PERENNIAL GROWTH MANAGEMENT

Perennial Growth Australian Shares Trust

Monthly Report as at 31 December 2012

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Australian Shares Trust*	3.9	7.7	16.5	18.5	1.7	1.5	-2.6
S&P/ASX 300 Accumulation Index	3.3	6.8	16.1	19.7	3.3	2.8	-1.8
Value Added (Detracted)	**0.6**	**0.9**	**0.4**	**-1.2**	**-1.6**	**-1.3**	**-0.7**
Net Performance	3.9	7.5	16.4	18.0	1.1	0.8	-3.3

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

- The end of December saw markets dominated by the US political debate over the so called “fiscal cliff” of tax increases and spending cuts.
- The strongest performing sectors were materials (up 4.6%), capital goods (up 11.6%), diversified financials (up 8.5%) and banks (up 4.0%).
- The biggest positive contributor to performance during the month was Fortescue (up 20.5%).

Trust Performance Overview

The Perennial Growth Australian Shares Trust (the Trust) finished up 4.0% during December, outperforming the S&P/ASX 300 Accumulation Index (the Index) return of 3.3% by 0.6%.

The top performer during the month was Fortescue (up 20.5%). A key factor for Fortescue’s outperformance during the month was the rise in iron ore prices throughout December, in line with the usual seasonality from Chinese iron ore purchasers. Fortescue also benefited from several management decisions, namely the sale of a 25% stake in the Nullagine Iron Ore Project joint venture, the announcement that Fortescue had commenced a process to consider the potential sale of a minority interest in its port and rail infrastructure and to resume development work at Kings iron ore deposit. We view management’s action and commitment to deleverage the balance sheet as supportive of our positive investment thesis.

ALS (up 13.7%) once again provided a positive monthly contribution. This followed the November reporting of its interim results and a series of investor meetings where management articulated future growth options and current trading conditions.

Rio Tinto (up 12.4%) was the strongest performer of the large diversified miners. The rise in iron ore prices as well as the commitment of management to significantly cut costs over the next few years (explained at its Australian investor briefing held in late November), resulted in the strong share price through the month. We see significant valuation upside to Rio Tinto as a number of growth projects commence production over the next year.

Lend Lease (up 7.9%) outperformed the market during the month due largely to being named preferred bidder on the AUD1 billion Sydney Convention Centre Public Private Partnership (PPP) and an adjacent AUD1.5 billion mixed use development site. Lend Lease will earn fees from construction and project management, development management, operations and maintenance and potentially investment management. Between financial year 2014 and financial year 2019 total earnings before interest, taxes, depreciation and amortisation is expected be about AUD200 million. In our view this helps to underpin the earnings outlook despite challenging non-residential construction activity. The win is another example of Lend Lease’s integrated property model following on from success at the nearby Barangaroo site and numerous hospital PPPs. We regard the company’s ability to provide an integrated solution, particularly the funding piece, as a key competitive advantage which underpins sustainable, above average return on invested capital.

The most significant detractor to performance was Newcrest Mining (down 13.4%). The weak performance of

Perennial Growth Australian Shares Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio Manager: Lee Mickelburough

Risk Profile: High

Trust FUM (as at 31/12/12): AUD303.2 million

Income Distribution Frequency: Half yearly

Team FUM (as at 31/12/12): AUD3.0 billion

Minimum Initial Investment: $25,000

Trust Inception date: March 2001

APIR code: IOF0201AU

the US dollar and downgrades to the December quarter production expectations both hit the stock price. The company remains confident of achieving the bottom end of the 2013 financial year production guidance (2.3 million ounces) despite a downgrade to the December quarter expectation. The market had factored in the ramp up of Cadia East and Lihir Mobile Offshore Production Unit projects earlier than management had suggested. We view this as a temporary factor. We remain confident that the company has the ability to deliver both projects over the coming 6 to 12 months, resulting in significant volume growth for the company.

Another stock to detract value during the month was Worley Parsons (down 4.7%), with soft industry commentary regarding the capex outlook for the Canadian oil sands industry and general pressure from mining companies on service providers and capital plans. Canadian oil sands represents 5% to 10% of group earnings, and much of this relates to longer term asset optimisation work as opposed to more cyclical new construction activity. We believe that Worley Parsons is well placed to benefit from the changing US energy landscape with abundant cheap gas set to drive increased project activity in energy and industrial markets. Despite some softness in minerals and metals related project work, Worley Parsons is on track to achieve growth of around 10% with its differentiated local/global business model and focus on Tier 1 global oil companies and national oil companies. Our valuation for Worley Parsons is $36.65, representing a 55% upside from current levels.

Trust Activity

Qube was added to the portfolio in December. The company is a provider of logistics and transport services covering stevedoring, land based logistics and multi-modal services. It also has a number of strategically located development assets that may provide further growth options in warehousing, container distribution and customs and quarantine processing. Qube has grown rapidly in recent years through a number of well executed acquisitions and is now in a position to capitalise on the growth options it has and the critical mass reached in a number of key parts of the logistics industry.

