Perennial Fixed Interest Wholesale Trust

Monthly Report as at 31 May 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Fixed Interest Wholesale Trust*	2.22	4.66	10.48	11.00	9.52	9.66	8.85
UBS Composite Bond Index (0+years)	3.10	5.64	12.59	13.21	9.75	8.40	8.11
Value Added (Detracted)	-0.88	-0.98	-2.11	-2.21	-0.23	1.26	0.74
Net Performance	2.20	4.55	10.02	10.49	9.03	9.17	8.34

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

- The Australian bond market recorded another month of strong returns, as yields continued to fall to historically low levels.
- While the market's attention was firmly focused offshore, local data releases were mixed and reflected the disparate growth trends across the economy.
- On the outlook for the path of the cash rate, we are factoring in a 3.00% cash rate by late 2012.

Performance

Global bond markets performed exceptionally well, with yields falling sharply in response to spiralling European uncertainty and debt issues as investors fled to the safety of risk free assets. Economic data overall was mixed. However, many readings in China pointed to a slowing economy faced with vulnerable exports to its main trade partner, Europe.

The UBS Composite 0+ Index (the Index) 3.10%, with spread sectors all underperforming risk free government bonds. The Perennial Fixed Interest Wholesale Trust (the Trust) finished the month up 2.22%, underperforming the Index.

Interest rate strategies in the form of an underweight duration position detracted from performance as yields fell sharply over the month. This was slightly offset by yield curve positioning, which added value as a result of the curve steepening over the month.

Sector allocation detracted from performance as an overweight position in spread products including semi-government bonds and credit securities (predominantly due to a widening in the bond/swap spread) underperformed government bonds. However, security selection was broadly neutral.

Perennial Fixed Interest Wholesale Trust:

The Trust aims to provide a total return (after fees) greater than cash and inflation, and that exceeds the UBS Composite Bond Index (0 + years), measured on a rolling three-year basis.

Portfolio Manager: Glenn Feben	**Risk Profile:** Moderate
Trust FUM (as at 31/05/12): AUD251 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 31/05/12): AUD5.8 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: August 1994	**APIR code:** IOF0046AU

Market Review

The Australian bond market recorded another month of strong returns, as yields continued to fall to historically low levels. Shorter term yields benefitted from the larger than expected easing from the Reserve Bank of Australia (RBA) earlier in the month and markets moving to price in further aggressive monetary easing on increasing risks of disruptive shocks emanating from Europe. The one month bank bill rate fell by 50 basis points (bps) to 3.57%, the three month by 70bps to 3.37% and the six month by 76bps to 3.23%. Further out along the yield curve, the yield on a three year government bond fell 88 basis points to end the month at 2.13%.

While the market's attention was firmly focused offshore, local data releases were mixed and reflected the disparate growth trends across the economy. On the stronger side were March retail sales and building approval data. The labour force proved to be more resilient than expected in April, with larger than expected gains in employment. Wages growth remained solid, with the wage cost index rising by 0.9% over the March quarter. Capital expenditure data was stronger than expected for the March quarter and capital expenditure plans for 2012/13 remain elevated. On the weaker side were a marked deterioration in Australia's trade position and a softening in business conditions in the NAB Survey. Following the release of the Federal Government's Budget during the month, fiscal policy looks set to have a material dampening effect on the economy over the next 12 months.

At the longer end of the curve, there were strong global flows into high quality government bonds as markets became increasingly risk adverse. These flows helped push the yield on a ten year Australian government bond down by 75 bps to 2.92%. As a result of these moves, there was some steepening in the yield curve with the spread between three and ten year government bonds widening by a further 12 bps to end the month at +79 bps.

Credit markets were materially weaker over the month with the iTraxx index finishing 50bps wider at 205bps. Physical corporate bonds outperformed as investors held onto their positions limiting the amount of spread widening. Despite the risk off sentiment, the National Australia Bank Limited and Tatts Group Limited both launched ASX listed bond deals, with the latter being an inaugural issue in the Australian market place. Towards the end of the month, Suncorp Bank became the first non-major Australian bank to issue covered bonds raising over $1.6 billion.

Market Outlook

There are significant tensions to the outlook, with a combination of global flight to quality flows and shifting cash rate expectations pushing government bond yields to extremely low levels and distorting normal term premia. While we understand the dynamics that have led to the current low levels of government bond yields, we see poor value at these levels. Investors are vulnerable to any improvement in the economic outlook or recovery in risk appetite and, on a longer timeframe, any lift in inflation.

