

# Perennial Tactical Income Trust

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31 December 2012



The Trust enables investors to diversify their defensive exposure with the ease of investing in one product.

The Trust is an actively managed portfolio of highly diversified income producing Australian cash and fixed income securities, designed to preserve capital and provide strong performance at every stage of the investment cycle.

## How the Trust works

Having 'outsourced' the investment management decision to Perennial's team of fixed interest professionals, the Trust seeks to manage the following key investment decisions for investors:

- **Interest rates** – when to hold longer dated fixed rate assets (e.g. government bonds are typically cheap when interest rates peak in an economic cycle) and when to hold shorter dated floating rate exposure.
- **Sector** – what is the right proportion of government securities and when is the reward in non-government securities enough to adequately compensate investors for the additional risk?
- **Security** – what non-government securities have stable to improving credit quality? Of these securities, which offer an appropriate return for the underlying risk?

The Trust gains its exposure by investing in a range of investment trusts within Perennial Fixed Interest's trust range. This provides investors with a highly diversified exposure to a wide range of cash, cash equivalent, short and longer duration fixed interest securities and high yielding securities as detailed below. These include securities issued by banks and other corporations, mortgage and other asset backed securities, as well as government bonds.

## Trust objective

The objective of the Trust is to provide investment returns in excess of the Trust's benchmark by 1.0% p.a. measured over rolling 3 year periods, by investing in a diversified portfolio of Australian income producing assets. The benchmark for the Trust is the UBS Bank Bill Index and the UBS Composite Bond Index (0+ years) equally weighted.

## Key features of the Trust

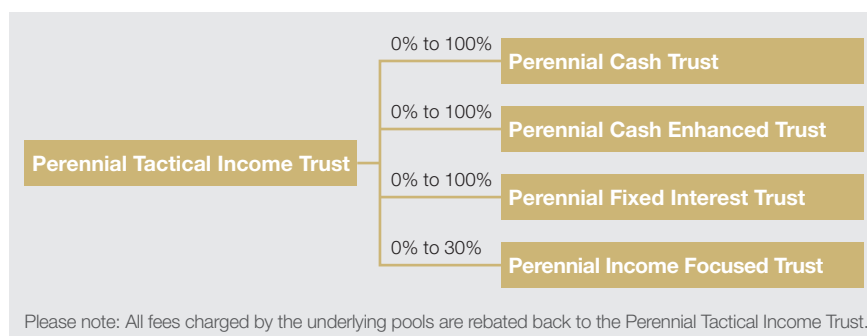
- Strong performance track record, with consistent positive monthly returns since inception in 2009.
- A focus on capital preservation.
- Daily liquidity.
- Quarterly income distributions.
- A low cost integrated solution, with an annual management fee of 0.45% p.a.

## Investment strategy

The Trust is designed to leverage the considerable expertise of Perennial's Fixed Interest Team and gives the Team flexibility to actively change the asset allocation mix based on their assessment of where the best value lies.

The strategies adopted by the Team are based on their analysis and assessment of the outlook for the Australian and global economies, the outlook for interest rates and fundamentals of the corporate sector within the context of the credit cycle.

Through meaningful adjustments to the fixed interest exposure of the Trust, the Team is able to enhance performance in periods of falling interest rates and, conversely, to protect value from the adverse impact of rising interest rates. The overall level of credit risk within the Trust is actively adjusted to reflect the Team's assessment of fundamentals and valuations within the corporate debt market.



### *A fresh approach to defensive investing*

With a focus on delivering a stable return profile and capital preservation, Perennial's highly experienced Fixed Interest Team have the flexibility to actively change the asset allocations in order to take full advantage of the interest rate cycle and credit environment.

