Perennial Growth Australian Shares Trust

Quarterly Report as at 30 September 2012

	Quarter %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Australian Shares Trust*	8.1	8.1	11.0	0.9	0.3	-4.4
S&P/ASX 300 Accumulation Index	8.7	8.7	14.4	2.2	1.7	-3.6
Value Added (Detracted)	**-0.6**	**-0.6**	**-3.4**	**-1.3**	**-1.4**	**-0.8**
Net Performance	8.3	8.3	10.5	0.3	-0.4	-5.1

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

- Global equity markets performed well during the September quarter.
- Newcrest Mining Limited (up 30.0%) was the strongest positive contributor to performance.
- Brambles Limited, Origin Energy Limited and Resmed Inc were added to the Trust during the quarter.

Trust Performance Overview

The Perennial Growth Australian Shares Trust (the Trust) finished the quarter up 8.1%, underperforming the S&P/ASX300 Accumulation Index (the Index) by 0.6%. The Index finished up 8.7%.

The strongest positive contributor to performance during the period was Newcrest Mining Limited (Newcrest) (up 30.0%). Newcrest benefited from a stronger gold price, which moved from USD1,604 to close at over USD1,770. The move in the gold price followed the announcement of further quantitative easing measures by the US Federal Reserve. The strength in the gold price was enough to offset the production disappointment announced with the September quarterly production guidance released in September. The production guidance of USD460,000 per ounce was well below market expectations. One of the key focus points of the company investor day, held post this reporting period, in October was targeted to shore up investor expectations that the significant volume growth foreshadowed by the company for the next three to five years from the Cadia East and Lihir mobile offshore production unit projects is on track for delivery.

CSL Limited (up 17.9%) also added value. The company report for the financial year met expectation and was supported by more upbeat guidance for the coming year than the market has been used to hearing from the company. The upcoming AGM is expected to see the announcement of another AUD900 million buyback. This will be the forth buyback by the group in as many years. The market appears to have started to recognise the value of the research and development portfolio and has reacted to news of two large competing Alzheimer clinical trial failures which is leaving intravenous immunoglobulin with Phase 3 clinical trials results due in March 2013.

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 30/09/12): AUD296.1 million	**Income Distribution Frequency:** Half yearly
Team FUM (as at 30/09/12): AUD2.8 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: March 2001	**APIR code: IOF0201AU**

PanAust Limited (PanAust) (up 13.6%) added value over the quarter following a strong interim financial report and the company's reiteration of its full year earnings expectations. The strength in the copper price has also contributed meaningfully. We remain confident in the fundamental upside in copper and are confident in the company's ability to execute current projects and meet our expectations.

AMP Limited (AMP) (up 15.7%) interim result released in August, showed an improvement in underlying profit that was ahead of previous guidance. The drivers included solid flows into its wealth management segment, despite challenging market conditions and continued progress with the integration of AXA. The company was also able to clarify recent market concerns surrounding capital requirements pursuant to APRA's soon to be introduced life and general insurance capital rules. The requirement for an additional AUD200 million in capital was at the lower end of market expectations.

Fortescue Metals Group Limited (Fortescue) (down 28%) was the biggest detractor to performance over the quarter. Despite the company reporting significant growth in profitability for the year end, the stock fell sharply as it reacted to the fall in the spot iron ore price. The weakness in the iron ore price followed concern surrounding the slower growth rates in China and specifically the Chinese steel mills. By quarter end the destocking of iron ore reserves looked to have found a bottom and the price began to recover. In addition, the company was forced to rethink capital plans and seek approval from its current group of financial partners to pursue current plans. The company was successful in convincing the bankers to stay the course. This process also gave the company enough flexibility to reach higher levels of production that should ultimately deliver lower costs per tonne and highly profitable outcomes for all stakeholders.

Wesfarmers Limited (Wesfarmers) (not held, up 17.8%) also detracted value. The company released its financial year report showing net profit broadly in line with market expectations. The contributions of Coles food and liquor, a focus for the market, delivered improved margins. The more volatile segment was the coal division. Despite the weakness in many coal companies, facing a combination of lower prices and weaker volumes, it appeared that the market is yet to focus on this division of the company which has experienced similar market conditions.

