PERENNIAL GROWTH MANAGEMENT

Perennial Growth Shares Wholesale Trust

Quarterly Report as at 30 June 2012

	Quarter %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Shares Wholesale Trust*	-7.7	-10.2	-10.2	0.3	4.0	-4.7
S&P/ASX 300 Accumulation Index	-5.0	-7.0	-7.0	2.0	5.6	-4.2
Value Added (Detracted)	**-2.7**	**-3.2**	**-3.2**	**-1.7**	**-1.6**	**-0.5**
Capital Growth	-8.8	-13.9	-13.9	-3.4	0.3	-11.0
Income Distribution	0.9	3.0	3.0	2.9	2.9	5.6
Net Performance	-7.9	-10.9	-10.9	-0.5	3.2	-5.4

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

- Global economic conditions created a challenging environment during the quarter.
- CSL Limited (up 9.8%) was the strongest positive contributor to performance.
- UGL Limited and Incitec Pivot Limited were added to the Trust during the quarter.

Perennial Growth Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio Manager: Lee Mickelburough	**Risk Profile:** High
Trust FUM (as at 30/06/12): AUD250.7 million	**Income Distribution Frequency:** Half yearly
Team FUM (as at 30/06/12): AUD2.7 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: August 1994	**APIR code:** IOF0048AU

Trust Performance Overview

The June quarter was a challenging period for global markets, with the Perennial Growth Shares Wholesale Trust (the Trust) finishing down 7.7%, underperforming the S&P/ASX300 Accumulation Index (the Index) by 2.7%. The Index finished down 5.0% for the quarter.

The strongest positive contributor to performance during the quarter was CSL Limited (CSL) (up 9.8%). CSL was a major beneficiary of exchange rate movements during the period. Exchange rates between the US dollar, the Australian dollar and Swiss franc, respectively, are now substantially more favourable than when CSL last provided earnings guidance in February. CSL translates a significant proportion of its earnings from the US and has a large cost base in Switzerland due to its fractionation plant and R & D facilities in Bern. CSL has also benefited from problems at its largest competitor, US based Baxter Group (Baxter). Baxter is experiencing product shortages as one of its three manufacturing plants has been offline for an extended period. It also suffered a setback when the US Food and Drug Administration requested additional safety data on HyQ, a competing intravenous immunoglobulin product, which is currently in clinical trials.

James Hardie Industries (James Hardie) (up 3.7%) also added value. The company was buoyed by further positive data points on sales of new and existing homes in the US, and positive quarterly profit releases from US home builders. James Hardie paid a USD0.38 dividend during the month (effectively returning 30% of the proceeds received from the successful case against the Australian Tax Office) however the share price more than carried the dividend amount. James Hardie remains underleveraged (cash and available drawing facilities of almost USD400 million) and is likely to announce a more aggressive capital management strategy at its annual general meeting in August.

Brambles Limited (Brambles) (not held, down 12.8%) also added value after being sold from the Trust early in the quarter. This decision proved to be a wise one as shortly after we sold Brambles, management announced its intention to hold onto its document management business, Recall, after offers received did not meet management price expectations. Brambles also launched a AUD448 million capital raising to strengthen its balance sheet following the unsuccessful sale.

Several companies downgraded earning guidance during the quarter and not holding Iluka Resources Limited (down 36.4%), Qantas Airways Limited (down 39.8%), Toll Holdings Limited (down 32.2%) all made positive contributions to performance.

Telstra Corporation Limited (Telstra) (not held, up 12.1%) was the biggest detractor to performance over the quarter. The stock performed relatively well as the company was seen as a safe haven given its predictable dividend yield over the next year. Over the past six months it has tracked the performance of government bonds closely as international investors, in particular, focused on the company's elevated dividend payout ratio. During the quarter Telstra hosted an investor day where it confirmed that it would not undertake a stock buyback before 2014 and even then, depending on the roll out of the National Broadband Network. The company also reassured the market that the profit guidance given for 2012 was still attainable, as was the AUD0.28 dividend for both this financial year and next. Its mobile business has benefited from one-off problems with the Vodafone network and continued consumer demand for smart phones and data downloads.

Santos Limited (down 25.2%) also detracted value. The underperformance was initially driven by a significant decline in oil prices, and accelerated when the company released an update for the Gladstone LNG (GLNG) joint venture project (Santos 33%) stating that total capex had increased by USD2.5 billion (15.6% increase) as a result of including 300 additional wells to be drilled. Consequently our estimate of GLNG capex has increased to USD20.4 billion (assuming the AUD at parity). Despite the large increase in capex for this project, we continue to see substantial value in Santos given our forecast for rising east coast gas prices and near term growth based on delivery of a significant number of projects, and based on our valuation metrics have material valuation upside of around 40%.

