight %
ANZ Banking Grp Ltd	8.1%	6.2%
National Aust. Bank	7.6%	5.4%
Commonwealth Bank.	6.4%	8.2%
SPI Futures	5.6%	0.0%
CSL Limited	4.9%	2.2%
Westpac Banking Corp	4.8%	7.1%
Origin Energy	4.8%	1.1%
Newcrest Mining	3.8%	2.1%
Lend Lease Group	3.5%	0.4%
QBE Insurance Group	3.4%	1.4%

Signatory of:

PRI Principles for Responsible Investment