Perennial Cash Trust

Monthly Report as at 30 April 2013

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.^
Perennial Cash Trust*	0.28	0.83	3.12	3.88	4.49	4.78	4.82
UBS Bank Bill Index	0.26	0.73	2.78	3.46	4.16	4.42	4.45
Value Added (Detracted)	**0.02**	**0.10**	**0.34**	**0.42**	**0.33**	**0.36**	**0.37**
Net Performance	0.26	0.77	2.93	3.66	4.27	4.56	4.60

*Gross Performance. ^Since Inception: July 2008. **Past performance is not a reliable indicator of future performance.**

- The Trust delivered another month of outperformance, finishing up 0.28%.
- Bond yields ended the month lower on softer real economy and price data, with the resulting capital gains helping to boost fixed interest performance.
- In a world where offshore central banks are forcing term structures lower, investors across the globe continue to search for yield and compress spreads in non-government debt.

Performance

Money market yields fell fairly sharply over the month of April as the Reserve Bank of Australia (RBA) left rates on hold and a number of key economic indicators came in weaker than expected, including unemployment (full time jobs in particular). As a result markets priced in another easing, taking the expected cash rate down to 2.5% by year end. Globally, economic data was not much better causing bonds to rally, yields lower, across short and longer term maturities.

The UBS Bank Bill Index (the Index) returned 0.26% over the month. The Perennial Cash Trust (the Trust) continued its run of outperformance, finishing up 0.28% exceeding the Index return by 0.02%.

We maintained the Trust's duration at a broadly neutral to slightly longer stance over the month to participate in the overnight index swap (OIS) spread through mid-term bank bills which detracted some value as yields rose.

Sector and security strategies continued to add value, with additional spreads being paid by regional banks for 3 to 12 month deposits remaining high by historical standards. Term deposits offered by the 'big four' Australian banks, who continued to pay up for fixed term deposits, also added value.

At month end, the weighted average yield of the Trust was 3.27%, as compared to the Index yield of 2.97%.

Market Review

Bond yields ended the month lower on softer real economy and price data, with the resulting capital gains helping to boost fixed interest performance.

Perennial Cash Trust

The Trust aims to provide investors with a low risk exposure to secure cash investments, and returns that closely track the prevailing level of short-term interest rates. The Trust aims to outperform the UBS Bank Bill Index, over rolling annual periods.

Portfolio Manager: Jay Sivapalan	**Risk Profile:** Low
Trust FUM (as at 30/04/13): AUD766.1 million	**Income Distribution Frequency:** Monthly
Team FUM (as at 30/0413): AUD6.7 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: July 2008	**APIR code:** IOF0141AU

On the economic front, a rising unemployment rate, deterioration in business conditions and a benign inflation outlook, opened the door to further monetary easing. In the labour market, total employment fell 36,100 while the unemployment rate rose to 5.6%. Business conditions fell from -3 to -7 in the NAB Survey, with persistent currency strength a headwind. Both headline inflation and the average of the RBA's statistical measures, rose by 0.4% over the quarter. However, not all domestic data releases were weak, with building approvals and retail sales data for February much stronger than expected. Importantly, it is these sectors, together with the external sector, that the RBA are looking for to take up the slack as the mining investment boom comes to an end over the next one to two years.

The short end of the curve responded to the data flow by bringing forward the timing of the next easing and increasing the amount of remaining easing in the current cycle from 25 to 50 basis points. At the very short end of the curve, three and six month bank bills rallied 19 and 25 basis points to end the month at 2.91% and 2.87%, respectively. Further along the curve, the yield on a three year government bond ended the month 28 basis points lower at 2.59%.

Bond yields also fell sharply at the longer end of the curve, with steps by the Bank of Japan to significantly expand its quantitative easing program enhancing the relative attractiveness of longer dated Australian government bonds. The yield on a ten year government bond ended the month 33 basis points lower at 3.09%. Given these moves, there was some further flattening in the spread between three and ten year government bonds, which narrowed by 5 basis points, to +50 basis points.

Credit markets again performed well over the month, as strong demand for yield remained a dominant theme among investors. Credit spreads narrowed as a result, with the Australian ITRAXX Index in 11 basis points to 110 basis points. Financials, including short and medium term major bank paper, performed particularly well. Primary issuance continued to be very well received by the market along with keen demand in the secondary market. Reflecting the cautious attitude of corporations, the overall level of new issuance remained relatively subdued.

