PERENNIAL INVESTMENT PARTNERS

Perennial Balanced Wholesale Trust

Monthly Report as at 31 July 2012

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	1.9	-2.4	1.7	1.9	4.6	-1.2

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

- Equity markets were mixed over July, but were buoyed by developments in Europe towards the end of the month.
- The fall in Australian yields has seen the fixed interest sector become extremely expensive.
- The Australian equity sector underperformed the Australia fixed interest sector over the month.

Performance

The Perennial Balanced Wholesale Trust finished the month up 1.9%.

Economic and Policy Trends

In the weeks following late June's EU summit, Southern European sovereign bond markets remained under pressure with the yield on a Spanish and Italian ten year bond climbing to as high as 7.63% and 6.65%, respectively. The rise in Spanish yields came despite credible fiscal reform, which included increasing the VAT and a winding back in social benefits. With signs of building market stress and an increasing sense of unease about the viability of the European Union, key European figures hit back later in the month with verbal and implied policy support.

The ECB's Draghi started the ball rolling, vowing to do "whatever it takes to preserve the Euro" and indicating that the ECB's Securities Market Programme may be restarted. Europe's big three country leaders followed up by expressing similar sentiment. This expression of intent led to a rally in global share markets and lower yields for Southern European sovereigns. For this favourable momentum to be sustained, ECB intent will have to be followed up by credible action or risk returning Southern European sovereign bond yields to unsustainable levels.

Outside of Europe, policy makers continued to implement pro-cyclical policies where conditions allowed. In China, the PBOC announced another 25 to 31 basis point cut in one year deposit and lending rates. The Brazilian and Korean central banks also eased monetary conditions. The latest IMF forecasts have the world economy expanding by 3.5% in 2012 and 3.9% in 2013 and assume that recent policy easing gains traction and financial conditions improve for Southern European economies.

Against this backdrop, the Reserve Bank of Australia left the cash rate unchanged at 3.5% and in subsequent commentary appears to have adopted a more neutral stance. Domestic data releases remain mixed. Retail sales and building approval data were stronger than expected and there was a post easing bounce in consumer sentiment. Business conditions remain soft and the labour market weakened with employment falling by 27,000. Inflation remains well behaved, with the headline rate up 0.5% and the average of the statistical measures up 0.6% over the quarter. We still look for a cash rate low of 3.0% this easing cycle and for this to be reached late this year or early next year.

Perennial Balanced 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 31/07/12): AUD70.5 million	**Minimum Initial Investment:** $25,000
Income Distribution Frequency: Half yearly	**APIR code:** IOF0114AU
Trust Inception date: July 2001	

Equity Market Trends

Equity markets were mixed over July, but were buoyed by developments in Europe towards the end of the month. The S&P 500 gained 1.3%, but gains were greater in Europe, where the Euro STOXX 50 rose by 2.7%. In Japan, the Nikkei fell 3.5%, weighed down by much weaker than expected machinery orders and industrial production. The MSCI World ex-Australia Accumulation Index in Australian dollars ended down 1.6%, with a strengthening Australian currency a major drag on returns. In Australia, the S&P/ASX 300 Accumulation Index ended up a very solid 4.2%.

Bond Market Trends

After rallying over most of the month, Australian yields rose sharply following comments from the ECB's Draghi vowing to do whatever it takes to support the Euro. 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 ended the month 17 basis points higher at 2.57%. At the longer end, the ten year government bond yield got down to 2.80% before ending the month seven basis points higher at 3.11%. For the month, the UBS Composite Bond Index returned 0.37% while the cash sector, as measured by the UBS Bank Bill Index, returned 0.29%.

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	22.2%	3.9%	4.2%	-2.3%	0.8%
Growth Australian Shares	22.8%	3.3%	4.2%	-3.4%	0.8%
International Equities	21.4%	-1.9%	-1.6%	-1.8%	2.3%
Australian Listed Property	5.6%	5.2%	5.6%	26.4%	25.6%
Australian Fixed Interest	17.56%	0.84%	0.37%	10.25%	10.97%
Global Property Unhedged	5.5%	1.3%	0.9%	-	-
Cash	4.94%	0.60%	0.29%	5.51%	4.57%

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