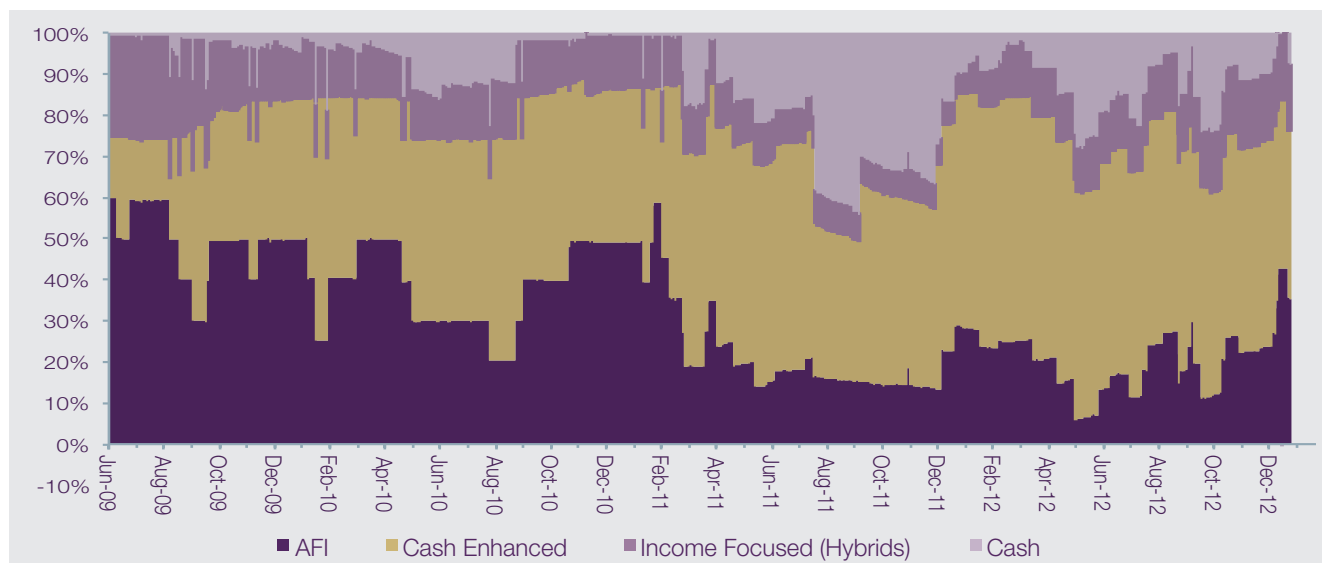
## Managing interest rate risk

Rising interest rates negatively impact the value of fixed rate securities. Duration is the key measure of that risk. The higher the duration, the more sensitive a fixed interest portfolio is to changes in bond yields. Ideally you want longer duration when interest rates are falling and shorter duration when they are rising.

# Asset allocation

As can be seen from the chart below, the Team actively manages the Trust.

## Daily asset allocations since inception



Source: Perennial Investment Partners Limited

# Trust performance

Since inception in June 2009, the Trust has delivered strong outperformance in a challenging market environment. With net performance of 8.45% p.a. (after fees), the Trust has comfortably outperformed the benchmark return by 2.29%.

A key feature of the Trust's performance has been its capacity to deliver consistent returns on a monthly basis. Since the Trust's inception, the Australian bond market has delivered a negative monthly return on five occasions due to increases in bond yields. In contrast, as shown by the chart on the right, the Trust has consistently delivered positive monthly returns and avoided much of the downside volatility associated with bond returns.

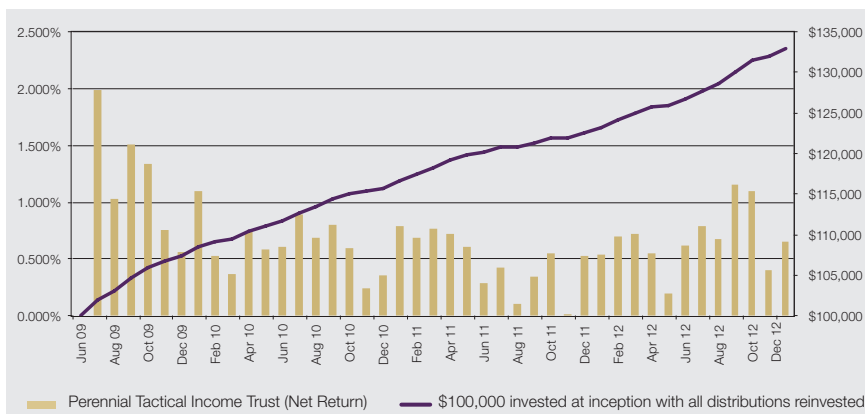
**Providing investors with a stable return profile is one of the Trust's key objectives.**

Period ending 31 December 2012	1 month %	1 year %	2 years % p.a.	Since inception % p.a.
Perennial Tactical Income Trust Net Performance (after fees)	0.66	8.41	7.17	8.45
UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted	0.52	5.83	6.99	6.16
Value Added (Detracted)	0.14	2.58	0.18	2.29

Source: Perennial Investment Partners Limited

\* Trust inception date: 16 June 2009.

