PERENNIAL GROWTH MANAGEMENT

Perennial Growth Shares Wholesale Trust

Monthly Report as at 31 May 2012

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Shares Wholesale Trust*	-8.7	-6.8	-10.6	-12.0	-1.8	5.1	-4.6
S&P/ASX 300 Accumulation Index	-6.7	-4.4	-7.5	-9.3	0.4	6.8	-4.3
Value Added (Detracted)	**-2.0**	**-2.4**	**-3.1**	**-2.7**	**-2.2**	**-1.7**	**-0.3**
Capital Growth	-8.8	-6.9	-13.4	-15.5	-5.6	1.3	-12.3
Income Distribution	0.0	0.0	2.1	2.8	2.9	2.9	7.0
Net Performance	-8.8	-6.9	-11.3	-12.7	-2.7	4.2	-5.3

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

- Commodity markets fell significantly during the month.
- The strongest performing sectors were telecommunications (up 7.1%), property (up 5.4%) and financials (up 2.9%).
- The biggest positive contributor to performance was CSL Limited (up 2.7%).

Perennial Growth Shares Wholesale 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 31/05/12): AUD253.4 million

Income Distribution Frequency: Half yearly

Team FUM (as at 31/05/12): AUD2.7 billion

Minimum Initial Investment: $25,000

Trust Inception date: August 1994

APIR code: IOF0201AU

Trust Performance Overview

The Perennial Growth Shares Wholesale Trust (the Trust) finished down 8.7% during May, underperforming the S&P/ASX300 Accumulation Index (the Index) by 2.0%, with the Index down 6.7% for the month.

On current measures the valuation of a number of domestic defensive stocks appear to be stretched. Stocks such as Telstra Corporation Limited (Telstra) and Woolworths Limited (Woolworths) are trading at a significant premium to our valuation target. Conversely, the valuation upside to our current Trust based on valuation metrics is at elevated levels. Rarely has the valuation gap between the Trust and the defensive areas of the market been so pronounced.

The biggest positive contributor to performance was CSL Limited (CSL) (up 2.7%). CSL was a major beneficiary of exchange rate movements during the month. Exchange rates between the US dollar and the Australian dollar and Swiss Franc respectively are now substantially more favourable than when CSL last provided earnings guidance in February. CSL translates a significant proportion of its earnings from the US, and has a large cost base in Switzerland due to its fractionation plant and research and development facilities in Bern. CSL has also benefitted from problems at its largest competitor, US-based Baxter Group (Baxter). Baxter is experiencing product shortages as one of its three manufacturing plants is off line for an extended period. It also suffered a setback when the FDA requested additional safety data on HyQ, a competing IVIG product which is currently in clinical trials.

Another positive contributor was James Hardie Industries (James Hardie) (down 0.9%). James Hardie reported its full year result during the month, highlighting continued solid operating performance and the commencement of an extended period of returning capital to shareholders, with the company declaring a US38 cent dividend. This effectively returns about 30% of the USD396 million paid to James Hardie following the successful tax case with the Australian Taxation Office.

The biggest detractor to performance over the quarter was Telstra (not held, up 0.3%). The stock performed relatively well during May, as the company was seen as a safe haven given its predictable dividend yield over the next year. Over the past six months, it has tracked the performance of government bonds closely as international investors, in particular, focused on the company's elevated dividend payout ratio.

Challenger Limited (Challenger) (down 17.6%) also detracted value. There have been a number of recurring concerns expressed by investors, most of which, while not completely resolved, look to be more than imputed into the current stock price. The areas of concern are largely related to capital and the potential need for a raising to supplement current levels. Revised capital rules are set to be finalised by the Australian Prudential Regulation Authority in October, with the new framework taking effect from 1 January 2013. The areas of focus include the composition of capital, asset charges under various stress scenarios, the illiquidity premium relating to discounting future liabilities and the transition arrangements for subordinated debt. The sum of these impacts, after taking account of organic capital generation, leaves us feeling confident that the transition to the new regime is manageable, with a low probability of the need for a capital raising. With this in mind our fundamental assessment shows significant valuation upside from current levels.

Woolworths (not held, up 1.9%) also detracted value. Investors sought defensive names with less cyclical earnings streams this resulted in the stock significantly outperforming the market.

OneSteel Limited (OneSteel) (down 19.2%) underperformed. Despite the benefits of a lower Australian dollar to the company's earnings and the iron ore price holding up better than a number of other commodities, the stock was under pressure during the month. There was no significant news from the company but domestic demand for its construction steel products improved slightly and import pressure in key products eased. The company continues to ramp up its iron ore expansion project which remains on track to produce new tonnage by the end of the year. While there was a 7% easing in the iron ore price over the month in US Dollar terms, in local currency terms, the fall was less than 1%. This should help the company attain its expected profit result for the year ending 30 June 2012.

