

Perennial Growth High Conviction Shares Trust

Monthly Report as at 30 June 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*	-1.1	-11.2	-10.9	-10.9	-0.1	4.6	-3.3
S&P/ASX 200 Accumulation Index	0.7	-4.7	-6.7	-6.7	2.1	5.7	-2.3
Value Added (Detracted)	-1.8	-6.5	-4.2	-4.2	-2.2	-1.1	-1.0
Net Performance	-1.2	-11.4	-11.8	-11.8	-1.0	3.5	-4.2

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

- Ongoing challenges faced by Europe once again gained greater investor attention.
- The strongest performing sectors were financials (up 4.5%), telecommunications (up 3.6%), and property (up 2.7%).
- The biggest positive contributor to performance was QBE Insurance Group Limited (up 8.1%).

Trust Performance Overview

The Perennial Growth High Conviction Shares Trust (the Trust) finished down 1.1% during June, underperforming the S&P/ASX300 Accumulation Index (the Index) by 1.8%, with the Index up 0.7% for the month.

The biggest positive contributor to performance during the month was QBE Insurance Group Limited (up 8.1%). A number of features have been driving QBE's outperformance this month. Firstly, further confirmation on improving rate conditions from market surveys, particularly in the US; secondly, confirmation that investment returns for the group are in line with previous guidance; and finally, recognition that the company has experienced a relatively benign period for claims. This final driver affords the group some flexibility in setting provisions for the coming second half and we expect the group to top up its reserves. All of these features should be evident in the upcoming result and supportive of our investment thesis on the stock.

Fortescue Metals Group Limited (Fortescue) (up 6.1%) also contributed positively. The iron ore price stabilised during the month, finishing broadly flat. We expect the company to achieve its financial year 2012 production target of 55 million tonnes. Its plans to increase production to 155 million tonnes per annum remain on track, with the company well capitalised to achieve this.

Another positive contributor to performance during the month was ANZ (up 5.4%). This recent outperformance is attributable to continued improvement in the optionality presented by the super regional strategy, the growing clarity on capital rules for financial institutions and confidence in the sustainability of dividends. Having recently returned from Asia seeing most of ANZ's operations in the region, including the key executive running the business, in our view ANZ will continue to differentiate itself compared to its peer group. Its network

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 Mickelburgh

Risk Profile:
High

Trust FUM (as at 30/06/12):
AUD12.7 million

Income Distribution Frequency:
Half yearly

Team FUM (as at 30/06/12):
AUD2.7 billion

Minimum Initial Investment:
\$25,000

Trust Inception date:
March 2007

APIR code: IOF0089AU

and personnel should provide the group with a strong chance of generating superior value for shareholders.

The biggest detractor to performance over the month Santos Limited (Santos) (down 11.2%). The underperformance was initially driven by a significant decline in oil prices, and accelerated when the company released an update for the Gladstone LNG (GLNG) joint venture project (Santos 33%) stating that total capex had increased by USD2.5 billion (15.6% increase) as a result of including 300 additional wells to be drilled. Consequently our estimate of GLNG capex has increased to USD20.4 billion (assuming the AUD at parity). Despite the large increase in capex for this project, we continue to see substantial value in Santos given our forecast for rising east coast gas prices and near term growth based

on delivery of a significant number of projects, and based on our valuation metrics have material valuation upside of around 40%.

Newcrest Mining Limited (Newcrest) (down 9.3%) also detracted value. The first half of the month saw gold and gold related equities benefit from increased anticipation of supportive comments for further quantitative easing from the Federal Open Market Committee meeting only to be disappointed by non-committal comments by Chairman Bernanke. We continue to like the investment thesis for Newcrest, with around 25% valuation upside to the stock price based on our valuation estimates. We expect a stabilisation of operational performance to the end of calendar year 2012 before we see substantial growth into calendar year 2013 from both the Cadia Valley and Lihir operations as a result of the investment the company is currently undertaking.

Another significant detractor was Arrium Limited (Arrium) (formerly OneSteel Limited, down 18.0%). There was no significant company specific news during the month but the share price followed the sell off in other cyclical sectors. Arrium's major profit influence is the iron ore price which was broadly flat over the period. Profit warnings from industrial stocks such as Boral Limited (Boral) weighed on sentiment and Arrium's debt levels have left investors cautious, despite the recent refinancing of facilities resulting in an extension of debt duration.

Trust Activity

The Trust added Lend Lease Group (Lend Lease) to the Trust during the month. Lend Lease sold down its stake in the Greenwich Peninsula Regeneration Project, along with a portion of its Parkway Parade asset during the month. This has strengthened Lend Lease's balance sheet and provides evidence of the company's capital recycling model working. Additionally, the company announced that Westpac and KPMG had committed to lease office space in Barangaroo South, meaning that commitments for 71% of the commercial space has been made. The Barangaroo project will be a key driver of the company's medium term growth and the announcement marks a significant step forward in the project's development. Based on current Perennial Growth Management metrics the company has significant valuation upside of close to 60%.