UGL Limited (UGL) (down 12.7%) also detracted value. The stock was weaker following an underwhelming 2012 financial year report. The result included lower than expected profits from its construction and engineering division due to a small number of contracts experiencing cost overruns. The stronger contribution from rail and property services will not be enough to offset the challenges faced in construction this coming year. The property and facilities management division continues to grow strongly, now making up a third of the group's total earnings. This division is not well understood by the market and is a key underlying driver for our valuation.
Rio Tinto Limited (Rio Tinto) (down 4.3%) was another position that detracted value. The underperformance was driven largely by weaker iron ore prices over the quarter following concerns over Chinese economic growth. We continue to see significant valuation upside for the company. Our focus is on the impressive project pipeline, which we regard as one of the best, from a return and value creation perspective, within the mining industry.

Trust Activity

During the quarter, Brambles Limited (Brambles) was added back to the Trust after being sold earlier in 2012. Brambles failed to sell its Recall document management business, which resulted in an AUD448 million equity raising in June to maintain its credit rating and strong financial position. The company is a global leader in the pallets, containers and document management industries. with a high quality management team. The recent period of underperformance provided an opportunity to add the stock back to the Trust.

The Trust also added Origin Energy Limited (Origin) to the Trust. The company is an integrated oil and gas producer, electricity generator and electricity/gas retailer. The company is also in a joint venture (owning 37.5%) with Conoco Phillips and Sinopec building the AUD20 billion Australian Pacific Liquified Natural Gas (APLNG) project in Queensland. In our view the company has good earnings growth potential over the next three years from a number of its expanding gas assets and improving margins from its customer base of three million on the East coast of Australia. The APLNG project is expected to provide significant growth for the company from 2016. Recent concern over potential capital expenditure blowouts at the three Queensland LNG projects has led to investor concern about the capacity of Origin to fund the project and maintain its credit rating. This has seen the stock slide to a level where we assessed those risks as being overestimated resulting in the stock becoming significantly undervalued. We believe that the current share price is ascribing virtually no value to the APLNG venture, an asset that should provide a very significant boost to the growth profile of Origin over the next decade.

Resmed Inc (Resmed) was also added to the Trust. Resmed is the leading player in the fast growing continuous positive airway pressure segment for the treatment of obstructive sleep apnoea and associated co-morbidities (such as heart failure and diabetes). Resmed has the leading offer in both flow generators and masks. Growth has reaccelerated with new product launches and changed industry preferences to auto setting devices playing to Resmed's strengths. We expect Resmed to achieve top quartile growth and return on invested capital and the company has an exceptionally strong balance sheet with AUD800 million of cash. We assess the stock as significantly undervalued, with upside potential if the Australian dollar weakens given a significant portion of the cost base is in Australian dollars.

Several stocks were sold off heavily during the quarter as they showed significant valuation upside based on our research estimates. We took advantage of this weakness to increase positions in Pan Aust, Fortescue, Incitec Pivot Inc, QBE Insurance Group Limited, and Lend Lease Group.

Following periods of strong share price performance during the quarter, Westpac Banking Corporation, ANZ Group Limited, Woodside Petroleum Limited and Bank of Queensland Limited were trimmed. James Hardie Industries, Arrium Limited (formerly One Steel) and Mermaid Marine Australia Limited all approached valuation and were sold from the Trust.

Market Overview

Equity markets performed well during the September quarter, bouncing off the decline witnessed in the previous period. Defensive sectors performed strongly with banks (up 11.6%), consumer staples (up 12.3%) and healthcare (up 14.8%) among the best and all outperforming the Index. Materials lagged, only rising 6.5% and held back by a falling iron ore price and concerns about China's economic growth prospects.