Market Outlook

We suspect that the latest round of economic soundings has bought the RBA to the cusp of easing. The inflation data was soft, with persistent exchange rate strength dampening inflation in the tradeables sector. While there are tentative signs of recovery in the interest rate sensitive sectors of the economy, ongoing currency strength is making the required rebalancing task in the economy more difficult and in our view, further modest easing would help facilitate the transition.

That said, we do not see the case for a significant easing from here given that the economy has already started showing signs of responding to interest rates cuts and that fiscal policy will not be as tight going forward given that the path to a balanced budget is being pushed back. Furthermore, if the global economy recovers momentum later this year as the effects of tighter fiscal policies wane, market attention is likely to shift back to the implications of unwinding current quantitative easing programs. As we saw over March, such a reassessment is consistent with higher yields at the longer end of the curve. Against such a back drop, we also anticipate that the RBA will gradually begin removing monetary accommodation from 2014 onwards towards a more neutral setting. We continue to hold a strategic defensive duration bias and regard further rallies in yields from current levels as an opportunity to extend that position.

In a world where offshore central banks are forcing term structures lower, investors across the globe continue to search for yield and compress spreads in non-government debt. Our overweight allocation to corporate debt has benefited from this search yield as well as sound corporate fundamentals. Nevertheless, with investment grade spreads close to their tightest post GFC lows, we maintain our bias to trim our overall exposure to this sector. More generally we view the current level of spreads as being around “fair value” and expect future outperformance to be driven more by the higher income the sector offers as opposed to the capital gain that occurs as spreads tighten.

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.

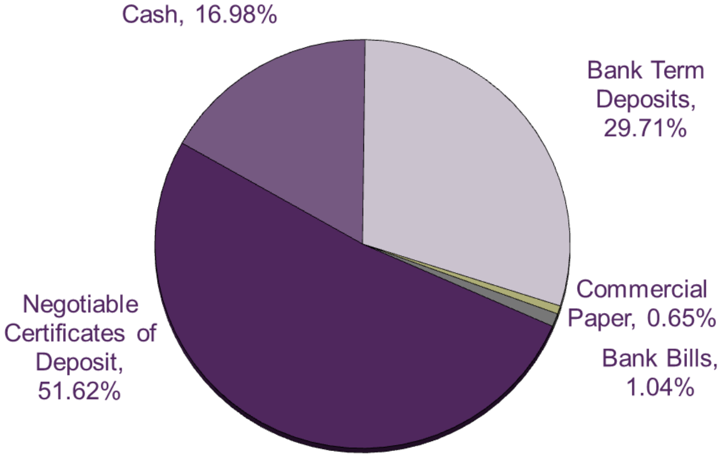
Modified Duration	Years
Trust	0.18
Index	0.12
Active Position	0.06

Interest rates – neutral duration:
As yields fell further through April, we resisted the temptation of buying longer dated money market securities despite the higher OIS inbuilt into bank bill pricing. At the time of writing, markets have fully priced in a cash rate of 2.5% by year end and some prospects of a 2.25% cash rate. With yields now well below what we would consider ‘fair value’, we find it difficult to justify a meaningful overweight duration position.

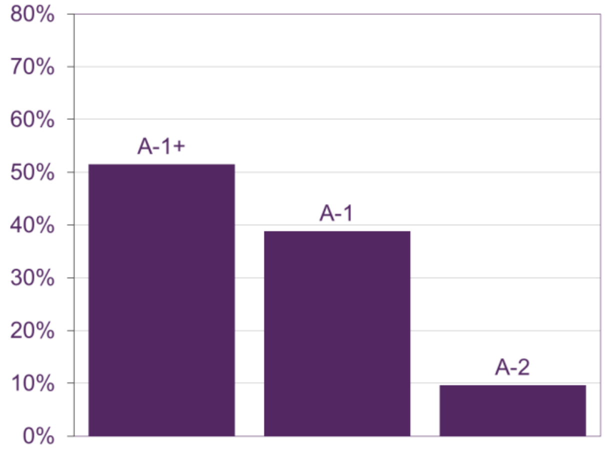
Sector allocation:
Regional and Australian branches of some large global banks continued to pay a premium to attract deposits. These premiums have reduced, but are still worth participating in for investors of the Trust for a prudent portion of the Trust. We continue to selectively access the term deposits of the ‘big four’ Australian banks. The deposits offer attractive yields while ensuring that a spread of maturities exists within the Trust to improve overall flexibility.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



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