Perennial Growth Australian Shares Trust

Monthly Report as at 28 February 2013

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Australian Shares Trust*	3.6	13.3	26.9	19.1	4.9	5.9	1.9
S&P/ASX 300 Accumulation Index	5.3	14.2	28.3	23.4	7.3	7.8	2.7
Value Added (Detracted)	**-1.7**	**-0.9**	**-1.4**	**-4.3**	**-2.4**	**-1.9**	**-0.8**
Net Performance	3.6	13.1	26.7	18.6	4.2	5.1	1.1

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

- Reporting season was a dominant feature of the domestic equity market.
- The banking sector outperformed the Index, with National Australia Bank leading the way this month.
- During the month, we added to positions in Macquarie Atlas, Regis Resources and Caltex.

Trust Performance Overview

The Perennial Growth Australian Shares Trust (the Trust) closed up 3.6% in February, underperforming the S&P/ASX300 Accumulation Index (the Index) by 1.7%, with the Index finishing up 5.3% for the month.

The banking sector outperformed the Index, with National Australia Bank (up 10.4%) the top performer for the month finishing ahead of the large Australian banks. During the month, NAB released a quarterly update on its trading position to the end of December 2012. While the update revealed solid credit quality, continued growth in its retail division, significantly there was a small improvement in net interest margin, the first lift for over two years. Less pressure on funding costs as European and US fixed interest markets improved and the decision not to pass on the full extent of the Reserve Bank of Australia (RBA) rate cuts helped lift the interest spread. Worries about the outlook for NAB's UK operation also eased as better news emerged from that country's banking sector, most notably on credit quality. While the valuation gap between the NAB and the other majors has closed somewhat over the past three months, based on our metrics it remains the most undervalued.

Santos (up 12.1%) also contributed positively during the month. We believe a number of factors contributed to the stock's positive performance including, a strong FY12 result; the reiteration that the two main projects behind the company's growth profile, in Papua New Guinea and Gladstone, remain on time and budget; and, Chevron buying into Beach Petroleum's unconventional Cooper Basin gas acreage. We view Chevron's farm-in into the Cooper Basin unconventional play as confirmation of the large resource potential. However, we question the relative economics of unconventional gas especially without access to market. Santos' position in the Cooper Basin and access to infrastructure, should result in it being a winner in this game given the fullness of time. We continue to see strong valuation upside in Santos and are attracted to the improving return profile and strong cash flow growth that should be delivered once the LNG projects are delivered.

Perennial Growth Australian Shares 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 28/02/13): AUD315.3 million	**Income Distribution Frequency:** Half yearly
Team FUM (as at 28/02/13): AUD3.2 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: March 2001	**APIR code:** IOF0201AU

Also contributing positively was Telstra (not held, up 2.8%). While Telstra reported a profit figure for the first half of FY 2013 that was largely in line with expectations, including a very strong performance from its mobile division, the stock struggled to maintain its recent strong performance during February. Management comments also seemed to caution expectation of a special dividend or other capital management measures - something that has helped underpin the share price in recent months. We still see the stock as overvalued and lacking the underlying growth profile to justify the current share price.

The most significant detractor to performance was Challenger (down 6.2%). Challenger reported a 1H13 result in line with market expectations. While management lowered growth expectations for annuity sales, this was somewhat offset by an increased mix shift towards longer duration annuities. This resulted in an unchanged guidance for year-end profits. Our view is the increased average duration of 1H13 annuity sales (to 6.2 years) should create significantly more long term value due to higher margins and underlying return on equity. Further, the strong capital position and funds management growth will support ongoing share buybacks. At a 6.5x PE multiple, the buyback policy is highly earnings per share accretive, adding 2% p.a. to this measure. Based on our valuation metrics, the stock has material valuation upside of around 25%.

Also detracting from the Trust's return were Wesfarmers (not held, up 11.2%) and Woolworths (not held, up 11.8%). Wesfarmers reported 1H13 core NPAT of $1,285 million, up 8%. The strongest operating results were from Kmart, Insurance and Coles. Target had a sharp fall in earnings and resources also contracted. The key surprise was Bunnings' new store pipeline of around 30 stores per annum. In our view, physical domination is clearly the market strategy, with circa 400 stores in three years Bunnings will dwarf Woolworths' hardware business, Masters, which has a current target of 150 stores. We believe that returns from the hardware segment will deteriorate as these two giants compete for market dominance. Woolworths reported 1H13 NPAT before significant items of $1,249 million, up 4.2%. The Food & Liquor business managed to increase its profit margins again, but Home Improvement experienced a very weak half. Woolworths is aggressively rolling out new supermarkets. Store growth of around 4% is expected this year. We are concerned that the store growth is not resulting in better comparative store sales. Meanwhile, competitors' space growth is accelerating (ALDI and Coles), which means that industry-wide comp store sales of only 2.5% will place natural pressure on margins. The supermarket sector is currently under scrutiny by the ACCC, which could lead to more onerous regulation that may limit the scope for further margin expansion. Based on our view that industry returns will deteriorate over the medium term we do not own Wesfarmers or Woolworths, with both stocks overvalued based on our valuation metrics.

Macquarie Atlas Roads Group (down 4.9%) also detracted value during the month. Macquarie Atlas underperformed due to disappointment around the magnitude of company's maiden dividend (2.4cps). As widely flagged, Macquarie Atlas moved to a dividend paying position with its FY12 result which we regard as a major positive as it should broaden the appeal of the stock to a wider audience of potential investors. Importantly the initial 2.4cps dividend is not indicative of the go-forward dividend paying potential of the company. We expect this will be about 10cps in FY14. Our valuation on the stock is largely unchanged and in our view it remains the best value stock in the infrastructure sector.

