Perennial Cash Trust

Monthly Report as at 31 January 2013

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.^
Perennial Cash Trust*	0.30	0.91	2.28	4.24	4.74	4.89	4.89
UBS Bank Bill Index	0.27	0.81	2.03	3.84	4.40	4.52	4.53
Value Added (Detracted)	**0.03**	**0.10**	**0.25**	**0.40**	**0.34**	**0.37**	**0.36**
Net Performance	0.28	0.85	2.14	4.02	4.52	4.67	4.67

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

- The Trust outperformed the Index return by 0.03%.
- Sector and security strategies remain an important source of alpha.
- The RBA cut the cash rate to 3% in early December.

Performance

Money market yields fell over January as credit spreads including the funding premium embedded within bank bill pricing above pure cash rate expectations narrowed. This is often referred to as the OIS spread which benefited from a general rally in risk assets and is a sign of the reducing stresses in bank funding. Markets also priced in another cash rate easing by the Reserve Bank of Australia (RBA) by April's meeting. This pricing has been supported by the weaker domestic economic data that followed including retail sales, credit growth and confidence surveys which were all subdued.

The UBS Bank Bill Index (the Index) returned 0.27% over the month. The Perennial Cash Trust (the Trust) again continued its run of outperformance, exceeding the Index return by 0.03%.

A small amount of value was extracted from participating in the funding premiums paid by banks to secure slightly longer maturities as incorporated within the Bank Bill Swap rate (BBSW). This source is now a smaller contributor to performance compared to 2012.

Sector and security strategies remain an important source of alpha as the additional spreads being paid by regional banks for three to 12 month deposits remain high by historical standards. Term deposits offered by the 'big four' banks who continued to pay up for fixed term deposits also added value.

At month end, the weighted average yield of the Trust was 3.39%, as compared to the Index yield of 3.00%.

Market Review

Despite an interest rate cut from the RBA, sluggish economic data and rising fiscal cliff uncertainty, yields ended the month slightly higher, though the sector still managed to generate a modest positive return.

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 31/01/13): AUD731.2 million	**Income Distribution Frequency:** Monthly
Team FUM (as at 31/01/13): AUD6.4 billion	**Minimum Initial Investment:** $100,000
Trust Inception date: July 2008	**APIR code:** IOF0141AU

The RBA cut the cash rate to 3% in early December with subsequent commentary suggesting that the central bank is in a reactive mindset and will need to see fresh evidence of slowing before being prompted into action again.

Data releases since the RBA's move have been mixed. Consumer sentiment reversed the previous month's gain despite the rate cut. Retail sales were flat in October, while building approvals recorded a sharp fall. Credit demand remains muted and business conditions and confidence were weak in November. With such a start, it is unlikely the economy will grow much faster than the 0.5% gain recorded for September quarter. Against this backdrop, three and six month bank bills ended the month 19 and 22 basis points (bps) lower at 3.07% and 3.01% respectively. The yield on a three year government bond ended 5 bps higher at 2.67%.

At the longer end of the curve, the ten year government bond yield ended the month 11 bps higher at 3.27%. Long bond yields got as high as 3.39% on an improving global growth outlook before rallying into the close of the month on fears that US politicians would not be able to avert a draconian tightening in fiscal policy in early 2013. Given these moves, there was some steepening in the spread between three and ten year government bonds which rose 6 bps to finish up 60 bps.

Credit markets continued their recent tightening trend in December with the iTraxx Australia Index about three bps tighter over the month. Physical credit securities performed better than the ITraxx Index. This was primarily driven by a number of new issuances rushed through before the potential US fiscal cliff as companies sought to future proof their balance sheets and funding prior to year end. The RMBS market was also quite active with three large primary deals all pricing at tighter levels than their previous transactions in a sign of health for this sub-sector.

Market Outlook

The latest run of data shows that the economy was most likely running at a sub-trend rate at the end of the year. In a significant development, the government stepped back from its commitment to deliver a budget surplus in 2012/2013. This is a welcome development for the economy as it avoids an unnecessarily aggressive tightening in fiscal policy over the first half of 2013 and takes some of the burden off monetary policy.

We continue to hold the view that the growth and inflation outlook will allow room for further modest monetary easing in the first half of 2013. With the mining boom peaking earlier than expected as well as business and consumers holding a defensive mindset, further easing should help underpin a recovery in the interest rate sensitive sectors of the economy.

At the time of writing, markets were pricing in a low in the cash rate of around 2.5% over the second half of 2013. This is not that far off our own view and we continue to regard the shorter end of the curve as broadly fairly valued. We still regard the longer end of the curve as being expensive and offering investors' insufficient protection against an improvement in risk appetite or improvement in the economic outlook. The sell-off over the first half of December was a reminder of the price action that can happen on an improving economic outlook and pick up in risk appetite. While we think a major sell-off at the long end is still some time away given offshore policy settings, we continue to hold a modest strategic defensive duration bias.

We continue to hold onto to our structurally positive view on credit during periods of prolonged low interest rates given strong investor demand for any yield pick-up. While credit spreads have come in, they still remain at or above longer term levels. We continue to maintain an overweight allocation to these sectors and within the corporate sector, our emphasis is on large financials and in particular, the senior debt of Australian 'big four' banks, 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	0.15
Index	0.13
Active Position	0.02

Interest rates – neutral duration: Short term interest rates including the market's cash rate expectations through 2013 are broadly in line with our assessment of 'fair value' given the slightly softer domestic economic conditions and inflation, As such, we maintain a neutral duration position relative to the Index.

Sector allocation: Regional and Australian branches of some large global banks have 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. Finally, we continue to selectively access term deposits of the 'big four' Australian banks which offer attractive yields whilst ensuring that a spread of maturities exist within the Trust to improve overall flexibility.

Trust Snapshot