Perennial Balanced Wholesale Trust

Monthly Report as at 28 February 2013

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	2.5	8.8	17.1	6.0	6.9	3.1

* Gross Performance. ^ Since Inception: June 1999. **Past performance is not a reliable indicator of future performance.**

- While the global economy appears to have started the year on a reasonable note, the ghost of fiscal crisis past arose and unsettled markets again.
- Equity markets were volatile over the month, finding support from economic data and pro cyclical central banks.
- Bond yields trended up over most of the month only to rally into the close on flight to quality flows.

Performance

The Perennial Balanced Wholesale Trust finished the month up 2.5%

Economic and Policy Trends

While the global economy appears to have started the year on a reasonable note, the ghost of fiscal crisis past arose and unsettled markets again. This time the trigger was an election result in Italy which failed to deliver a majority government. The Italian President is expected to push parties to form a government of national unity and this could take up until the end of March. If a government cannot be formed, the President can dissolve one or both houses and call a new election. This leaves an extended period of uncertainty which will only add to financial market instability until resolved. Unfortunately for investors, March is likely to see more agitation from sequestration, which if not diluted or deferred, would see USD85 billion of automatic budget cuts begin in early March.

Global central bank resolve to maintain accommodative stances via conventional and non-conventional measures has helped offset the negative from the political uncertainty. Data readings out of the US remain encouraging, with consumer confidence rebounding and further improvement in the housing sector. The overall outlook remains for a year of moderate global growth, with the pace of activity improving through the year.

In Australia, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 3.0% at its early February board meeting. Subsequent data releases have been on the soft side and reinforced the picture of sluggish economic conditions late last year. Retail sales, building approvals and housing finance all fell over December. On the brighter side, consumer confidence bounced strongly in February and there was a small lift in business confidence in January, albeit off low levels. Perhaps the key release for the month was Q4 capital expenditure. The first look at the 2013/14 spend was $152.5 billion, this compares with a spend of $168 billion for 2012/13 and suggests that business investment will modestly detract from growth over the coming financial year. It will be up to the interest rate sensitive sectors of the economy to lift and fill the void. While there is monetary stimulus in the pipeline, more maybe required against the backdrop of a stronger currency to ensure this happens. Our view remains that the growth and inflation outlook leaves the RBA room to ease further over the coming quarters and we look for a 2.5% low for the cash rate in this easing cycle.

Perennial Balanced Wholesale Trust Facts:

The Trust aims to grow the value of your investment over the medium to long term by investing in a range of growth and income producing assets, and to provide a total return (after fees) that exceeds the return of its benchmark measured on a rolling three-year basis.

Portfolio Manager: Frank Uhlenbruch	**Risk Profile:** Moderate
Trust FUM (as at 28/02/13): AUD76.2 million	**Minimum Initial Investment:** $25,000
Income Distribution Frequency: Half yearly	**APIR code:** IOF0114AU
Trust Inception date: June 1999	

Equity Market Trends

Equity markets were volatile over the month, finding support from economic data and pro cyclical central banks. However, the inconclusive Italian election result raised the spectre of systemic Eurozone risk and led to a period of equity weakness towards the end of the month. In the US, the S&P500 gained 1.1%, while in Japan, the Nikkei gained 3.8%. In Europe, the Euro STOXX 50 fell 2.6% with the Italian election a major drag. The MSCI World ex-Australia Accumulation Index in Australian dollars ended up 1.90%, with a modestly depreciating Australian currency a positive for sector returns. In Australia, a positive earnings season helped push the S&P/ASX 300 Accumulation Index up by a robust 5.3%.

Bond Market Trends

Yields trended up over most of the month only to rally into the close on flight to quality flows caused by the inconclusive outcome of the Italian election. After getting to as high as 2.94%, the yield on a three year government bond ended the month 8 basis points lower at 2.74%. At the longer end of the yield curve, the ten year government bond yield rose to as high as 3.59% before ending 10 basis points lower at 3.35%. For the month, the UBS Composite Bond Index rose 0.59%, while the cash sector, as measured by the UBS Bank Bill Index, returned 0.22%.

Investment Strategy

Tactical asset allocation continues to have a strong positive impact on monthly returns as Australian equities outperformed fixed interest by a wide margin again in February. More value continues to be released from the sector but it remains relatively attractive compared to the Australian fixed interest sector. We continue to hold a moderate overweight position but have a bias to move back to benchmark on significant further strength.

The modest rally in the Australian fixed interest sector over the month has made the sector more expensive. Accordingly, we continue to run a moderate underweight position.

		Month %		One Year %	
Sector	Weighting %	Perennial*	Benchmark	Perennial*	Benchmark
Value Australian Shares	20.2	5.6	5.3	21.9	23.4
Growth Australian Shares	20.6	3.6	5.3	19.1	23.4
International Equities	21.3	1.3	1.9	13.6	16.5
Australian Listed Property	5.3	3.3	3.5	33.8	33.4
Australian Fixed Interest	22.10	0.65	0.59	10.47	8.18
Global Property Unhedged	5.2	1.7	2.6	26.5	25.6
Cash	5.16	0.45	0.22	6.62	3.73

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