PERENNIAL FIXED INTEREST

Perennial Tactical Income Trust

Monthly Report as at 30 November 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.#
Perennial Tactical Income Trust*	0.44	2.79	4.38	8.75	7.49	7.81	8.95
UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted	0.13	0.93	1.74	6.21	6.98	6.35	6.25
Value Added (Detracted)	**0.31**	**1.86**	**2.64**	**2.54**	**0.51**	**1.46**	**2.70**
Net Performance	0.40	2.68	4.18	8.26	7.01	7.32	8.46

*Gross Performance. #Since inception 15 June 2009. **Past performance is not a reliable indicator of future performance.**

- The Trust outperformed the Index return by 0.44%.
- Credit markets continued to perform well, albeit the rate of spread contraction has slowed from the hectic pace of recent months.
- Corporate debt and listed property trusts are our preferred sectors.

Performance

November was a solid month for the Perennial Tactical Income Trust (the Trust), albeit the return was well below the elevated levels of recent months. This should come as no surprise given the contraction in credit margins that has boosted performance since the middle of the year, could not reasonably be expected to continue at the same pace. Any further narrowing from here (which in our view is still more likely than not), will probably occur in a far more gradual fashion.

The Trust produced a gross return of 0.44% and 0.40% after fees. A pleasing aspect of this result was that it occurred in what was a relatively poor month for fixed interest. The UBS Composite Bond Index (0+years) returned a meagre 0.01%, with a modest rise in government bond yields all but eroding the monthly income from the sector. As you would know from previous reports, we have maintained a significant defensive bias in relation to interest rate risk meaning the Trust was largely protected from this development. The Trust outperformed the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted (the Index) return of 0.13% by 0.31% (gross) and 0.27% (net).

Once again, it was the performance of corporate debt that was the key influence on performance, with credit spreads in general continuing their narrowing trend. The benefit of this was felt in the performance of the Perennial Cash Enhanced Trust which returned 0.38% versus the UBS Bank Bill Index return of 0.25%. Of greater significance, however, was the contribution from the newly established Perennial Income Focused Trust, which returned 1.07% on the back of strong price gains on a broad range of listed debt/higher yielding securities. This sector of the market continues to benefit from the strong demand for yield/income driven investments. The Trust has approximately 16% of its portfolio invested in this sector. Also making a positive contribution was the valued added in the Perennial Australian Fixed Interest Trust, to which the Trust has around 33% exposure to.

Perennial Tactical Income Trust

The Trust aims to provide investment returns in excess of the Trust's benchmark the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted by investing in a diversified portfolio of Australian income producing assets. The Trust aims to provide a total return (after fees), that exceeds the benchmark.

Portfolio Manager: Glenn Feben	**Risk Profile:** Low
Trust FUM (as at 30/11/12): AUD358.2 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 30/11/12): AUD6.2billion	**Minimum Initial Investment:** $25,000
Trust Inception date: June 2009	**APIR code:** IOF0145AU

Ratings: Zenith Highly Recommended, Lonsec Recommended and Van Eyk 'BB'.

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Since inception the key features of the Trust's performance are:

- Strong absolute return with a since inception return of 8.95% p.a. (gross)
- Strong relative performance with an excess return of 2.74% p.a.
- Consistent positive monthly returns
- A more stable return profile than traditional fixed interest.

Market Review

Yields traded in a wide range over the month. After being buffeted by mixed offshore and domestic leads, yields ended the month slightly higher. At its early November board meeting, the RBA left the cash rate unchanged at 3.25%, emphasising in its commentary that the stimulatory effects of earlier easings were still working their way through the economy.

Data readings remained mixed over the month, but were consistent with some moderation in the rate of economic growth over the second half of 2012. While a rebound in consumer sentiment was welcome, the NAB Survey pointed to difficult conditions in the business sector. The labour market remains subdued and wages growth moderate. Third quarter capital expenditure data, while solid for the quarter, revealed an earlier and lower, peak in mining spending than forecast by the RBA in its Statement on Monetary Policy released in early November. Against this backdrop, three and six month bank bills ended the month 12 and 10 bps higher at 3.26% and 3.23%, respectively. The yield on a three year government bond ended up 5 bps at 2.62%.
At the longer end of the curve, the ten year government bond yield rallied down to 3.02% mid-month, following the deferral of a deal on Greece. A subsequent deal led to a reversal of flight to quality flows, though this was tempered late in the month on renewed fears that US politicians would be unable to broker a deal that would avoid a dramatic tightening in US fiscal policy early in 2013. The ten year government bond yield ended the month 3 bps higher at 3.16%. Given these moves, there was some marginal flattening in the spread between three and ten year government bonds which came in 2 bps to 54 bps.

Credit markets continued to perform well, albeit the rate of spread contraction has slowed from the hectic pace of recent months. The Australian iTraxx index ended the month 7 bps tighter at 131 bps, while spreads on cash bonds were stable to moderately lower. Primary markets were extremely active as continued demand for credit saw issuers seek to lock in funding prior to the Christmas period. The month saw a diverse range of issues which included industrials such as Telstra and Coca Cola Amatil, utilities such as ETSA, overseas financial institutions such as HSBC and Goldman Sachs, and domestic names, National Wealth Management and Bank of Queensland. Suncorp also issued its second covered bond for the year, which was heavily oversubscribed.

