Perennial Australian Fixed Interest Trust

Monthly Report as at 31 July 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Australian Fixed Interest Trust*	0.84	3.33	0.84	10.25	8.97	9.38	9.07
UBS Composite Bond Index (0+years)	0.37	3.31	0.37	10.97	8.98	8.59	8.10
Value Added (Detracted)	**0.47**	**0.02**	**0.47**	**-0.72**	**-0.01**	**0.79**	**0.97**
Net Performance	0.80	3.24	0.80	9.86	8.59	9.00	8.68

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

- The Trust outperformed the Index return by 0.47%.
- Our view still has the cash rate falling to 3.00% late this year or early next year.
- Credit strategies were also positive with overweight allocations to semi-government bonds and corporate debt being the main contributors.

Performance

The Australian bond market delivered a modest positive return over July with its performance negatively impacted by a small increase in yields, most notably on short to mid curve maturities. Having rallied for much of the month, yields moved sharply higher over the latter stages following a commitment from the President of the European Central Bank that they would do “whatever it takes” to save the Euro. Comments from the Reserve Bank of Australia (RBA) also served to dampen future expectations of monetary easing. Government bonds were the worst performing sector of the fixed income market, with the performance of semi-government bonds and corporate debt boosted by increased demand for higher-yielding investments. The combination of these factors saw the UBS Composite Bond Index (0 + years) (the Index) return 0.37% over July.

The Perennial Australian Fixed Interest Trust (the Trust) comfortably outperformed the Index returning 0.84% with a range of active strategies all making a positive contribution.

On the interest rate front, the Trust benefited from a defensive duration position which helped to limit the negative valuation impact of higher yields. Yield curve positioning also added value with the maturity profile of the Trusts’ investments positioned in anticipation of the yield curve becoming flatter. Credit strategies were also positive with our overweight allocations to semi-government bonds and corporate debt being the main contributors. Overweight allocations to banks and diversified financials also added value.

Market Review

Australian bond yields rallied over most of the month, but strong policy statements out of Europe led a recovery in risk appetite and a late month retracement as markets priced out some of the tail risk associated with a disorderly break up of the Euro.

Perennial Australian Fixed Interest Trust:

The Trust aims to provide a total return (after fees) greater than cash and inflation, and that exceeds the UBS Composite Bond Index (0 + years), measured on a rolling three-year basis.

Portfolio Manager: Glenn Feben	**Risk Profile:** Medium
Trust FUM (as at 31/07/12): AUD1.1 billion	**Income Distribution Frequency:** Quarterly
Team FUM (as at 31/07/12): AUD5.8 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: August 2002	**APIR code:** IOF0113AU

At the shorter end of the curve, the yield on a three year government bond fell to as low as 2.17% before ending the month 17 basis points (bps) higher at 2.57%. The RBA began the month by leaving the cash rate unchanged at 3.50%. The minutes for that meeting indicated a weak easing bias at best, with the RBA noting that after a material easing over the past six months and with signs of a little more momentum in the domestic economy, that members saw no need for any further adjustment at the current juncture.

Economic data releases were again mixed. On the stronger side were May building approvals which rose by an astonishing 27.30%. Some of these gains were given back in June data (only -2.50%) but the sector appears to be stabilising after recent falls, with most strength concentrated in the higher density sector. Retail sales were also stronger than expected and there was a post monetary easing bounce in consumer sentiment. On the softer side were business conditions and confidence. The labour market was also weaker with employment falling by 27,000. Inflation remains well behaved, with the headline rate up 0.50% and the average of the statistical underlying measures up 0.6% over the quarter.

Given these developments, there was some modest winding back of easing expectations. While the one month bank bill rate ended the month unchanged at 3.58%, three and six month rates ended the month 9 and 13 bps higher at 3.58% and 3.57%, respectively.

At the longer end, the ten year government bond yield rallied to as low as 2.80% before ending the month 7 bps higher at 3.11%. The key turning point was the ECB's Draghi's vow on 26 July to do "whatever it takes to preserve the Euro". His commentary was consistent with a re-opening of the ECB's Securities Market Programme, something which markets will be looking for in early August. As a result of these moves, the spread between three and ten year government bonds narrowed by 10 bps to end the month at 54 bps.

Credit markets were again stronger over the month with the iTraxx index finishing 17 bps tighter at 166 bps. Primary markets had a steady stream of supply with both Westpac Banking Corporation and Caltex Australia Limited launching subordinated debt issues that will be listed on the Australian Securities Exchange. Investor demand for yield provided strong support to the secondary market resulting in a general narrowing in corporate debt and enabling this sector of the bond market to comfortably outperform over July.

Market Outlook

Recent commentary from the RBA suggests that they are relatively comfortable with the current setting of policy given the current stock of information and the outlook for growth and inflation. As they note, there has been a material easing in monetary conditions and given the lags involved with monetary policy, it is still too early to see clear signs of more recent policy action. Much will depend on developments in Europe, with a sanguine set of outcomes suggesting little need to change monetary conditions. A disruptive event in Europe has the scope to derail global growth and pressure global financial markets. Such an event would require a burst of further monetary easing and depending on the severity, an easing in fiscal policy.

