PERENNIAL INVESTMENT PARTNERS

Perennial Capital Stable Wholesale Trust

Monthly Report as at 31 December 2012

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	1.3	3.1	12.4	6.4	5.9	4.5

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

- The Perennial Capital Stable Wholesale Trust finished the month up 1.3%.
- Equity markets were mixed over the month and local factors dominated home markets for a change.
- Tactical asset allocation had a strong positive impact on returns over the month.

Performance

The Perennial Capital Stable Wholesale Trust finished the month up 1.3%.

Economic and Policy Trends

The year ended with the global economy in slightly better shape, but the outlook remains weighed down by ongoing fiscal uncertainty in the US where attempts to solve the fiscal cliff late in December were torpedoed by recalcitrant republicans in the Congress. While a deal in early January still looks the most likely outcome, the risk is that drawn out uncertainty could undermine the confidence of the US consumer and derail the recovery in the housing sector. As the Fed's Bernanke has noted, US monetary policy will not be able to offset the drag from 'falling off' the fiscal cliff in the first half of 2013. That said, the Fed are running very accommodative monetary policy vowing to keep interest rates near zero until the unemployment rate falls to 6.5% provided inflationary expectations do not exceed 2.5%.

In Japan, the election of a new LDP government led by Shinzo Abe in December has raised hopes that his pro-growth agenda will bear fruit. A mixture of a massive public works and construction spending program along with pressure on the Bank of Japan to vigorously pursue monetary easing and lift its inflation target from 1% to 2% appear to be the hallmarks of his strategy, dubbed 'Abenomics'. In China, the Central Economic Work Conference held in mid-December indicated that a "proactive" fiscal policy and "prudent" monetary policy would continue to be pursued, while property controls would continue. Urbanisation was targeted as a key source of growth over 2013.

If the US can find fiscal clarity in early 2013, then the stage is set for a year where global growth could surprise on the upside with the tempo of growth improving through the year. However, an extended period of fiscal uncertainty in the US could delay, or at worst, derail the improving momentum the global economy had in late 2012.

Perennial Capital Stable 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 31/12/12): AUD31.8 million	**Minimum Initial Investment:** $25,000
Income Distribution Frequency: Half yearly	**APIR code:** IOF0100AU
Trust Inception date: June 1999	

In Australia, the Reserve Bank of Australia (RBA) cut the cash rate to 3% in early December. Subsequent data releases were mixed and consistent with growth at a sub trend rate in the December quarter. Consumer sentiment reversed the previous month's gain despite the interest rate cut. Retail sales were flat in October while building approvals recorded a sharp fall. Credit demand remains muted and business conditions and confidence remained weak in November. With such a start, it is unlikely that the economy will grow much faster than the 0.5% gain recorded for the September quarter. We suspect that the growth and inflation outlook will allow the RBA to ease monetary conditions further in the first half of 2013. The decision by the Government to walk away from its budget surplus target for 2012/13 is a welcome development as it avoids an unnecessarily aggressive tightening in fiscal policy in the first half of 2013.

Equity Market Trends

Equity markets were mixed over the month and local factors dominated home markets for a change. In the US, the S&P500 gained 0.7% with the market giving back some earlier gains on rising fiscal policy concerns. In Europe, a crisis free month helped push the Euro STOXX 50 up 4.2%. In Japan, the election of the LDP and rise of Abenomics helped push the Nikkei up a massive 10.0%. The MSCI World ex-Australia Accumulation Index in Australian dollars ended up 2.3%, with the Australian currency having little impact on returns. In Australia, the S&P/ASX 300 Accumulation Index powered ahead by 3.3%, as the mining sector found investor support.

Bond Market Trends

Yields rose modestly over the month despite a late rally on rising uncertainty as to whether US politicians could broker a deal to avoid a draconian tightening in fiscal policy. The RBA's move on monetary policy was widely expected by us and the market. The yield on a three year government bond ended the month 5 basis points higher, at 2.67%. At the longer end of the yield curve, the ten year government bond yield ended 11 basis points higher at 3.27%. For the month, the UBS Composite Bond Index returned 0.18%, while the cash sector, as measured by the UBS Bank Bill Index, returned 0.29%.

Investment Strategy

Tactical asset allocation had a strong positive impact on returns over the month and the year as Australian equities outperformed fixed interest by a wide margin. Value continues to be restored to Australian equities and we are on the cusp of levels where we would consider reducing the size of our overweight equities strategy.

Likewise, some value was restored to the Australian fixed interest sector over the month as yields rose at the longer end of the curve. We remain tactically underweight the sector, but have a bias to cut back the size of our underweight position should yields rise further.

		Month %		One Year %	
Sector	Weighting %	Perennial*	Benchmark	Perennial*	Benchmark
Value Australian Shares	12.5%	3.1%	3.3%	17.3%	19.7%
Growth Australian Shares	12.4%	4.0%	3.3%	18.6%	19.7%
International Equities	5.2%	1.5%	2.3%	16.7%	14.1%
Australian Listed Property	5.8%	2.4%	2.9%	33.5%	33.0%
Australian Fixed Interest	40.14%	0.46%	0.18%	10.70%	7.70%
Cash	23.93%	0.50%	0.29%	7.15%	3.97%

*Past performance is not a reliable indicator of future performance