Market Outlook

The economy appears to have been hit with an income shock in the form of a sharp fall in the terms of trade in the September quarter. Ongoing offshore policy uncertainty is fuelling more cautious consumer and business behaviour and growth looks to have slipped to below trend levels. Both the RBA and Treasury have cut their growth forecasts for 2012/2013 to 3%. An earlier peak in the mining boom, as suggested by the latest capex data, points to downside risks to these forecasts.

As we mentioned last month, monetary policy will be asked to do a lot over the coming year as some of the other macroeconomic policy tools are either politically constrained, or, as in the case of the exchange rate, behaving differently. The underlying imperative remains to provide policy support to aid the re-balancing in the mix of growth sooner rather than later. We look for the RBA to provide another short burst of easing, with the cash rate to trough at 2.75% in the first half of 2013. Thereafter, we expect the RBA to hold the cash rate at that level until early 2014. By then, fiscal policy will no longer be acting as a drag on growth and the worst of the drag from austerity measures on global growth should be behind us. Some improvement in the housing

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sector should be evident and we then look for the RBA to gradually return monetary conditions to more neutral levels.

Markets continue to price a low in the cash rate at 2.50% to 2.75% by mid 2013, followed by a long period of stability. This is largely in line with our view and we regard the shorter end of the curve as broadly fair value. However, we still regard the longer end of the curve as expensive, offering investors' insufficient protection against an improvement in risk appetite or an improvement in the economic outlook. We continue to hold a modest strategic defensive bias.

Despite the recent rally in credit spreads, we still hold a fundamentally positive view on credit in a prolonged low interest rate environment where any additional yield becomes increasingly valuable. Further to this, spreads remain at levels above longer term averages. Within the corporate sector, our emphasis is on large financials, particularly the senior debt of the 'big four' Australian banks as well as senior bonds, 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	0.83
Index	2.10
Active Position	-1.27

Interest rates – underweight fixed interest /overweight cash: No major changes were made to the Trust's duration position during November. We maintain a strategic defensive bias, but with a willingness to tactically alter the magnitude of this position as yields move towards the upper and lower levels of their expected trading range. At month end, the modified duration of the portfolio was 0.83, a level that will serve to protect capital to a meaningful degree if yields rise further, but will also support performance if yields recover somewhat on the back of further monetary easing by the RBA.

Sector allocation – overweight credit: Despite the recent rally (narrowing) in credit spreads, spread sectors, particularly corporate bonds, continued to be favoured over government bonds on a forward looking basis, given the running yield advantage and some potential for capital gains through spread contraction. While we are not looking to add to our positions, we are comfortable with our overweight allocation to this part of the market. The longer money market and bond yields remain low, the more demand there will be for any spread product that provides some additional yield. This should bode well for our spread product strategy. Our favoured sub sectors are senior and subordinated bonds from the 'big four' Australian banks as well as listed property trusts and infrastructure debt.

We continue to view the listed higher yielding securities sector as attractive, although its recent strong performance has dampened our enthusiasm to further increase the Trust's exposure. Currently the Trust has around 16% allocated to this sector.

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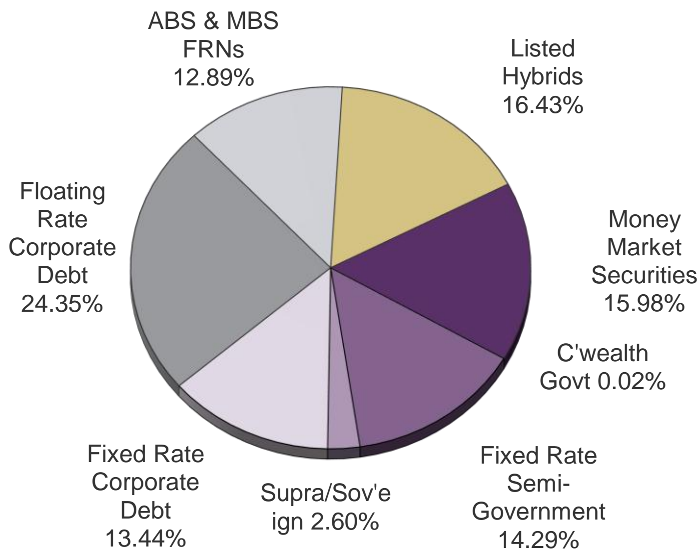
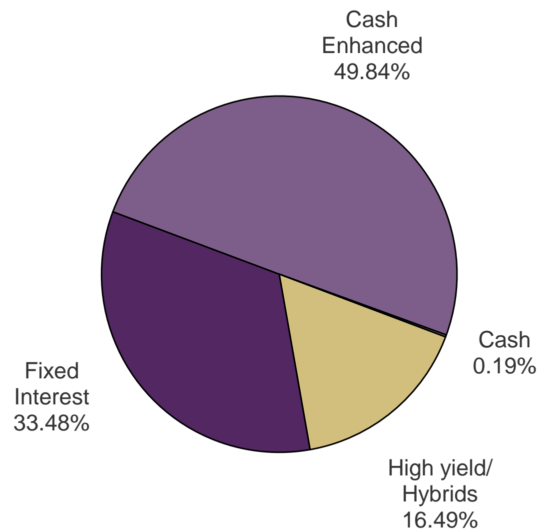
Trust Snapshot





Rounding accounts for small +/- from 100%.

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