PERENNIAL FIXED INTEREST

Perennial Cash Enhanced Trust

Monthly Report as at 31 October 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Cash Enhanced Trust*	0.82	2.24	2.85	7.01	6.43	6.60	6.53
UBS Bank Bill Index	0.30	0.91	1.21	4.23	4.62	4.57	5.06
Value Added (Detracted)	**0.52**	**1.33**	**1.64**	**2.78**	**1.81**	**2.03**	**1.47**
Net Performance	0.79	2.17	2.75	6.71	6.14	6.30	6.23

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

- The Trust outperformed the Index return by 0.52%.
- Sector strategies were the primary contributor to the Trust's outperformance.
- Corporate debt and listed property trust related securities are our preferred sectors.

Performance

A run of somewhat constructive news (or more accurately a lack of bad news) emanating from Europe, the US and our major trading partner China, caused money markets to re-price the future path of cash rates upwards through October. These developments also helped high quality corporate floating rate notes (FRNs) which benefited from the general 'risk on' environment evidenced over the month. The UBS Bank Bill Index (the Index) returned 0.30% in October.

The Perennial Cash Enhanced Trust (the Trust) again meaningfully outperformed the Index returning 0.82% and delivering outperformance of 0.52%.

Interest rate strategies had a neutral impact on performance over the month. However, sector strategies were the primary reason for the outperformance, with spread sectors such as overweight allocations to semi-governments and corporate FRNs materially outperforming bank bills. Security selection including overweight allocations to the senior debt of the major banks, prime 'AAA' rated residential mortgage backed securities (RMBS) and some offshore issuers in the kangaroo market, added value as these securities outperformed others within the corporate sector. Perversely, our overweight allocation to Queensland semi-government securities proved beneficial as they rallied when both New South Wales and Western Australia were put on negative watch by Standard & Poor's.

At month end, the weighted average yield of the Trust was 3.98%, as compared to the Index yield of 3.21%.

Market Review

Following a more downbeat assessment of the global growth outlook, softness in the non-mining sectors and an earlier peak in mining investment, the Reserve Bank of Australia (RBA) cut the cash rate by 25 bps to 3.25% in early October. After the easing, the yield on a three year government bond fell to its month low of 2.34%, while the yield on the August 2013 30 day interbank cash rate futures contract rallied to 2.37%.

With markets fully priced for a burst of aggressive easing, weak economic data and low underlying inflation were needed to validate expectations. However, as the month progressed, economic data releases were mixed and underlying inflation more resilient than expected. On the data front, there were solid gains in housing data, with approvals lifting sharply over August and September. Business and consumer confidence also rose but business conditions fell sharply. On the price side, headline inflation rose 1.40% over the quarter, while the average of the RBA statistical measures rose by 0.74%.

This data led to a slight wind back in the level of expected monetary easing, with the yield on the August 2013 cash futures contract ending the month at 2.49%. The yield on a three year government bond ended 14 basis points higher at 2.57%. Reflecting the monetary

Perennial Cash Enhanced Trust

The Trust aims to provide a total return that exceeds the benchmark, UBS Bank Bill Index, over rolling three-year periods by 0.50% p.a. (before fees).

Portfolio Manager: Glenn Feben	**Risk Profile:** Low
Trust FUM (as at 31/10/12): AUD1.5 billion	**Income Distribution Frequency:** Quarterly
Team FUM (as at 31/10/12): AUD6.0 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: August 2002	**APIR code:** IOF0111AU

easing, three and six month bank bills ended the month 25 and 23 bps lower at 3.14% and 3.13%, respectively.

At the longer end of the curve, the ten year government bond yield rallied down to 2.92% after the easing, but like the shorter end, rose in yield over the remainder of the month to end 14 basis points higher at 3.13%. With similar moves to the shorter end, the spread between three and ten year government bonds remained unchanged at 56 bps.

Credit markets responded positively to the lack of negative economic news and ongoing demand for yield with the ITraxx ending the month 22 bps tighter at 138 bps. Demand for the major Australian bank's senior bonds was strong, as was the demand for RMBS following the large primary market issuance seen in the previous months. Primary markets were not very active, but did pick up towards the end of the month. The highlight was the successful return to the domestic market by BHP Billiton, with its AUD1 billion five year senior bonds issue marking a return to the domestic market for the first time in around 10 years.

Market Outlook

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. With the high water mark in mining investment approaching some time in 2013/2014, now is the time to provide the non-mining sectors of the economy with a boost. 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 sector should be evident and we then look for the RBA to gradually return monetary conditions to more neutral levels.

As markets continue to price in more easing than in our base case and the long end continues to provide investors, we continue to hold a core 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. We maintain an overweight allocation to these sectors. Within the corporate sector our emphasis is on large financials and in particular, the senior debt of the 'big four' Australian banks as well as senior bonds, listed property trusts, and infrastructure 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	0.10
Index	0.13
Active Position	-0.03

Interest rates – neutral duration: Bond and money markets sold off a little during October, with yields higher. Currently, markets have priced in cash rates easing to 2.50% by mid next year. While we have an easing profile factored into our forecasts, we do not have the same degree of interest rate cuts. Accordingly, we find bond and money market securities slightly expensive. However, bank bill pricing still has some funding premiums embedded and as such are not necessarily as expensive as one might conclude. As a result, we have a broadly neutral duration stance.

Corporate Debt and asset backed – overweight: Despite the recent rally in credit spreads, spread sectors, particularly corporate FRNs, continued to be favoured over bank bills on a forward looking basis given

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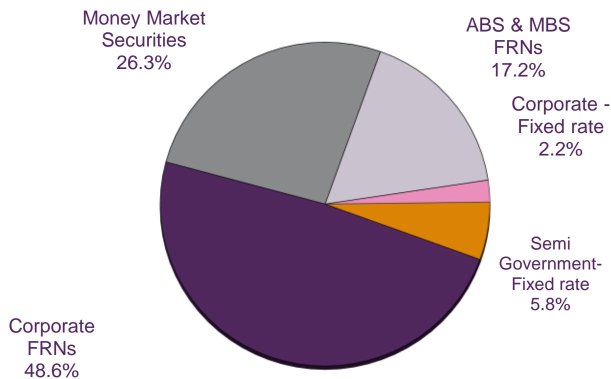
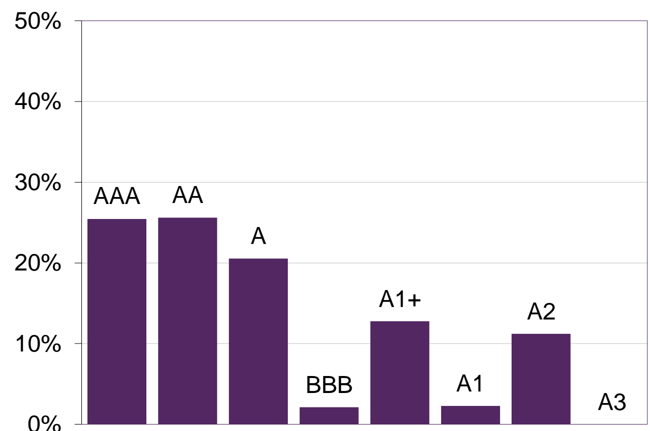
the running yield advantage and some potential for capital gains through spread contraction. While we are not looking to add to our positions, we are comfortable with our overweight allocation to this part of the market. The longer money market and bond yields remain low, the more demand there will be for any spread product that provides some additional yield which should bode well for our spread product strategy. 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. We continued to switch some of our covered bond exposure for prime 'AAA rated' fully documented Australian RMBS and received almost double the credit spread.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



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