The quarter also contained the financial year 2012 profit reporting season, which was generally seen to have met expectations but admittedly, they had been lowered in the months preceding August. Most of the company outlook statements were cautious and with the level of uncertainty in the domestic economy, let alone, international markets, that was not surprising. On balance, we saw downgrades to the 2013 company profit forecasts.

Corporate activity was modest, with private equity approaches to Billabong International Limited the one notable exception. One characteristic of the quarter was the scaling back of a number of resource projects, which reflected rising costs and falling commodity prices. The highest profile of these were the BHP Port Hedland Outer Harbour expansion and the Olympic Dam extension. A number of other projects in the coal and iron ore industries that had been proposed were under funding pressure during the quarter and may not proceed. This in turn will have ramifications for the mining construction and supplies industries.

Offshore equity markets were generally stronger, with the exception of Japan, which eased slightly. US indices rose by close to 6% over the quarter and with the European Central Bank (ECB) moves in September, a number of European markets bounced by almost 10%.

There was little economic news to cheer about in the September quarter. In Australia, the RBA left the cash rate on hold at 3.5%, unemployment remained steady at 5.1% (the participation rate fell, hiding the decline in employment) and business confidence measures were largely unchanged. Chinese GDP growth slowed from 8.1% to 7.6% and its manufacturing measures contracted in each of the three months.

While European economic growth deteriorated during the quarter, the ECB unveiled a credible plan to ease the region's debt crisis. The ECB intends to purchase one to three year government securities if the relevant country has had its debt reduction program approved by Brussels. In the US, the economy seemed to be stuck in a holding pattern with manufacturing static, unemployment down marginally, consumer sentiment virtually unchanged but inflation down to 1.9%.
The AUD edged up marginally against the USD despite deteriorating bulk commodity prices, it finished the quarter at USD1.04.

Commodity prices diverged with bulks down sharply (the iron ore price fell 22% over the quarter), base metals stronger, gold up 11% and oil rising 16%.

Environmental, Social and Governance Issues

The forthcoming AGM season and the proxy voting process is now becoming a focus for investors. In particular, the remuneration reports which are under scrutiny due to the 'two strikes' rules that now apply if over 25% of shareholder votes go against the adoption of the remuneration report.

We have two stocks in the portfolio (UGL Limited and Crown Limited (Crown)) that had in excess of 25% of votes against last year and are facing a second strike. This, in theory could then lead to a resolution for a board spill, something no company would relish the prospect (or cost). We have had discussions with both companies on the report they have put together for 2012 and without yet seeing the full details, we expect improvements. Crown face the additional problem that it's largest shareholder, Consolidated Press Holdings Limited, is unable to vote its stake on these matters so the 25% threshold can be reached with only 13% of the votes being lodged against the remuneration report. The outcomes on both will be known in about a months time.

The fact that both companies have consulted with institutional shareholders is a positive outcome and in both cases, improved processes are being made. We would hope that other listed companies will continue to consult with shareholders on these matters even if they get a comfortable yes vote rather than waiting for an issue to come up and turn it the other way.

Ten Holdings as at 30 September 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	8.2	9.8
ANZ Banking Grp Ltd	8.1	6.2
National Aust. Bank	7.1	5.4
Commonwealth Bank.	6.5	8.2
CASH	5.5	0.0
Westpac Banking Corp	5.4	7.1
CSL Limited	4.1	2.2
Rio Tinto Limited	4.1	2.2
Newcrest Mining	3.9	2.1
QBE Insurance Group	3.4	1.4

Asset Allocation as at 30 September 2012

Sector	Trust Weight %	Index Weight %
Energy	11.4	6.8
Materials	23.9	21.7
Industrials	7.1	6.7
Consumer Discretionary	4.0	3.6
Consumer Staples	0.0	8.5
Health Care	5.8	4.3
Financials-x-Real Estate	37.5	34.0
Real Estate	2.7	7.2
Information Technology	2.1	0.7
Telecommunication Services	0.0	4.8
Utilities	0.0	1.8
SPI Futures	0.0	-
Cash	5.5	-

Rounding accounts for small +/- from 100%.