PERENNIAL GROWTH MANAGEMENT

Perennial Growth High Conviction Shares Trust

Monthly Report as at 31 May 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*	-10.2	-7.1	-9.8	-11.0	-2.5	6.0	-3.1
S&P/ASX 200 Accumulation Index	-6.6	-4.1	-7.3	-9.0	0.4	6.8	-2.4
Value Added (Detracted)	**-3.6**	**-3.0**	**-2.5**	**-2.0**	**-2.9**	**-0.8**	**-0.7**
Net Performance	-10.3	-7.4	-10.7	-11.9	-3.4	5.0	-4.1

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

- The ongoing challenges faced by Europe once again gained greater investor attention
- The biggest positive contributor to performance was CSL Limited (up 2.7%).
- Commodity markets fell significantly during the month.

Trust Performance Overview

The Perennial Growth High Conviction Shares Trust (the Trust) closed down 10.2% in May, underperforming the S&P/ASX300 Accumulation Index (the Index) return by 3.6%, with the Index down 6.6% for the month.

On current measures the valuation of a number of domestic defensive stocks appear to be stretched. Stocks such as Telstra Corporation Limited (Telstra) and Woolworths Limited (Woolworths) are trading at a significant premium to our valuation target. Conversely, the valuation upside to our current Trust based on valuation metrics is at elevated levels. Rarely has the valuation gap between the Trust and the defensive areas of the market been so pronounced.

The biggest positive contributor to performance was CSL Limited (CSL) (up 2.7%). CSL was a major beneficiary of exchange rate movements during the month. Exchange rates between the US dollar and the Australian dollar and Swiss Franc respectively are now substantially more favourable than when CSL last provided earnings guidance in February. CSL translates a significant proportion of its earnings from the US, and has a large cost base in Switzerland due to its fractionation plant and research and development facilities in Bern. CSL has also benefitted from problems at its largest competitor, US-based Baxter Group (Baxter). Baxter is experiencing product shortages as one of its three manufacturing plants is off line for an extended period. It also suffered a setback when the FDA requested additional safety data on HyQ, a competing IVIG product which is currently in clinical trials.

Challenger Limited (Challenger) (down 17.6%) also detracted value. There have been a number of recurring concerns expressed by investors, most of which, while not completely resolved, look to be more than imputed into the current stock price. The areas of concern are largely related to capital and the potential need for a raising to supplement current levels. Revised capital rules are set to be finalised by the Australian Prudential Regulation Authority in October, with the new framework taking effect from 1 January 2013. The areas of focus include the composition of capital, asset charges under various stress scenarios, the illiquidity premium relating to discounting future liabilities and the transition arrangements for subordinated debt. The sum of these impacts, after taking account of organic capital generation, leaves us feeling confident that the transition to the new regime is manageable, with a low probability of the need for a capital raising. With this in mind our fundamental assessment shows significant valuation upside from current levels.

Fortescue Metals Group Limited (Fortescue Metals) (down 18.1%) fell significantly further than the iron ore spot price (down 6.3%). The stock was sold off on the weakening

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 31/05/12): AUD12.7 million

Income Distribution Frequency: Half yearly

Team FUM (as at 31/05/12): AUD2.7 billion

Minimum Initial Investment: $25,000

Trust Inception date: March 2007

APIR code: IOF0089AU

outlook for global growth and concerns around Chinese growth and commodity demand.

Positions in Rio Tinto Limited (down 14.3%), Santos Limited (down 14.5%) and PanAust Limited (PanAust) (down 12.3%) also detracted value. The stocks were sold off aggressively in light of concerns around the outlook for global growth and demand for resources.

Trust Activity

We added to the Trust's position in Fortescue Metals. At current levels we see significant valuation upside to the stock price based on our valuation metrics. We expect the company to achieve its 55 million tons FY12 production target, and the plans to increase production to 155 million tons per annum remain on track with the company well capitalised to do this. We believe the stock is well over sold and took advantage of this weakness to add to the Trust's position during the month.

