Perennial Cash Enhanced Wholesale Trust

Quarterly Report as at 30 September 2012

	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Fixed Interest Wholesale Trust*	2.02	2.02	6.63	6.29	6.54	6.46
UBS Composite Bond Index (0+years)	0.91	0.91	4.36	4.69	4.56	5.12
Value Added (Detracted)	**1.11**	**1.11**	**2.27**	**1.60**	**1.98**	**1.34**
Net Performance	1.92	1.92	6.22	5.88	6.12	6.04

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

- The Trust significantly outperformed the Index return by 1.11% for the quarter.
- The Index was boosted by strong performance from both the semi-government and corporate sectors.
- Consumers and businesses remain extremely cautious and have a reluctance to take on new debt.

Performance

Money markets in Australia performed broadly in line with their income return over the quarter. However, bank bill yields fell late in the period following the market pricing in further monetary easing as a result of some weaker domestic economic data. Spreads on the non government sectors tightened following some positive developments, particularly in Europe surrounding the sovereign debt situation. This resulted in these securities outperforming treasuries and added to the running yield of the market.

The UBS Composite Bond Index (0+years) (the Index) returned 0.91% over the quarter. The Perennial Cash Enhanced Wholesale Trust (the Trust) Trust returned 2.02% and significantly outperformed the Index return by 1.11%.

Interest rate strategies had a broadly neutral impact on the Trust's performance over the quarter. However, sector and security strategies added material value. The Trust's overweight allocation to high quality corporate floating rate notes and residential mortgage backed securities benefited from the solid contraction in credit spreads and the higher running yields these securities provide. Security selection, including large allocations to major bank senior AAA rated covered bonds (which performed much better on a relative basis) as well as infrastructure, LPTs and other defensive credit securities, added value as they outperformed other debt securities.

At quarter end, the weighted average yield of the Trust was 4.87%, as compared to the Index yield of 3.53%.

Perennial Cash Enhanced Wholesale Trust

The Trust aims to provide a total return that exceeds the benchmark, UBS Bank Bill Index, over rolling three-year periods by 0.50% p.a. (before fees).

Portfolio Manager: Glenn Feben	**Risk Profile:** Low
Trust FUM (as at 30/09/12): AUD89.7 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 30/09/12): AUD6.0 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: August 1994	**APIR code:** IOF0047AU

Ratings: Lonsec Recommended

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Market Review

Somewhat surprisingly, Australian bond yields ended the quarter at much the same levels as where they began. However, within the quarter there was a great deal of volatility in markets beginning with heightened concerns over Europe and the ability of its policy makers' to deal with the sovereign debt crisis. In particular, there were questions about whether the ECB had sufficient fire power and the backing of Germany to undertake meaningful purchases of troubled sovereign debt securities in order to bring their funding costs down and improve refinancing. These developments saw bond yields fall in July until the president of the ECB came out and said it 'will do whatever it takes' to put the Eurozone on a more sustainable footing. This saw a dramatic correction and rise in bond yields. Further evidence was provided when the ECB followed through on its vow to defend the Euro by announcing the replacement of the securities market programme with outright monetary transactions (OMT). Under OMT, the ECB's balance sheet is available to support sovereigns who are finding it difficult to borrow new money or refinance maturing debt at sensible yields, subject to them agreeing to conditions attached to any European Financial Stabilisation Mechanism/European Stability Mechanism programme. We see this as a significant step forward and believe it goes a long way towards reducing European based tail risk emanating from fears of a break up of the Euro.

Further policy initiatives came from the Fed. After paving the way for further non-conventional easing, the Fed followed through mid September with a double barrelled blast. Firstly, it extended its zero cash rate guidance out to at least mid 2015. Secondly, and more significantly, it committed itself to conditionally purchasing agency mortgage-backed securities at a pace of USD40 billion per month. The Fed's conditionality is its qualitative assessment of improvement in the labour market. The Fed also stated that given the large output gap in the US, it can afford to keep monetary conditions highly accommodative for a considerable time after the recovery strengthens.

In Australia, the tone of recent economic data has been on the softer side. According to the June quarter national accounts, the economy rose by 0.6% over the quarter and 3.7% over the year. The result was a little weaker than expectations and followed news of a 0.8% fall in July retail sales. For the labour market, employment fell by 8,800 in August. There was a modest bounce in consumer sentiment and encouragingly there was a recovery in business conditions in the NAB Survey. Credit data released late in September continued to show that consumers and businesses remain extremely cautious and despite lower interest rates have a reluctance to take on new debt.

It was this type of data, along with further evidence of an economic slow down in China that again led financial markets to price in further significant easing over the next 6 to 12 months. Exacerbating this trend was the release of the RBA minutes, seen by the market as signalling a more explicit easing bias given recent exchange rate and commodity price developments. By September month end, the market was priced for the cash rate to fall to 2.5% by mid 2013.