On the outlook for the path of the cash rate, we are factoring in a 3.00% cash rate by late 2012. Softness in the non mining sectors of the economy and tight fiscal policy suggests that the RBA has room to provide another burst of stimulus. In terms of timing, further easing should be more front end loaded to get the best impact and a June easing is not out of the question. The economy should respond to this and once the worst of the fiscal tightening is behind us, we expect the RBA to gradually return monetary conditions from stimulatory to more normal levels. Market pricing has the cash rate heading towards 2.25% by the end of the year and needs a disorderly Greek exit and associated contagion to be validated. While this is a risk, it is not the most likely outcome for Europe given the costs involved. We see no value in a three year government bond at close to 2.00%.

Corporate debt remains our preferred sector, offering attractive spreads given the healthy state of company balance sheets and strong demand from investors searching for yield. We maintain an overweight position in corporate bonds, with an emphasis on large financials and, in particular, the senior debt of the 'big four' Australian banks, listed property trusts and selected infrastructure/utility debt. We also continue to favour holding government exposure via semi governments, where spreads remain attractive.

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	2.88
Index	3.98
Active Position	-1.10

Interest rates: underweight duration

In our view, bond yields fully reflect the heightened level of negative sentiment that currently prevails, in effect discounting tail risk scenarios related to the dire situation in the Eurozone. At these low levels, we feel bond yields offer little value as an investment and the downside risks of a sharp reversal upwards in bond yields (capital loss) is material. Further, the market's pricing of the future path of cash rates implies a minimum 150bps of easing by year end. While we acknowledge a weakening domestic economy and the need for the RBA to ease monetary policy, we assess the market's pricing of the terminal cash rate as too low. As such, we feel it is prudent to be underweight duration in order to preserve capital should bond yields rise.

Overweight corporate debt

In our view, relative to risk free assets, corporate debt provides investors with opportunities that are both fundamentally sound and attractively priced. Corporate balance sheets remain healthy while cash flows continue to exhibit stability. While we acknowledge that corporate debt is a little more exposed to the volatility of 'risk on, risk off' episodes, the higher running yield should more than compensate for any capital price fluctuations over 12 month investment horizons. We therefore 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.

Overweight bank guaranteed and semi governments

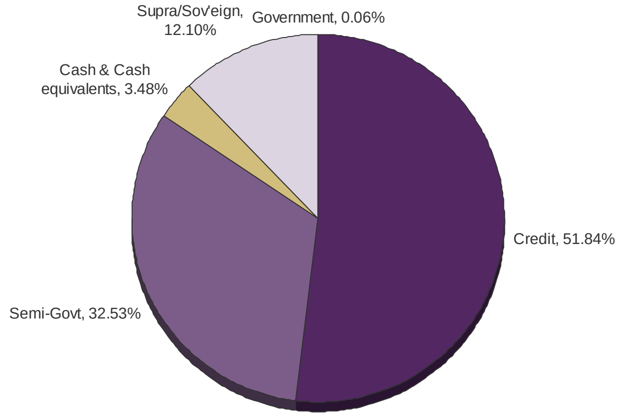
Our government exposure is concentrated in semi governments and guaranteed bank securities, on the basis of the attractive yield advantage they offer relative to government bonds.

Signatory of:

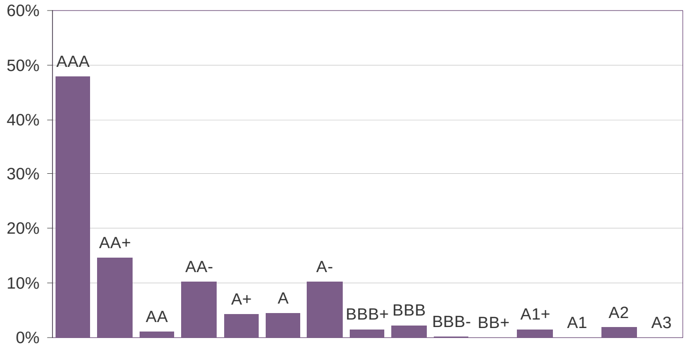
PRI Principles for Responsible Investment

Trust Snapshot

Sector Allocation



Credit Rating Distribution



Rounding accounts for small +/- from 100%.