Perennial Growth High Conviction Shares Trust

Monthly Report as at 31 July 2012

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception^ % p.a.
Perennial Growth High Conviction Shares Trust*	2.1	-9.4	2.1	-6.5	-0.8	2.6	-2.9
S&P/ASX 200 Accumulation Index	4.3	-2.0	4.3	1.3	2.0	4.7	-1.5
Value Added (Detracted)	**-2.2**	**-7.4**	**-2.2**	**-7.8**	**-2.8**	**-2.1**	**-1.4**
Net Performance	2.0	-9.6	2.0	-7.4	-1.8	1.6	-3.8

* Gross Performance. ^ Inception Date: 6 March 2007. **Past performance is not a reliable indicator of future performance**.

- The optimism from June's Eurozone summit faded early in July as Spanish ten year bonds rose above 7.5% as risk aversion spiked.
- The strongest performing sectors were financials (up 8.0%), consumer staples (up 6.7%), telecommunications (up 3.6%) and property (up 5.6%).
- The biggest positive contributor to performance was Bank of Queensland Limited (up 15.6%).

Trust Performance Overview

The Perennial Growth High Conviction Shares Trust (the Trust) finished up 2.1% during July, underperforming the S&P/ASX 300 Accumulation Index (the Index) by 2.2%, with the Index up 4.3% for the month.

The biggest positive contributor to performance was Bank of Queensland Limited (BOQ) (up 15.6%). The share price rerated strongly over the month as investors focused on signs that asset quality is turning. The company's Pillar 3 disclosure showed group non performing loans were flat quarter on quarter. The bank also sold a portfolio of four of its larger impaired assets for AUD156 million, including the three largest impaired exposures. The price received was close to the previous written down value for these loans, thus minimising any further write downs against profits. This move gave investors comfort that the worst is behind the bank in terms of its troubled loan exposures.

Lend Lease Group (up 12.5%) also performed well, reflecting a number of positive announcements released during the month. The company announced FY12 earnings guidance which were approximately 10% above market expectations, with AUD2 billion of equity funding for the Barangaroo office development, and confirmation as the successful tender on the AUD2 billion Sunshine Coast hospital. The Barangaroo announcement was particularly important as AUD90 million of land sale profits will now be recognised in FY13, and the project is now de-risked from both a tenant and funding perspective. This is a significant risk reduction overall, as total capital exposure to Barangaroo was around AUD500 million (land purchases and initial basement works). Despite the strong performance, we still see more than 50% valuation upside from current levels.

We see strong valuation upside in the banking sector and hold overweight positions in Westpac Banking Corporation

Perennial Growth High Conviction Shares Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and income, by investing in a concentrated selection of shares. Although the Trust is benchmark unaware in Trust construction, the Trust will aim to provide a total return (before fees) that exceeds the S&P/ASX 200 Accumulation Index by 4% p.a. measured on a rolling five-year basis.

Trust Manager: Lee Mickelburough	**Risk Profile:** High
Trust FUM (as at 31/07/12): AUD12.9 million	**Income Distribution Frequency:** Half yearly
Team FUM (as at 31/07/12): AUD2.7 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: March 2007	**APIR code:** IOF0089AU

(up 9.8%), ANZ (up 6.9%) and NAB (up 6.1%) as well as BOQ (up 15.6%). This sector performed strongly in July. While credit growth remains at low levels, there has recently been encouraging signs with modest rises in both housing and business lending. We currently consider the banks to have comfortable levels of capital and their provisioning for credit quality is conservative. While lending margins remain under pressure from higher funding costs both in the local deposit market and international wholesale markets, there has been a repricing of loan books.

Other strong performers included Woodside Petroleum Limited (Woodside) (up 8.8%) and Incitec Pivot Limited (Incitec Pivot) (up 9.1%). Incitec Pivot announced that its Moranbah ammonium nitrate plant had successfully commenced production, while Woodside ended higher after its second quarter result showed a 43% rise in production and increased its full year production guidance.

Fortescue Metals Group Ltd (Fortescue) (down 15.7%) was the largest performance detractor. The iron ore price decline was a key driver of the underperformance as destocking by Chinese steel producers occurred while steel demand remains seasonally challenged. At current iron ore prices we estimate that a significant part of the domestic Chinese iron production would be unprofitable. Following Fortescue's fourth quarter production report, question marks around the level of sustaining capital expenditure as well as a USD600 million increase in the estimate for the expansion to 155 million tonnes per annum (mtpa) were investors' key concerns. Quarterly production rates were significantly ahead of market expectations posting an annualised run rate of over 70mtpa and therefore comfortably meeting FY12 guidance of 55mtpa. We remain attracted to the increase in production rates forecast over the next 12 months which will result in improved returns and cash flow growth.

The underperformance of the materials sector impacted PanAust Limited (PanAust) (down 12.8%) and Rio Tinto Limited (Rio Tinto) (down 5.8%) also detracting value. Chinese copper demand concerns and heightened political risk for companies operating in developing countries impacted PanAust. The company also disappointed the market with the release of its pre feasibility study for Inca de Oro stating that the project did not meet investment criteria in its current form. We remain confident that Chinese demand for copper will remain strong given infrastructure projects included in the current five year plan. As a result, we continue to see PanAust with a strong growth profile and significant valuation upside. Rio Tinto's underperformance was largely driven by iron price declines and Chinese growth concerns. We continue to see significant valuation upside for Rio Tinto and believe that the market has not recognised the company's project pipeline which we rank as one of the best from returns and value creation perspective within the mining industry.