Newcrest Mining Limited (Newcrest) (down 23.8%) also detracted value. The company released a disappointing production result for the March 2012 quarter with heavy rain affecting production at Cadia Valley, Hidden Valley and Lihir. The company experienced some operational issues at Lihir and Cadia Valley. However, investment in additional pumping capacity at Lihir should address the problems there; and, Cadia Valley will no longer be an issue as the open pit is shutdown within the next 12 months. As a consequence, guidance for financial year 2012 production has been downgraded to 2.25 to 2.35 million tonnes, from 2.43 to 2.53 million tonnes, with the impact of inclement weather making up more than half of this downgrade. Despite these recent headwinds, longer term guidance is largely unchanged in our opinion. We see longer dated growth in volumes and a reduction in operating costs given the quality of the assets within their portfolio. We continue to like the investment thesis for Newcrest, with around 25% valuation upside to the stock price based on our valuation estimates. We expect a stabilisation of operational performance to the end of calendar year 2012 before we see substantial growth into calendar 2013 from both the Cadia Valley and Lihir operations as a result of the investment the company is currently undertaking.

Arrium Limited (Arrium) (formerly Onesteel Limited, down 30.2%) also detracted value. Despite the positive benefit to earnings of a weaker Australian dollar and the iron ore price holding up better than a number of other commodities, the stock was under pressure during the quarter. There was no significant news from the company but domestic demand for its construction steel products improved slightly and import pressure in key products eased. The company continues to ramp up its iron ore expansion project which remains on track to produce new tonnage by the end of 2012. While there was a 9% easing in the iron ore price over the quarter, at USD134 per tonne Arrium is still very profitable.

Trust Activity

During the quarter the Trust added UGL Limited (UGL) to the portfolio. UGL is an engineering and services business with a growing exposure to the global property services industry. The firm acquired DTZ, a UK based group that specialises in commercial property management, sales and valuations, and this acquisition complements UGL's Equis and Unicco facilities and property management businesses in the US. Combined, the group can now compete with the major global firms for contracts with multinational companies. The other major divisions contributing to the company's growth include both rail and infrastructure. The rail division has seen a significant lift in orders for new locomotives to the iron ore industry that should sustain good growth over the next two years. These contracts complement the growing city transit rail operations that have a far greater exposure to long term maintenance revenues. The company's infrastructure contracting division specialises in power and water. The large number of major contracts in the mining and energy sectors has seen an increased level of expenditure on facilities to service these projects. UGL has been winning contracts for both construction and maintenance of these facilities. UGL has a solid growth profile over the next five years and industry leading returns on funds employed. We have used the recent weakness in the market (and especially among engineering stocks), to begin building a position in a company that we believe has excellent long term attributes.

The Trust also added Incitec Pivot Limited (Incitec) to the portfolio. The majority of the group's earnings are derived from explosives, demand for which has grown at twice the rate of minerals production over the long term (8% versus 4%) due to declining grades and increasing strip ratios. Industry structure is attractive, with Incitec and Orica Limited being duopoly producers in eastern Australia and the USA. We are also attracted to Incitec's low risk expansion strategy of only adding capacity where binding take, or pay off take, arrangements are in place. Incitec is forecast to achieve strong growth in financial year 2013 and financial year 2014 as the Moranbah ammonium nitrate plant reaches full production, and fertiliser earnings recover from trading losses incurred in first half financial year 2012. Return on invested capital is forecast to improve from 10% to 13% as the AUD1 billion investment at Moranbah delivers its business case. Our valuation is $3.60, representing 25% upside.

Several stocks were sold off heavily during the quarter and showed significant valuation upside based on our research estimates. We took advantage of this weakness to increase positions in Challenger Energy Limited, Fortescue Metals Group Ltd and Lend Lease Group.

Following periods of strong share price performance during the quarter, Brambles Limited, Carsales.com Limited, Seek Limited, Sonic Healthcare Limited and Tox Free Solutions Limited all approached valuation and were sold from the Trust.

Market Overview

Following a strong March quarter, the June quarter proved to be more challenging with all major markets closing in negative territory driven lower by a weakening outlook for global growth and rising tensions in the European debt crisis. Japan's Nikkei (down 10.7%), Europe's STOXX 50 (down 8.6%), Hong Kong's Hang Seng (down 5.4%), UK's FTSE 100 (down 3.4%), US's S&P500 (down 3.3%) and the Shanghai Composite (down 1.7%) were all weaker.