The management team is experienced and capable with many of the senior members of the team moving from Patrick Corporation in recent years. They have done an outstanding job identifying underserviced parts of the industry and capitalised on those opportunities. The focus is now on cross selling its suite of services in logistics, ports and bulk handling to generate organic growth across the businesses. The strong growth profile over the next three years and improving return on invested capital in our view result in the stock still having considerable valuation upside.

We continued to build our position in Caltex during the month. The stock continued to perform well and a positive market update by the company resulted in significant upgrades to this year's earnings forecasts. Strong demand for premium products such as higher octane petroleum and diesel is helping margin expansion and importantly, returns are also rising.

Another stock we added to over the month was Macquarie Atlas. While it has been in the Trust for some time, the company was the beneficiary of some positive news on its French toll roads during the month. The French Government had planned to reduce certain tax deductions in interest payments for businesses but then made an exclusion for infrastructure concessions such as the APRR toll roads that Macquarie Atlas has an interest in. This helped lift the valuation, which remains close to 25% above the current share price.

We continued to reduce our holding in AMP as the share price approached our valuation. While we continue to see good growth in earnings and returns over the next few years, those attributes are now reflected in the current price.

We also further reduced our holdings in QBE Insurance, Bank of Queensland and completed the sell off of Sims Metal Management.

Market Overview

Most major global equity markets rose. While Japan's Nikkei (up 10.0%), Hong Kong's Hang Seng (up 2.8%), UK's FTSE100 (up 0.5%), the US S&P500 (up 0.7%) performed well, China's Shanghai Composite (up 14.6%) was the stand out.

The end of December saw markets dominated by the US political debate over the so called "fiscal cliff" of tax increases and spending cuts. As the end of the year approached, doubt increased over the ability of the Congress to come up with a political solution and markets weakened. By year end, there has been some compromise, but a comprehensive fiscal plan for the future is yet to be agreed on. Economic news in the US was mixed, with consumer sentiment falling and the ISM Manufacturing Index weaker than expected. However, unemployment fell to a four year low of 7.7%.

The Japanese equity market was particularly strong following newly elected Prime Minister Shinzo Abe's pledge to battle deflation and boost export competitiveness. Improving economic indicators and the settling down of the new Chinese political order helped underpin the Shanghai Composite Index to its best month in over two years.

Domestically, the Reserve Bank of Australia trimmed the cash rate for the fourth time in 2012 to 3.0% and Federal Treasurer Wayne Swan abandoned plans to achieve a budget surplus in the current fiscal year citing lower tax revenues. Markets were not surprised by either. While the economy continued to add jobs and the unemployment rate fell to 5.2%, both consumer and business confidence indicators were particularly weak. Housing finance growth continued to be insipid, business lending flat and, excluding food, retail sales contracted in October.

The Australian dollar remained firm despite the rate cut and poor economic news, finishing the year at USD1.04. Commodity markets were mixed, with gold down 2.3%, Brent Crude down 0.2% and the London Metal Exchange base metals index down 0.5%. However, there was a dramatic recovery in bulk commodity prices. Iron ore gained over 25%, as Chinese inventories fell sharply and both metallurgical and thermal coal prices recovered over the month.

Within the domestic equity market there was a reversal of the sectoral trends of November. The market was led higher by materials (up 4.8%), capital goods (up 11.6%), diversified financials (up 8.5%) and banks (up 4.0%). Defensive sectors struggled to keep pace, with food and beverage (down 3.0%), telecommunications (up 1.5%), consumer staples (up 1.3%) and real estate (up 1.4%) all underperforming.

Top Ten Holdings as 31 December 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	12.3%	10.4%
ANZ Banking Grp Ltd	7.7%	5.9%
Commonwealth Bank.	7.1%	8.7%
National Aust. Bank	6.8%	5.0%
Westpac Banking Corp	5.4%	7.1%
Rio Tinto Limited	4.3%	2.5%
CSL Limited	4.0%	2.4%
Origin Energy	3.9%	1.1%
Challenger Limited	3.6%	0.2%
Incitec Pivot	3.3%	0.5%

Asset Allocation as at 31 December 2012

Stock Name	Trust Weight %	Index Weight %
Energy	13.3%	6.4%
Materials	27.8%	21.7%
Industrials	9.2%	6.8%
Consumer Discretionary	2.1%	3.7%
Consumer Staples	0.0%	8.4%
Health Care	6.4%	4.5%
Financials-x-Real Estate	34.3%	33.8%
Real Estate	3.3%	7.3%
Information Technology	2.0%	0.7%
Telecommunication Services	0.0%	5.0%
Utilities	0.0%	1.8%
SPI Futures	0.0%	-
Cash	1.6%	-

Rounding accounts for small +/- from 100%.