Macquarie Atlas Roads Group (down 12.7%) also detracted value after reporting a 2.5% fall in June quarter traffic on its key road APRR. Our research has material valuation upside and we expect the company to commence paying a dividend in the first half of 2013.

Trust Activity

Brambles Limited was added back to the Trust during the month after being sold earlier in 2012. Brambles failed to sell its Recall document management business which resulted in a AUD448 million equity raising in June to maintain its credit rating and strong financial position. The company is a global leader in the pallets, containers and document management industries with a high quality management team and the recent period of underperformance provided the opportunity to add to the Trust.

Arrium Limited (Arrium) (formerly Onesteel) has been impacted by a falling iron or price, stronger AUD and weakness in the domestic construction market and the position was sold from the Trust with this negative backdrop.

During July we added to PanAust and Fortescue, while BHP Billiton Limited was reduced to an underweight position. We see more valuation upside and stronger growth profiles in PanAust and Fortescue, while we remain concerned that BHP Billiton paid too much for its US shale assets in 2011 and see asset impairment as a key risk. We continued to build to target weight in Incitec Pivot.

At month end, stock numbers stood at 21 with cash at 0.9%.

Market Overview

Global markets continued to be influenced by macro events in Europe with the optimism from June's Eurozone summit fading early in July as Spanish 10 year bonds rose above 7.5% as risk aversion spiked. Late in July comments from European Central Bank (ECB) President Mario Draghi that the ECB would do 'whatever it takes to preserve the Euro' instilled an element of confidence that global central bankers remained on top of the financial issues. The ECB reduced interest rates by 0.25% to 0.75%. A strong rally in the last week of the month saw Hong Kong's Hang Seng (up 1.8%), US S&P500 (up 1.3%) and the UK's FTSE100 (up 1.2%) up; however

China slowdown concerns saw the Shanghai Composite (down 5.6%) weaker.

The Chinese government continued to take measures to support economic growth, reducing the one year lending rate by 0.31% to 6.0% and the one year deposit rate by 0.25% to 3.0%, following a 0.25% cut to both rates in June. Chinese inflation continues to fall, coming in at a 2.2% annualised rate (down from 3.0% in June), and remains supportive of additional easing measures.

Recent US economic data indicates the recovery for the US economy will be slow. US second quarter 2012 GDP growth slowed to a modest 1.5%, down from 2.0% for first quarter 2012, the ISM manufacturing index declined to 49.7 from 53.5 in May with measures for production and export demand falling to three year lows and retail sales declined 0.5%. The number of jobs added was slightly below expectations and the unemployment rate was stable at 8.2%.

Domestically, the Reserve Bank of Australia kept the cash rate on hold at 3.5%, retail sales rose by 0.5% and the Westpac index of consumer sentiment rose for the third straight month. The employment market showed signs of weakness with 27,000 jobs lost in May and the unemployment rate rose to 5.2%. The Australian dollar remained persistently high against most major currencies, closing the month at USD1.05, a rise of 2.5%. These factors make for a difficult trading environment and several companies revised down earnings expectations in July ahead of the August results season, notably, Aristocrat Leisure Limited, Campbell Brothers Limited, Goodman Fielder Limited, Iluka Resources Limited and Stockland.

Commodity markets were mixed with iron ore (down 12.7%) declining sharply to finish at USD117 per tonne, while on the London Metals Exchange copper (down 1.6%) and nickel (down 5.2%) fell. West Texas Intermediate crude oil (up 3.6%) recovered some of the losses of the previous two months, whilst gold (up 1.1%) was also firmer at USD1,614 per ounce.

In the domestic equity market the strongest performing sectors were financials (up 8.0%), consumer staples (up 6.7%) telecommunications (up 3.6%) and property (up 5.6%). Consumer discretionary (down 2.1%), industrials (down 0.2%) and materials (down 0.6%), were the weakest performing sectors.

Top Ten Holdings as at 31 July 2012

Stock	Trust Weight %	Index Weight %
Challenger Limited	8.0%	0.2%
Newcrest Mining	6.3%	1.7%
Oil Search Ltd	5.4%	0.7%
CSL Limited	5.3%	2.1%
Incitec Pivot	5.3%	0.5%
Woodside Petroleum	5.3%	2.1%
PanAust Limited	5.3%	0.1%
Lend Lease Group	5.2%	0.4%
National Aust. Bank	5.2%	5.5%
AMP Limited	5.1%	1.1%

Asset Allocation as at 31 July 2012

Stock Name	Trust Weight %	Index Weight %
Energy	15.6%	6.7%
Materials	26.5%	20.9%
Industrials	6.5%	6.4%
Consumer Discretionary	9.9%	3.5%
Consumer Staples	0.0%	8.6%
Health Care	5.3%	4.0%
Financials-x-Real Estate	30.2%	34.7%
Real Estate	5.2%	7.5%
Information Technology	0.0%	0.6%
Telecommunication Services	0.0%	5.1%
Utilities	0.0%	1.9%
SPI Futures	0.0%	-
Cash	0.9%	-

Rounding accounts for small +/- from 100%.