Perennial Cash Enhanced Wholesale Trust

Quarterly Report as at 30 June 2012

	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Fixed Interest Wholesale Trust*	1.22	5.31	5.31	6.17	6.83	6.29
UBS Composite Bond Index (0+years)	1.05	4.70	4.70	4.84	4.52	5.27
Value Added (Detracted)	**0.17**	**0.61**	**0.61**	**1.33**	**2.31**	**1.02**
Net Performance	1.13	4.90	4.90	5.76	6.40	5.87

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

- Credit markets responded favourably following developments at the European Union summit.
- For the quarter, the Trust returned 1.22%, outperforming the Index return by 0.17.
- On the outlook for the path of the cash rate, we continue to factor in a 3.00% cash rate by late 2012.

Performance

A rally in bond and money markets occurred over the June quarter as domestic yields fell sharply on the back of lower yields offshore. This reflected heightened investor concerns surrounding a Greek exit from the EU and other European debt issues including re-capitalising the Spanish banking system. This was further supported by the RBA cutting domestic cash rates by 75 bps which also supported falling bank bill and bond yields.

The UBS Bank Bill Index returned 1.05% over the quarter. The Perennial Cash Enhanced Wholesale Trust (the Trust) outperformed the Index, returning 1.22%.

Interest rate strategies had a broadly neutral impact on the Trust's performance over the quarter. However, sector and security strategies added value. The Trust's overweight allocation to high quality corporate floating rate notes and residential mortgage backed securities benefitted from the higher running yields these securities provides. This additional income more than offset any marginal widening in credit spreads due to the general 'risk aversion' sentiment resulting from the European sovereign debt woes.

At quarter end, the weighted average yield of the Trust was 4.87%, as compared to the Index yield of 3.53%.

Market Review

The global economy lost momentum over the quarter as the European sovereign debt crisis flared up again. After a lull following February's second Greek bailout package, the inability of Greece to form a government in May and the rise of anti austerity parties led policy makers and markets to consider the implications of a Greek exit from the Eurozone. European unease was further exacerbated by renewed concerns about the capital position of Spanish banks.

Perennial Cash Enhanced Wholesale Trust

The Trust aims to provide a total return that exceeds the benchmark, UBS Bank Bill Index, over rolling three-year periods by 0.50% p.a. (before fees).

Portfolio Manager: Glenn Feben	**Risk Profile:** Low
Trust FUM (as at 30/06/12): AUD91.7 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 30/06/12): AUD5.7 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: August 1994	**APIR code:** IOF0047AU

Ratings: Lonsec Recommended

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During the quarter, both business and financial market confidence fell. Signs of a softening in Chinese data compounded the sense of unease, which eventually translated into moderating levels of economic activity. After peaking in April, the Purchasing Manager Indices (PMI) across a range of countries fell. In Europe, PMI levels are at recessionary levels.

There were policy responses to signs of an economic slowdown. In China, infrastructure projects worth around 1.5% of GDP were approved by the National Development and Reform Commission. Consumption incentives, energy efficient home appliance subsidies and automotive incentives were also announced. The People's Bank of China also came to the party in June, announcing a 0.25% cut to benchmark deposit and lending rates. In the US, the Fed extended its Maturity Extension Programme (aka Operation Twist) for another six months.

At least the quarter ended on a high note, with the June European Union (EU) summit delivering a range of measures designed to boost growth and break the negative feedback loop between sovereigns and their banking sectors. While the package bought Europeans more time, the region will remain a source of instability given the magnitude of the task ahead of them and the difficulty of required reforms.

The Australian economy continues to expand but the mix of growth remains uneven. The latest comprehensive scorecard on the economy, the national accounts, revealed that GDP rose by a surprisingly strong 1.30% in the March quarter. This number looks even more impressive after growth over the previous quarter was revised up from 0.40% to 0.60%.

Growth was largely driven by the strong positive contributions from business investment and consumption. Within business investment, the main driver continues to be strong levels of activity in the mining sector and the latest capital expenditure data suggests that this is set to continue over the year ahead. Consumption data, while a surprise given reports of sluggish retail sales, also includes the consumption of services. Nevertheless, the result probably overstates conditions in the broader economy as it was boosted by large falls in some price deflators. Low price pressures were also evident in the March quarter consumer price index result, where the average of the Reserve Bank of Australia's (RBA) underlying measures rose by only 0.30%.

Partial demand indicators for the June quarter remain mixed, but consistent with ongoing growth in the economy. The housing sector, which has been struggling, received a fillip in May following a 27.30% surge in building approvals. Business credit demand has also shown signs of lifting, though consumers are still showing a preference for paying off debt. Despite 75 basis points (bps) of monetary easing over the quarter, business and consumer confidence levels remain subdued.

Looking further ahead, the outlook remains for growth around trend levels. Mining and mining related sectors will continue to grow much faster than other sectors of the economy. On the inflation front, the outlook is for outcomes in the lower to middle part of the RBA's 2% to 3% target band.

Given the negative news flow and developments in Europe over the quarter, which only served to feed investor concerns of a lack of tangible resolution to the sovereign debt issues, markets were firmly in 'risk off' mode. The RBA cut rates by 75 bps over the quarter in a bid to provide some stimulus to falling confidence domestically and as an insurance policy against further fallout from the crisis in Europe. Money market and bond yields fell sharply as investors fled to the safety of risk free assets. Three and ten year bond yields fell 108bps and 94 bps to 2.40% and 3.04%, respectively. Government bonds outperformed all other spread sectors such as semi government and corporate debt notwithstanding some retracement at the very tail end of the quarter.