The Trust also added Incitec Pivot Limited (Incitec) during the month. The majority of the group's earnings are derived from explosives, demand for which has grown at twice the rate of minerals production over the long term (8% versus 4%) due to declining grades and increasing strip ratios. Industry structure is attractive, with Incitec and Orica Limited being duopoly producers in eastern Australia and the USA. We are also attracted to Incitec's low risk expansion strategy of only adding capacity where binding take, or pay off take, arrangements are in place. Incitec is forecast to achieve strong growth in financial year 2013 and financial year 2014 as the Moranbah ammonium nitrate plant reaches full production, and fertiliser earnings recover from trading losses incurred in first half financial year 2012. Return on invested capital is forecast to improve from 10% to 13% as the AUD1 billion investment at Moranbah delivers its business case. Our valuation is \$3.60, representing 25% upside.

We also added to positions in Santos during the month.

The position in James Hardie was sold as the stock approached our valuation target. Following periods of outperformance positions in Fortescue Metals Group and CSL Limited were trimmed.

At month end, stock numbers stood at 22 with cash at 1.3%.

Market Overview

Developments in Europe were once again the biggest driver of investor sentiment. The elections in Greece resulted in the formation of a new government and the European Union (EU) summit at the end of the month provided a number of measures aimed at recapitalising the European banking system and easing the pressure on government borrowing in the region. A strong rally on the final trading day of the month, following the EU Summit, saw most equity markets finish in positive territory, with Japan's Nikkei (up 5.4%), UK's FTSE100 (up 4.7%), Hong Kong's Hang Seng (up 4.4%) and the US S&P500 (up 4.0%) rising. China's Shanghai Composite (down 6.2%), was the only major market to fall.

The Chinese government continued to take measures to support economic growth, reducing the one year lending

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rate by 0.25% and loosening controls on banks' lending and deposit rates. Inflation in the country continues to fall, coming in at a 3.0% annualised rate, and remains supportive of additional easing measures. US economic data overall showed some signs of weakening during the month, with nonfarm payrolls increasing by 69,000 – a figure well short of consensus expectations – and the unemployment rate increasing slightly to 8.2%. US manufacturing data points were mixed, although the housing market continues to recover with building permits, new home sales and pending home sales, all exceeding forecasts.

Domestically, the Reserve Bank of Australia took the decision to further ease rates by 0.25%, taking the cash rate to 3.5%. The move was followed by a strong first quarter GDP figure of 1.3%, and official employment data showed the economy adding 38,900 new jobs in May (although a significant increase in the participation rate saw the unemployment rate increase slightly to 5.1%). The domestic equity market witnessed a significant number of companies raising capital, including Brambles Limited, Echo Entertainment Group Limited (Echo), Ten Network Holdings Limited, Metcash Limited and Billabong International Limited (Billabong). A number of companies, including Qantas Airways Limited, Echo, Perpetual Limited, Boral and Billabong issued profit warnings, highlighting that despite recent economic data points, a number of areas of the domestic economy remain weak, with consumer spending and confidence relatively subdued. The Australian dollar strengthened considerably against most major currencies, with the AUD/USD exchange rate closing the month at US\$1.024, a rise of 5.2%.

Commodity markets were mixed during the month, although rose sharply following developments out of Europe at month end. Copper (up 3.5%), nickel (up 3.1%) and zinc (up 0.3%) all rose while aluminium (down 4.2%), oil (down 4.0%) and iron ore (down 0.6%) fell. Gold rallied to close at USD1597 per ounce (up 2.4%).

In the domestic equity market the strongest performing sectors were financials (up 4.5%), telecommunications (up 3.6%) and property (up 2.7%). Energy (down 6.2%), industrials (down 5.5%) and materials (down 3.6%), were the weakest performing sectors.

Top Ten Holdings as at 30 June 2012

Stock	Trust Weight %	Index Weight %
Challenger Limited	7.9	0.2
QBE Insurance Group	5.4	1.6
Oil Search Ltd	5.2	0.7
Rio Tinto Limited	5.1	2.5
CSL Limited	5.1	2.1
ANZ Banking Grp Ltd	5.1	6.0
Crown Limited	5.1	0.4
Newcrest Mining	5.0	1.8
PanAust Limited	5.0	0.1
Woodside Petroleum	5.0	2.0

Asset Allocation as at 30 June 2012

Stock Name	Trust Weight %	Index Weight %
Energy	15.1	6.8
Materials	28.8	22.0
Industrials	5.0	6.8
Consumer Discretionary	10.0	3.6
Consumer Staples	0.0	8.4
Health Care	5.1	4.0
Financials-x-Real Estate	32.0	33.6
Real Estate	2.8	7.4
Information Technology	0.0	0.6
Telecommunication Services	0.0	4.9
Utilities	0.0	1.9
SPI Futures	0.0	-
Cash	1.3	-

Rounding accounts for small +/- from 100%.

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