Perennial Balanced Wholesale Trust

Monthly Report as at 30 June 2012

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	-0.4	-3.5	-3.1	2.4	6.1	-1.8

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

- The EU summit delivered a range of measures designed to stabilise the region.
- Equity markets reversed some of May's sharp falls.
- The ten year government bond yield ended the month 12 basis points higher at 3.04%.

Performance

The Perennial Balanced Wholesale Trust finished the month down 0.4%.

Economic and Policy Trends

All eyes remained on Europe. Firstly, to see the outcome of the Greek election and secondly, to see whether the EU summit at the end of the month could deliver a circuit breaker to the pernicious feedback loop between sovereigns and their banking sectors. Thankfully, the outcome of the second Greek election on 17 June allowed a pro European Government to form and averted the worst case scenario of an uncontrolled Greek exit from the European Monetary Union (EMU).

The EU summit delivered a range of measures designed to stabilise the region. These included: a €130 billion growth pact; pursuit of a partial banking union by year end, with the ECB as sole supervisor; once the regulator has been established, allow the ESM to recapitalise banks directly without adding to the sovereign's debt burden; renounce EU seniority on Spain's bank recapitalisation program; and, allow the EFSF/ESM to purchase debt in the secondary market. The package represents another small step towards fiscal union, but no more. While Europeans have bought more time, the region will remain a source of instability given the magnitude of the task ahead of them and the difficulty of required reforms.

Outside of Europe, Chinese and US policy makers were busy as well. In China, the PBOC announced a 25 basis point cut to benchmark deposit and lending rates, while in the US, the Fed extended its Maturity Extension Programme (aka Operation Twist) for another six months. In Australia, the Reserve Bank of Australia cut the cash rate by 25 basis points to 3.5% at the beginning of the month, in what it described as a finally balanced decision. Subsequent data releases on the stronger side were the Q1 national accounts, which showed economic growth expanding by a thumping 1.3% in the March quarter and employment gains of 39,000 in May, which exceeded expectations for the third time in a row. On the softer side, the NAB survey of business conditions fell to the lowest level since May 2009 and consumer sentiment failed to bounce meaningfully despite 75 basis points of easing since May. We continue to look for a trough of 3.0% in this easing cycle by the end of the year, with the next easing most likely in August following the release of Q2 CPI data.

Perennial Balanced 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 30/06/12): AUD70.4 million	**Minimum Initial Investment:** $25,000
Income Distribution Frequency: Half yearly	**APIR code:** IOF0114AU
Trust Inception date: July 2001	

Equity Market Trends

Equity markets reversed some of May's sharp falls as Greece voted to stay in the EMU and the EU summit exceeded low expectations and appeared to provide near term relief to southern European sovereign bond markets. The S&P 500 gained 4.0% after falling 6.3% in May. In Europe, the Euro STOXX 50 rose by 6.9%, while in Japan, the Nikkei gained 5.4%. The MSCI World ex-Australia Accumulation Index in Australian dollars ended down 0.6%, with a strengthening Australian currency a major drag on returns. In Australia, the S&P/ASX 300 Accumulation Index ended up 0.5%.

Bond Market Trends

Australian yields ended the month higher as the worst case scenario of a disorderly Greek exit from the EMU and major contagion from the undercapitalisation of the Spanish banking sector were not realised. At the shorter end of the curve, the yield on a three year government bond ended the month 27 basis points higher at 2.40%. At the longer end, the ten year government bond yield ended the month 12 basis points higher at 3.04%. Rising yields resulted in some modest capital loss, with the UBS Composite Bond Index falling 0.16%. The cash sector, as measured by the UBS Bank Bill Index, returned 0.28%.

Investment Strategy

Tactical asset allocation detracted value over the month, as the Australian equity sector underperformed the Australia fixed interest sector. The fall in Australian equities pushed relative valuation measures further in favour of equities back to historically high levels. Accordingly, we continue to persist with our overweight Australian equities strategy.

The fall in Australian yields has seen the fixed interest sector become extremely expensive, with the market factoring in a catastrophic outcome for Europe. We think this is a risk but not the most likely outcome and remain tactically underweight the sector.

		Month %		One Year %	
Sector	Weighting %	Perennial*	Benchmark	Perennial*	Benchmark
Value Australian Shares	21.8%	-2.2%	0.5%	-10.4%	-7.0%
Growth Australian Shares	22.4%	0.6%	0.5%	-9.9%	-7.0%
International Equities	22.3%	-2.8%	-0.6%	-4.3%	-0.5%
Australian Listed Property	5.4%	4.6%	4.4%	12.4%	11.0%
Australian Fixed Interest	17.68%	0.24%	-0.16%	10.72%	12.41%
Global Property Unhedged	5.5%	1.5%	0.7%	-	-
Cash	5.01%	0.53%	0.28%	5.31%	4.70%

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