Surprisingly, physical credit securities held up relatively well, outperforming their credit default swap (CDS) counterparts whose credit spreads widened materially.

Primary markets remained open although volumes of new issuance was lower than the previous quarter and secondary market liquidity conditions were a little subdued.

Market Outlook

Following the run of stronger domestic data, further policy stimulus in China and the US, and another incremental step towards European fiscal integration, the bar for further RBA easing has been raised. Market expectations for the low point in the cash rate have shifted significantly, from a low of around 2.00% by February 2013 in early June, to a low of 2.50% by March 2013 at the end of June. We believe this is still too aggressive and continue to factor in a 3.00% cash rate by the end of 2012, followed by a pause and then a gradual tightening cycle commencing late 2013.

To get further easing, we will need to see ongoing sluggishness in the non mining part of the economy, labour market softness and weaker demand conditions in our major trading partners. It may turn out that the economy responds to more recent easings quicker than expected and forestall the need for further easing. To validate market pricing of another 100 bps of easing, a major shock from Europe, which derails the global economy and financial markets, is needed. While a risk, we believe that this is not the most likely outcome. At the longer end, we see little value of a long bond around 3.00%, with investors vulnerable to any improvement in the economic outlook or recovery in risk appetite and on a longer timeframe, any lift in inflation. We continue to persist with defensive interest rate strategies.

At a sector level, our preferred sectors remain semi-government and corporate debt, with the latter currently offering attractive spreads relative to the healthy state of company balance sheets, and strong demand from investors searching for yield. In this regard we believe the benefit of additional yield will be of increasing value to investors as the prospect of further capital gain from lower yields on sovereign bonds diminishes. We maintain an overweight allocation to these sectors. Within the corporate sector our emphasis is on large financials and in particular, 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 quarter, the duration position of the Trust was as follows:

Modified Duration	Years
Trust	0.05
Index	0.12
Active Position	-0.07

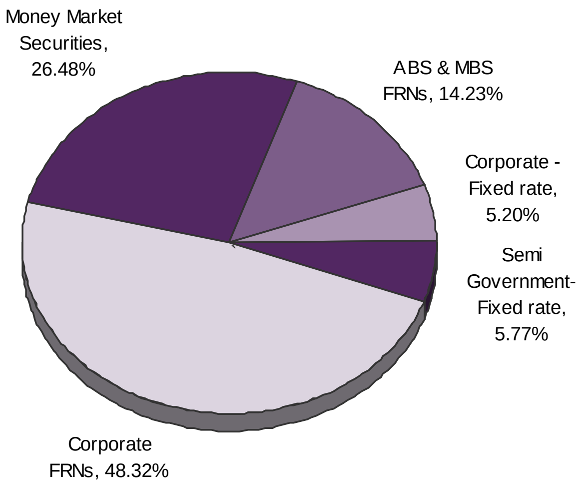
Interest rates: underweight duration

For some months now, our view has been that pricing of bond and money markets has been dislocated reflecting sentiment (mostly negative from offshore debt issues) rather than fundamentals of the Australian economy and the outlook for monetary policy. As such, yields have been well below our assessment for 'fair value'. We have been positioned, and continue to maintain underweight duration, to protect investor capital during periods of bond market corrections such as the one we witnessed this month and earlier in the year. Current market pricing has the cash rate falling towards 2.50% by year end, which is a more aggressive profile than our own expectations. However, bond yields continue trade at lower levels with three and ten year bond yields at 2.55% and 3.19% respectively, partly reflecting the offshore demand for Australia's AAA government bonds which remain attractive from a yield perspective against a shrinking pool of AAA issuers. While lower yields can persist for some time, ultimately they will have some relationship with the level of short term rates. If monetary policy is not eased to the level priced in, then at some stage it is reasonable to expect a meaningful rise in bond yields.

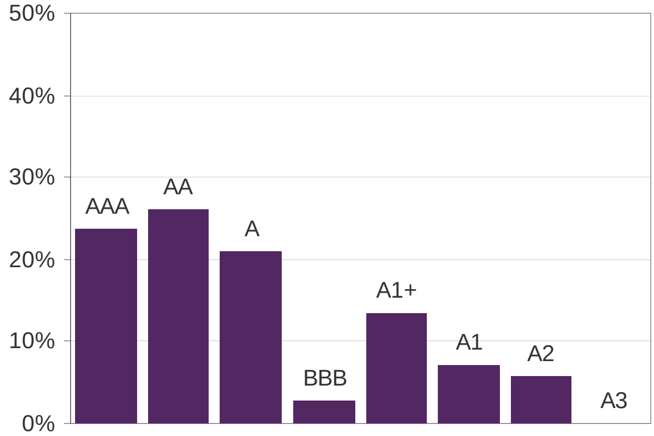
Corporate Debt and asset backed – overweight: In our view, this area of the bond market remains the sweet spot for investors. We believe that relative to risk free assets, corporate debt provides investors with opportunities that are both fundamentally sound and attractively priced. Corporate balance sheets remain healthy, while cash flows continue to exhibit stability. While we acknowledge that corporate debt is a little more exposed to the volatility of 'risk on, risk off' episodes, the higher running yield should more than compensate for any capital price fluctuations over 12 month investment horizons. Accordingly, we remain overweight this sector and expect that it will outperform risk free assets over the medium term. Our favoured sub-sectors are low risk 'AAA' rated from the 'big four' Australian banks as well as senior bonds, listed property trusts and infrastructure debt.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



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