Despite a relatively strong 1H13 financial result, Newcrest also detracted from performance (down 3.2%) as a result of the increased negative sentiment towards gold. We believe that the current share price reflects lower gold prices than the current spot price and the stock is about to enter a period of improving returns and strong cashflow growth. We remain confident that NCM management can deliver both the Cadia East and Lihir projects to underpin this forecast growth profile. While we acknowledge that the outlook for the global economy has improved and that "tail" event risk has diminished, we believe that it remains prudent to maintain a level of insurance for the Trust.

Trust Activity

We added to positions in Macquarie Atlas, Regis Resources and Caltex.

Following a period of outperformance in the stock price and prior to the company announcing its quarterly result, we reduced the Trust's position in Origin Energy.

Following our assessment of PanAust's quarterly production report released late in January, we also reduced the position in PanAust due to a reduction, in our assessment, of both value and the growth outlook for PanAust over the next few years.

We also reduced the Trust's positions in AMP and Computershare, and trimmed the holdings in National Australia Bank, BHP Billiton and Challenger.

At month end, stock numbers stood at 32 with cash at 3.9%.

Market Overview

Equity markets continued their positive start to the year, with most major indices rising as investor optimism refused to be dampened by heightened concerns over the situation in Europe and the imminent US budget sequestration. Japan's Nikkei (up 3.8%), UK's FTSE100 (up 1.3%) and the US S&P500 (up 1.1%) all rose, while Hong Kong's Hang Seng (down 3.0%) and China's Shanghai Composite (down 0.8%) all fell.

Uncertainty around US monetary and fiscal policy remains a key focus, with no agreement reached by month end regarding an automatic round of budget cuts scheduled to begin on 1 March 2013. Furthermore, minutes from January's Federal Reserve Open Market Committee meeting suggested "many" officials were concerned about the scale of asset purchases, although Chairman Bernanke subsequently implied to the Senate banking committee that the benefit of purchases continued to outweigh the disadvantages. US economic data releases continued to reflect an economy making slow, but positive progress. Nonfarm payrolls increased by 157,000 jobs, although the unemployment rate increased slightly to 7.9%. The ISM manufacturing index showed strong improvement, while new home sales hit their highest level since 1993 and the Case-Shiller Index of house prices reached its highest annualised level since 2006.

Within Europe, the challenges of the region were highlighted by a weak set of data that showed economic growth at its weakest level in four years and a manufacturing sector that continues to contract. The Italian election also served as a reminder of the challenges posed to the region, as voters shunned pro-austerity parties resulting in an inconclusive outcome. Chinese economic data points continue to reflect an improving economy. Both import and export numbers for January came in at 28.8% and 25.0%, respectively, year on year, and manufacturing remained robust in spite of some expected seasonal slowdown leading into Chinese New Year.

Domestically, news flow was dominated by the corporate reporting season, with the general tone being one of company earnings exceeding expectations, driven by a focus on cost reduction. Company guidance remains cautious, with companies from a wide range of industries pointing to tough trading conditions. There was a 10,400 increase in the number of jobs, with the unemployment rate remaining static at 5.4%. Australian business investment showed a 1.2% fall in capital spending during the final quarter of 2012, amid weakness in manufacturing and mining companies scaling their spending back. The RBA elected to keep interest rates at 3.0%.

The Australian dollar weakened against the US dollar, falling 1.9% over the month to finish at USD1.02. There was broad based weakness across commodity markets during the month, with nickel (down 9.4%), copper (down 4.3%), aluminium (down 4.1%), Brent Crude (down 3.6%) and iIron ore (down 0.5%) all falling. The gold price was notably weaker, finishing the month at $1,581 an ounce (down 5.1%), as a strong US dollar, redemptions from a number of physical exchange traded funds and investor concerns in relation to the end of quantitative easing, all came into play.

Within the domestic equity market, the strongest sectors were consumer staples (up 9.7%), financials (up 6.5%) and industrials (up 6.1%). For a second consecutive month the weakest sector was materials (down 0.4%), followed by IT (down 0.3%) and telecommunications (down 0.1%).

Top Ten Holdings as at 28 February 2013

Stock Name	Trust Weight %	Index Weight %
BHP Billiton Limited	11.2	9.4
National Aust. Bank	8.4	5.6
ANZ Banking Grp Ltd	8.2	6.2
Commonwealth Bank.	6.0	8.6
Westpac Banking Corp	5.8	7.6
CSL Limited	4.4	2.4
Rio Tinto Limited	4.0	2.3
WorleyParsons Ltd	3.4	0.4
Lend Lease Group	3.2	0.4
Incitec Pivot	3.2	0.4

Asset Allocation as 28 February 2013

Sector	Trust Weight %	Index Weight %
Energy	14.4	6.4
Materials	25.7	20.0
Industrials	9.5	6.9
Consumer Discretionary	2.1	3.8
Consumer Staples	0.0	8.7
Health Care	6.9	4.4
Financials-x-Real Estate	32.7	35.4
Real Estate	3.2	7.1
Information Technology	1.5	0.7
Telecommunication Services	0.0	4.8
Utilities	0.0	1.7
SPI Futures	0.0	-
Cash	3.9	-

Rounding accounts for small +/- from 100%.