## Perennial Tactical Income Trust monthly returns since inception



Source: Perennial Investment Partners Limited

# Perennial Fixed Interest

Headed by Glenn Feben, Perennial Fixed Interest is a specialist Australian fixed interest investment boutique that manages assets across the full spectrum of the fixed interest universe. This ranges from vanilla cash portfolios to long duration bond portfolios and covers a wide range of issuers extending from governments to corporations and asset backed securities.

Our team of six investment professionals have been managing fixed interest portfolios for over 20 years. The Team currently manages in excess of \$6 billion on behalf of a wide range of institutional and retail clients.

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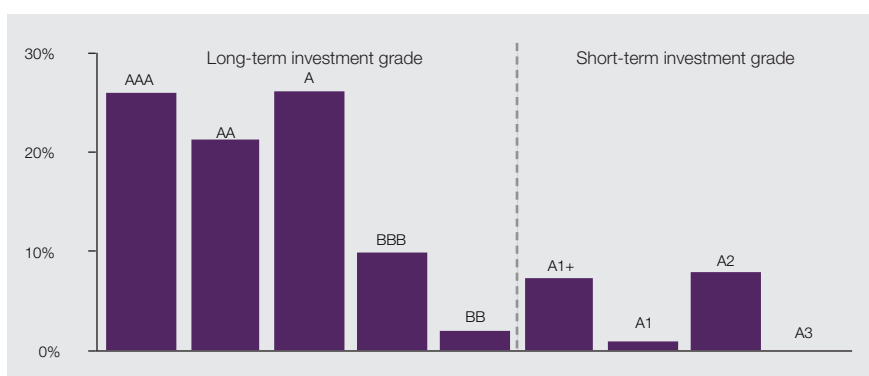
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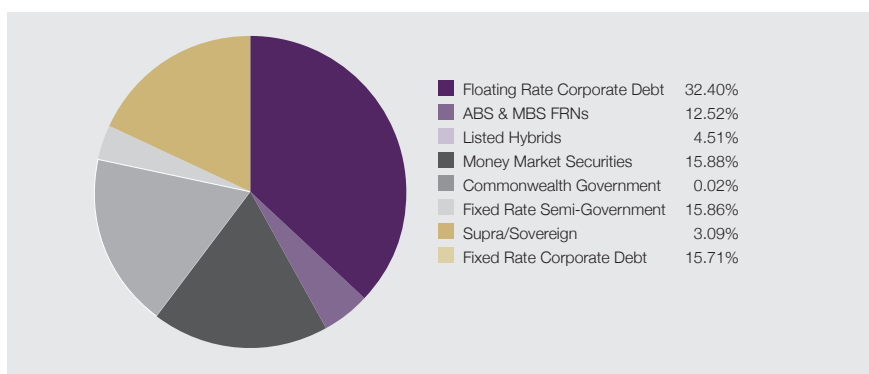
Trust snapshot	
Suggested investment time horizon	3 years
Weighted average credit quality (as at 31 December 2012)	A-
Number of securities	301
Unit pricing	Daily
Income distribution	Quarterly
Minimum initial investment amount	\$25,000
Minimum additional investment amount	\$5,000
Risk/Return profile	Moderate
Investment management fee	0.45% p.a.
Buy/Sell spread	Nil
Trust inception date	16 June 2009

### Credit rating distribution as at 31 December 2012



Source: Perennial Investment Partners Limited

### Asset allocation as at 31 December 2012



Source: Perennial Investment Partners Limited



**Phone 1300 730 032 Email [invest@perennial.net.au](mailto:invest@perennial.net.au)**  
 For up to date information on the Trust, including the latest performance data and asset allocations, please visit **[www.perennial.net.au](http://www.perennial.net.au)**

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