Globally economic conditions tended to fall on the low side of expectations. Conditions in Europe deteriorated following a non result in the May Greek election, raising fears that Greece would exit the Eurozone, however the June re-ballot brought the pro-austerity coalition party into power. Elsewhere, the Spanish government sought assistance from its European partners to recapitalise its troubled financial system, with the European Union (EU) stepping in and providing direct support. In the US, a series of positive economic data points were released, however all were below expectations. First quarter GDP grew at an annualised rate of 1.9% (down from 3.0%), non farm payrolls grew by less than expected 289,000 in the three months to May, and the Institute for Supply Management (ISM) manufacturing purchasing managers index remained stable at 53.5. In China, first quarter GDP grew at 8.1%, down from 8.9%. In response to this slight decline in growth the People's Bank of China lowered interest rates for the first time since December 2008.

Domestically, the Reserve Bank of Australia reduced the cash rate by 0.50% in May and 0.25% in June and finished the quarter at 3.50%. Despite the weak global environment and declining levels of business confidence, the Australian economy added 86,600 jobs during the quarter and the unemployment rate declined to 5.1% from 5.2% at the end of the March quarter. The federal government released its annual budget during May and forecast a AUD1.5 billion surplus for financial year 2013, up from a AUD44 billion deficit in financial year 2012, making it the largest reduction in a single year in Australian history.

Commodity markets were weaker across the board in the June quarter, with Brent Crude oil (down 20.4%) particularly weak. Elsewhere on the London Metal Exchange aluminium (down 10.1%), copper (down 9.0%), zinc (down 6.2%) all declined, while spot iron ore (down 9.2%) also fell. Even the safe haven commodity, gold, fell 4.3% to USD1597 per ounce.

Telecommunications (up 11.4%), property (up 6.8%), healthcare (up 4.3%), and consumer staples (up 0.7%) were the only sectors to close the quarter in positive territory. Energy (down 16.3%), materials (down 14.5%), industrials (down 14.3%) and IT (down 11.3%) all underperformed and closed the period lower.

Environmental, Social and Governance Issues

The most visible Environmental, Social and Governance (ESG) issue during the quarter was clearly the introduction of the carbon tax from 1 July 2012. Rather than dwell on the issue (we will leave that to the tabloid press), we will simply make the point that with the compensation payments to households, the 94.5% allowances for large emitting industries and some industry specific rebates, the impact on the Trust will be negligible in the 2013 financial year (it may end up being a slight positive), and has a less than 2.0% impact on valuation. Given the reduction in electricity usage by both household and industry over the past year or so, if a trading system was introduced, we would expect that the price of carbon to fall very sharply below the current AUD23 per tonne. This would further reduce any impact on the investment portfolio.

Another notable ESG related issue during the quarter was the pressure put on the Woolworths Limited (Woolworths) board to deal with the company's poker machine business. Public advocacy group, GetUp!, attempted to force an extraordinary general meeting on the issue, which subsequently failed. As Australia's largest owner and operator of poker machines, Woolworths will consistently be in the spotlight on social issues and the impact on the community in relation to problem gambling as well as its venues and the liquor business in general. What this means to the company's reputation, image and brand remains to be seen but it is an issue that will not vanish and the company will have to deal with as long as it remains in the gaming industry.

We met with the chair of the Transfield Services Limited remuneration committee during the quarter. The meeting was not to address a specific problem or aspect of the report, but for the company to gain feedback on what its institutional shareholders are looking for as acceptable inputs to remuneration structures. We continue to press for criteria to include return on invested capital measures as well as growth and shareholder return criteria to be included in long term remuneration structures. The company's consultation with shareholders on these issues is important and we look favourably on companies that do.

Asset Allocation as at 30 June 2012

Stock Name	Trust Weight %	Index Weight %
Energy	9.3%	6.9%
Materials	29.9%	22.2%
Industrials	6.1%	7.1%
Consumer Discretionary	4.0%	3.7%
Consumer Staples	0.0%	8.3%
Health Care	3.7%	4.1%
Financials-x-Real Estate	41.5%	33.1%
Real Estate	2.3%	7.3%
Information Technology	2.1%	0.7%
Telecommunication Services	0.0%	4.9%
Utilities	0.0%	1.9%
SPI Futures	0.0%	-
Cash	1.1%	-

Rounding accounts for small +/- from 100%.

Top Ten Holdings as at 30 June 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	12.1%	10.1%
ANZ Banking Grp Ltd	8.5%	5.9%
Westpac Banking Corp	7.9%	6.5%
National Aust. Bank	6.8%	5.3%
Commonwealth Bank.	6.7%	8.5%
Rio Tinto Limited	4.6%	2.5%
CSL Limited	3.7%	2.0%
Woodside Petroleum	3.7%	1.9%
QBE Insurance Group	3.5%	1.6%
Newcrest Mining	3.5%	1.7%
TOTAL	**60.8%**	**45.9%**

Signatory of:

PRI Principles for Responsible Investment