The Trust added to the existing position in QBE Insurance Group Limited (QBE) during the month, taking advantage of weakness to add to the position. There was no shortage of issues to drive the stock, with the regulator's review on Lenders Placed Insurance in New York the latest challenge for the group. This represents 1% of QBE's Lenders Placed business but does highlight some of the concerns around the pricing of such a cover. This is a cyclical business and we expect that it will in time become less of a driver of earnings. The more compelling news has been from fellow Property and Casualty insurers in the US. The commentary from many of these companies on insurance rates has been consistently positive and in line with QBE's own comments.

The Trust also added to positions in PanAust and JB Hi-Fi Limited. We trimmed positions in OneSteel Limited, CSL and National Australia Bank.

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

Market Overview

Macroeconomic factors once again dominated sentiment, with no definitive outcome at the Greek political elections at the start of the month proving the catalyst for heightened concerns for the region's economic sustainability, an elevated risk of a Greek exit from the European Union and increased government borrowing costs in a number of European nations. Alongside this, concerns of slowing economic growth in China and the US added to market woes. As a consequence equity markets fell sharply, with Hong Kong's Hang Seng down 11.7%, Japan's Nikkei down 10.3%, UK's FTSE100 down 7.3%, the US S&P500 down 6.3% and China's Shanghai Composite down 1.0%.

Chinese data released during the month suggested a slowing of some areas of the economy, with industrial production falling to a three year low of 9.3% year on year and a material reduction in both exports and imports pointing to slowing manufacturing activity. Despite this, growth in China remains above the government's 7.5% per annum target, and the Chinese authorities have shown themselves to be committed to providing the necessary measures to stimulate the economy as exemplified by recent reductions to the reserve requirement, increased infrastructure spending and government subsidies for home appliances and autos. US data showed revised economic growth at an annualised rate of 1.9%. The unemployment rate fell slightly to 8.1%, with nonfarm payrolls increasing by 115,000.

Domestically, the Reserve Bank of Australia took the decision to ease rates by 50 basis points, taking the cash rate to 3.75%. This move further highlighted the emergence of a two speed economy within Australia, with the mining related component of the economy running at a growth level well in excess of the non-mining segments. Despite this, employment data showed the economy add 15,500 new jobs in April with the unemployment rate remaining at 5.2%. The Australian dollar weakened considerably against most major currencies closing the month at USD0.97, a fall of 6.6%.

Commodity markets also fell significantly during the month with oil (down 14.7%), copper (down 11.6%), zinc (down 9.3%), nickel (down 9.3%), iron ore (down 7.3%) and aluminium (down 5.9%) all falling. Gold also fell to close at USD1560 per ounce (down 6.3%).

As a consequence of the significant macroeconomic impact on equity markets there was a wide dispersion in performance across the sectors. In the domestic equity market the strongest performing stocks were those with defensive characteristics and lower perceived earnings variability. As a consequence the strongest performers were utilities (up 1.6%), telecommunications (up 0.2%) and healthcare (down 0.5%). Stocks deemed to exhibit cyclical exposures, particularly to energy or natural resources, were dealt with harshly. The weakest performing sectors were materials (down 11.0%), energy (down 10.2%) and industrials (down 8.4%).

Top Ten Holdings as at 31 May 2012

Stock	Trust Weight %	Index Weight %
Challenger Limited	7.9%	0.2%
Fortescue Metals Grp	6.6%	0.8%
Newcrest Mining	5.5%	2.0%
Oil Search Ltd	5.4%	0.8%
PanAust Limited	5.2%	0.1%
Rio Tinto Limited	5.1%	2.5%
Woodside Petroleum	5.1%	2.0%
JB Hi-Fi Limited	5.1%	0.1%
CSL Limited	5.1%	2.0%
BHP Billiton Limited	5.0%	10.5%
Total	**56.0%**	**21.1%**

Asset Allocation as at 31 May 2012

Stock Name	Trust Weight %	Index Weight %
Energy	15.3%	7.2%
Materials	32.2%	23.0%
Industrials	5.2%	7.1%
Consumer Discretionary	10.0%	3.5%
Consumer Staples	0.0%	8.4%
Health Care	5.1%	4.0%
Financials-x-Real Estate	31.2%	32.3%
Real Estate	0.0%	7.4%
Information Technology	0.0%	0.6%
Telecommunication Services	0.0%	4.7%
Utilities	0.0%	1.9%
SPI Futures	0.0%	-
Cash	0.9%	-