Trust Activity

The Trust added to the existing position in QBE Insurance Group Limited (QBE) during the month, taking advantage of weakness to add to the position. There was no shortage of issues to drive the stock, with the regulator's review on Lenders Placed Insurance in New York the latest challenge for the group. This represents 1% of QBE's Lenders Placed business but does highlight some of the concerns around the pricing of such a cover. This is a cyclical business and we expect that it will in time become less of a driver of earnings. The more compelling news has been from fellow Property and Casualty insurers in the US. The commentary from many of these companies on insurance rates has been consistently positive and in line with QBE's own comments.

Fortescue Metals Group Limited (down 18.1%) fell significantly further than the iron ore spot price (down 6.3%) during the month. At current levels we see significant valuation upside to the stock price based on our valuation metrics. We expect the company to achieve its 55 million tons FY12 production target, and the plans to increase production to 155 million tons per annum remain on track with the company well capitalised to do this. We believe the stock is well over sold and took advantage of this weakness to add to the Trust's position during the month.

We also added to positions in Sims Metal Management Limited, Rio Tinto Limited and Challenger during the month.

We sold down the position in Carsales.com during the month as the company's share price approached our valuation. The Trust trimmed positions in Sonic Healthcare Limited, OneSteel, National Australia Bank and Seek Limited.

At month end stock numbers stood at 35 with cash at 1.3%.

Market Overview

Macroeconomic factors once again dominated sentiment, with no definitive outcome at the Greek political elections at the start of the month proving the catalyst for heightened concerns for the region's economic sustainability, an elevated risk of a Greek exit from the European Union and increased government borrowing costs in a number of European nations. Alongside this, concerns of slowing economic growth in China and the US added to market woes. As a consequence equity markets fell sharply, with Hong Kong's Hang Seng down 11.7%, Japan's Nikkei down 10.3%, UK's FTSE100 down 7.3%, the US S&P500 down 6.3% and China's Shanghai Composite down 1.0%.

Chinese data released during the month suggested a slowing of some areas of the economy, with industrial production falling to a three year low of 9.3% year on year and a material reduction in both exports and imports pointing to slowing manufacturing activity. Despite this, growth in China remains above the government's 7.5% per annum target, and the Chinese authorities have shown themselves to be committed to providing the necessary measures to stimulate the economy as exemplified by recent reductions to the reserve requirement, increased infrastructure spending and government subsidies for home appliances and autos. US data showed revised economic growth at an annualised rate of 1.9%. The unemployment rate fell slightly to 8.1%, with nonfarm payrolls increasing by 115,000.

Domestically, the Reserve Bank of Australia took the decision to ease rates by 50 basis points, taking the cash rate to 3.75%. This move further highlighted the emergence of a two speed economy within Australia, with the mining related component of the economy running at a growth level well in excess of the non-mining segments. Despite this, employment data showed the economy add 15,500 new jobs in April with the unemployment rate remaining at 5.2%. The Australian dollar weakened considerably against most major currencies closing the month at USD0.97, a fall of 6.6%.

Commodity markets also fell significantly during the month with oil (down 14.7%), copper (down 11.6%), zinc (down 9.3%), nickel (down 9.3%), iron ore (down 7.3%) and aluminium (down 5.9%) all falling. Gold also fell to close at USD1560 per ounce (down 6.3%).

As a consequence of the significant macroeconomic impact on equity markets there was a wide dispersion in performance across the sectors. In the domestic equity market the strongest performing stocks were those with defensive characteristics and lower perceived earnings variability. As a consequence the strongest performers were utilities (up 1.6%), telecommunications (up 0.2%) and healthcare (down 0.5%). Stocks deemed to exhibit cyclical exposures, particularly to energy or natural resources, were dealt with harshly. The weakest performing sectors were materials (down 11.0%), energy (down 10.2%) and industrials (down 8.4%).

Asset Allocation as at 31 May 2012

Stock Name	Trust Weight %	Index Weight %
Energy	9.6%	7.4%
Materials	29.9%	23.1%
Industrials	6.0%	7.4%
Consumer Discretionary	3.8%	3.6%
Consumer Staples	0.0%	8.2%
Health Care	4.0%	4.0%
Financials-x-Real Estate	40.6%	31.6%
Real Estate	2.1%	7.3%
Information Technology	2.2%	0.7%
Telecommunication Services	0.0%	4.7%
Utilities	0.0%	1.9%
SPI Futures	0.0%	-
Cash	1.7%	-

Rounding accounts for small +/- from 100%.

Top Ten Holdings as at 31 May 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	12.3%	10.3%
ANZ Banking Grp Ltd	8.4%	5.6%
Westpac Banking Corp	7.7%	6.2%
National Aust. Bank	6.4%	5.1%
Commonwealth Bank.	6.2%	7.9%
Rio Tinto Limited	4.5%	2.5%
Woodside Petroleum	3.8%	2.0%
Newcrest Mining	3.8%	1.9%
CSL Limited	3.7%	2.0%
QBE Insurance Group	3.2%	1.4%
TOTAL	**60.0%**	**44.9%**