PERENNIAL FIXED INTEREST

Perennial Cash Enhanced Trust

Monthly Report as at 28 February 2013

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Cash Enhanced Trust*	0.45	1.41	4.69	6.67	6.12	6.34	6.76
UBS Bank Bill Index	0.22	0.78	2.26	3.73	4.32	4.47	4.80
Value Added (Detracted)	**0.23**	**0.63**	**2.43**	**2.94**	**1.80**	**1.87**	**1.96**
Net Performance	0.43	1.34	4.50	6.38	5.83	6.05	6.47

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

- The Trust again outperformed its benchmark, exceeding the Index return by 0.23%.
- In terms of sector strategies, the stand out performer was Australian AAA rated prime Residential Mortgage Backed Securities (RMBS).
- We continue to believe that an overweight position to the corporate debt and asset backed securities will outperform bank bills.

Performance

Money market yields finished the month little changed, although cash rate expectations edged a little higher offset by Overnight Index Swap (OIS) spreads narrowing to historically tight levels. Investment grade credit spreads narrowed further enabling the sector to perform well relative to bank bills, despite some uncertainty affecting global credit markets. This included the nationalisation of SNS Reaal Bank, the elections in Italy putting Europe at risk of further fallout and S&P's cautioning of domestic bank ratings.

The UBS Bank Bill Index (the Index) returned 0.22% over the month. The Perennial Cash Enhanced Trust (the Trust) returned 0.45% and continued its run of outperformance exceeding the Index return by 0.23%.

Interest rate management had a neutral contribution to performance. Sector strategies again added meaningful value over the month as credit spreads narrowed. This outperformance was due to an overweight allocation to high quality credit floating rate notes (FRNs), which outperformed bank bills. However, the standout sub-sector was Australian AAA rated prime residential mortgage backed securities (RMBS) which narrowed by some 20 basis points (bps) in primary markets and a little less in secondary markets. The Trust's holding of approximately 20% of these securities benefitted from the developments. Security selection also added value, with financials and infrastructure assets outperforming.

At month end, the weighted average yield of the Trust was 3.95%, as compared to the Index yield of 3.00%.

Perennial Cash Enhanced 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: Noel Murphy	**Risk Profile:** Low
Trust FUM (as at 28/02/13): AUD1.6 billion	**Income Distribution Frequency:** Quarterly
Team FUM (as at 28/02/13): AUD6.4 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: August 2002	**APIR code:** IOF0111AU

Market Review

Yields trended up over most of the month before rallying into the close on flight to quality flows resulting from an inconclusive outcome from the Italian election. The resultant modest fall in yields over the month resulted in some capital gain which helped boost fixed interest returns.

On the economic data front, releases were 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, which compared with a spend of $168 billion for 2012/13 suggests that business investment will modestly detract from growth over the coming financial year.

Against this backdrop, the three year government bond yield rose to a high of 2.94% before ending the month at 2.74%. Yields at the shorter end of the curve were little changed with three and six month bank bills ending the month at 2.97% (up 2 bps) and 2.93% (down 2 bps).

At the longer end of the yield curve, the ten year government bond yield rose to a high of 3.59% on stronger global risk appetite before the inconclusive Italian election result triggered flight to quality flows that helped the long bond end the month 10 basis points lower at 3.35%. Given these moves, there was some minor flattening in the spread between three and ten year government bonds, which came in 2 basis points, to +61 bps.

Credit markets finished the month 7 bps tighter with the iTraax index at 114 bps, thus continuing the strong start to 2013. The earnings season produced an overall positive set of results, particularly in the banking sector. Primary markets took a breather after an active January, but it did not stop the CBA and Westpac both raising over $2 billion by issuing residential mortgage backed securities into the domestic primary market. The month concluded with the inaugural AUD bond issued by the National Bank of Abu Dhabi. This issue provided further evidence of both the demand for AUD denominated debt as well as the continued diversity of companies issuing bonds in the Australian corporate bond market.

Market Outlook

Modest downward revisions to its near term growth and inflation forecasts in the February Statement of Monetary Policy and subsequent commentary from officials, indicated that the RBA have a clear easing bias.

Our view remains that the growth and inflation outlook will allow the RBA room to ease monetary conditions further in the quarters ahead and we continue to target a 2.5% cash rate as the nadir in the current easing cycle. By 2014, we expect to see the interest rate sectors of the economy gaining momentum and the RBA beginning to wind back the amount of monetary policy accommodation. Such a profile is largely priced in by the market which is discounting a 2.5% cash rate by September 2013. We continue to regard the shorter end of curve as broadly fairly valued.

The main risk to our view is that a powerful and persistent rise in equity markets creates a positive feedback loop into the real economy and negates the need for further easing as consumer and business spending lift.

We still regard the longer end of the curve as being on the expensive side of fair value and offering investors' little protection against an ongoing improvement in risk appetite, further improvement in the economic outlook or signalling by the US Fed of a wind back in quantitative easing. While we remain of the view that a major sell-off at the long end is still some time away, given offshore policy settings, we continue to hold a modest strategic defensive duration bias.

While the rally in credit spreads has released much of the value we saw in the sector, credit spreads at current levels remain moderately attractive in a low yield environment and we continue to persist with an overweight allocation to spread sectors, most notably semi-government and corporate debt.

Investment Strategy

The following is a summary of the key strategies in the Trust.

Interest rates – at the end of the month, the duration position of the Trust was as follows:

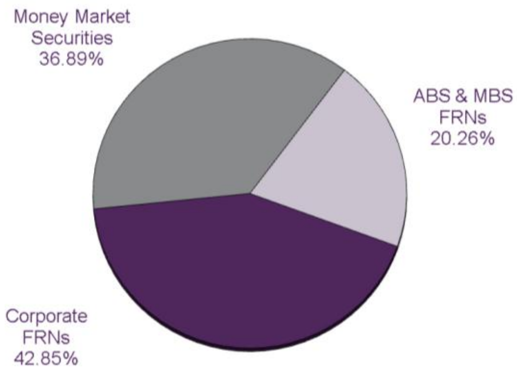
Modified Duration	Years
Trust	0.11
Index	0.13
Active Position	-0.02

Interest rates – neutral duration:
Short term interest rates including the market's cash rate expectations through 2013 and early 2014 are broadly in line with our assessment of 'fair value' given the slightly softer domestic economic conditions and well contained inflation. Accordingly, we maintain a neutral duration position relative to the Index.

Corporate debt and asset backed securities – overweight:
Credit spreads have narrowed significantly over the past six months or so. The critical question we ask ourselves at our strategy meetings is has all of the value been extracted from this sector. Following our consideration of the healthy state of corporate balance sheets, very low defaults rates, the relatively benign economic environment and, the higher running yield advantage credit offers; we continue to believe that an overweight position to these securities will outperform bank bills. However, our enthusiasm to continue adding corporate debt to the Trust has certainly waned. The ongoing hunger for yield by investors is likely to be supportive for corporate debt pricing but the easy money has been made and future outperformance from this sector is likely to be more modest. We continue to favour sub-sectors such as to the senior bonds of the 'big four' Australian banks, RMBS, listed property trusts and infrastructure debt.

Trust Snapshot

Sector Allocation



Credit Rating Distribution