Market Outlook

Our broad outlook for the Australian bond market remains unchanged, albeit the rise in yields that occurred during September provided an opportunity to reduce our defensive bias. We continue to feel that government bonds yields represent poor value when assessed against a solid growth outlook for the Australian economy and our assessment that the RBA will ease in a less aggressive fashion than is currently built into market expectations. In this regard, we maintain our base case view for two further easings that will see the cash rate reach 3% by late this year or early next year. Thereafter, we see a long pause before a gradual modest tightening cycle as fiscal policy no longer remains a significant drag on growth, the global economy responds to recent and prospective stimulus and the Australian economy responds with a lag to recent and prospective monetary easing.

However, as trading conditions in September reminded us the path to higher bond yields is unlikely to be a smooth journey and will require a meaningful and sustained improvement in the global economy. As we are not expecting this to occur in the near term, in our view a material sell off in core bond yields may still be some way off. Over the near term, we expect bond yields to remain volatile albeit within recently established ranges. Under these conditions our approach to managing duration will be to maintain a core strategic defensive bias and actively adjust the magnitude of this position as tactical opportunities arise.

While we remain comfortable with our broad sector strategies that favour semi-government and corporate debt over government bonds, the strong rally in margins over recent months has dampened our enthusiasm to add to our existing overweight positions and led us to consider strategies that will, at the margin, reduce the level of risk in the Trust. Our overall positive view on credit reflects our expectation that the low interest environment we are currently in will persist for some time and in such an environment additional yield becomes increasingly valuable. Further to this, spreads remain at levels well above longer term averages. We maintain an overweight allocation to these sectors. Within the corporate sector our emphasis is on large financials and in particular, the senior debt of the 'big four' Australian banks, listed property trusts and selected infrastructure/utility debt.

Investment Strategy

The following is a summary of the key strategies in the Trust.

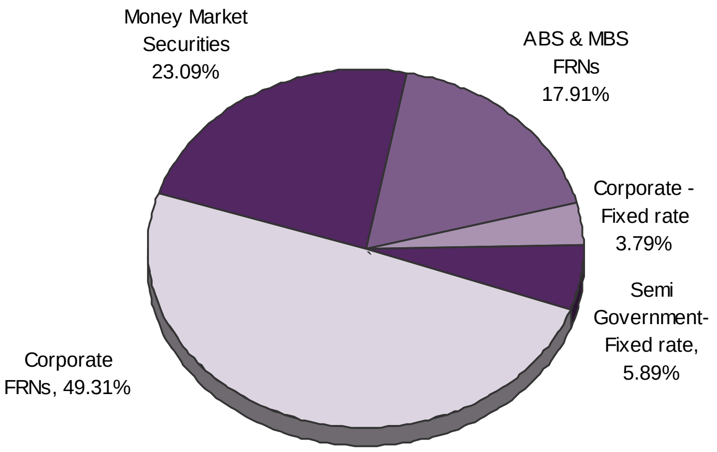
Interest rates – at the end of the month, the duration position of the Trust was as follows:

Modified Duration	Years
Trust	0.13
Index	0.12
Active Position	0.01

Interest rates – neutral duration: Bond and money markets having meaningfully sold off (yields higher) during the earlier part of September are now back to levels not far from where they began the month. At the time of writing, markets have priced in cash rates easing to 2.5% by early next year with some prospects of a 2.25% cash rate by mid next year. While we have an easing profile factored into our forecasts, we certainly do not have the same degree of interest rate cuts. Given the level of pessimism around the domestic economy priced in by markets, we find bonds and money market securities expensive. Notwithstanding this, bank bill pricing still has some funding premiums embedded and are therefore not necessarily as expensive as one might conclude. Accordingly, we have a broadly neutral duration stance.

Corporate Debt and asset backed – overweight: Despite credit spreads of corporate debt narrowing over the month, spread sectors, particularly corporate FRNs, remain the favoured sectors for investors and continue to be favoured over risk free assets on a forward looking basis. This is due to the attractive running yield advantage and some potential for capital gains through spread contraction. In our view these valuation characteristics coupled with the fact that company fundamentals are relatively healthy, make this area of the debt market the sweet spot for investors. Accordingly, we remain overweight this sector and expect that it will outperform risk free assets over the medium term. Our favoured sub-sectors are low risk 'AAA' rated covered bonds from the 'big four' Australian banks as well as senior bonds, listed property trusts, and infrastructure debt. We have continued to switch some of our FRN exposure for prime AAA rated fully documented Australian residential mortgage-backed securities and have received almost double the credit spread.

Sector Allocation



Credit Rating Distribution