Our base case view still has the cash rate falling to 3.00% late this year or early next year, followed by a long pause and then a gradual modest tightening cycle. Market expectations for the low point in this cash rate easing cycle continue to move up towards our target of a 3.00% low. At the end of July, markets were looking for a low of 2.75% in April 2013 compared to a low of 2.50% in March 2013, a month earlier. At the longer end, we see little value at a long bond around 3.00% with investors vulnerable to any improvement in the economic outlook or recovery in risk appetite and on a longer timeframe, any lift in inflation. We continue to persist with defensive interest rate strategies.

At a sector level, our preferred sectors remain semi-government and corporate debt, with the latter currently offering attractive spreads relative to the healthy state of company balance sheets, and strong demand from investors searching for yield. In this regard we believe the benefit of additional yield will be of increasing value to investors as the prospect of further capital gain from lower yields on sovereign bonds diminishes. We maintain an overweight allocation to these sectors and within the corporate sector our emphasis is on large financials and in particular, the senior debt of the 'big four' Australian banks, listed property trusts and selected infrastructure / utility 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	2.92
Index	3.96
Active Position	-1.04

Interest rates – underweight duration. We maintained a defensive duration position over July reflecting our view that Australian bond yields do not accurately reflect the fundamentals of the Australian economy and outlook

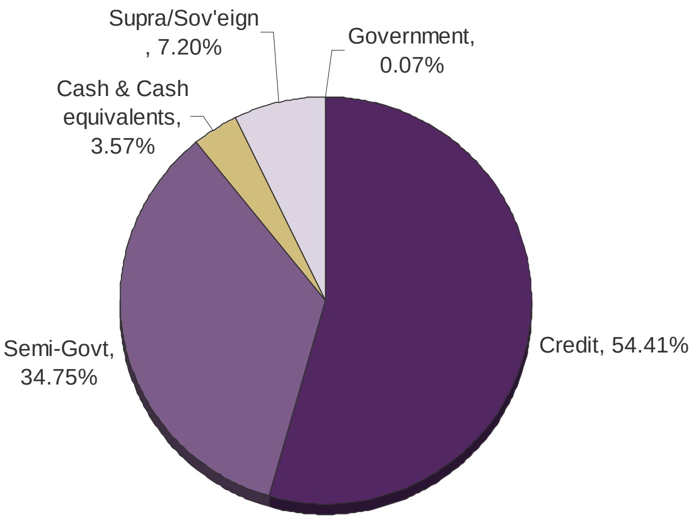
Signatory of:

PRI Principles for Responsible Investment for monetary policy. While our base case view assumes a further 50 bps of monetary easing, our conviction level around this has weakened somewhat given recent stronger economic data and hawkish comments from the RBA. Also, the prospect of a major breakthrough in Europe, make bond yields in developed economies vulnerable to any sustainable recovery in investor confidence. We are also mindful that the extremely low level of yields is at least partly attributable to speculative trading activity. If this activity were to change direction then the initial move higher in yields could be quite sharp. That said at the time of writing bond yields were around 50 bps higher than the lows reached in early June. If yields were to weaken further, for example from 25 to 50 bps, we would likely view that as an opportunity to add fixed interest exposure whilst maintaining a strategic defensive bias.

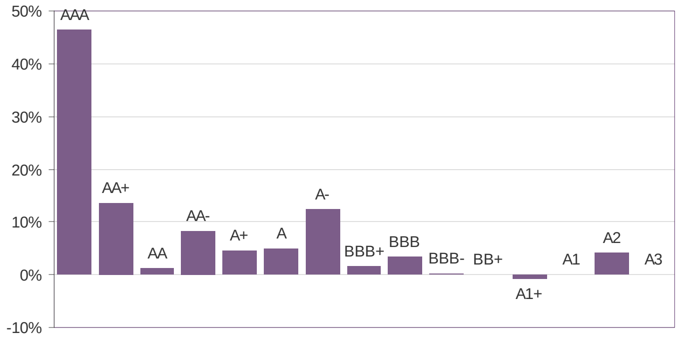
Overweight Corporate Debt. This area of the bond market remains the sweet spot for investors. Relative to risk free assets, corporate debt provides investors with opportunities that are both fundamentally sound and attractively priced. Corporate balance sheets remain healthy while cash flows continue to exhibit stability. While we acknowledge that corporate debt is a little more exposed to the volatility of 'risk on, risk off' episodes, the higher running yield should more than compensate for any capital price fluctuations over the 12 month investment horizons. As such, we remain overweight this sector and expect that it will outperform risk free assets over the medium term. Our favoured sub-sectors are low risk 'AAA' rated 'big four' Australian banks covered as well as senior bonds, listed property trusts, and infrastructure debt.

Overweight Bank Guaranteed and Semi Governments. Our Government exposure is concentrated in semi-government and government guaranteed securities, on the basis of the attractive yield advantage they offer relative to Government bonds.

Sector Allocation



Credit Rating Distribution



Signatory of:

Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Managers: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Perennial Fixed Interest Partners Pty Limited ABN 35 099 336 357, Perennial Growth Management Pty Limited ABN 41 099 336 384 and Perennial Real Estate Investments Pty Limited ABN 35 117 913 685 are Subsidiaries and Authorised Representatives of Perennial. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.