

Perennial Australian Property Wholesale Trust

Monthly Report as at 28 February 2013

| | Month % | 3 Months % | FYTD [^] % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | SIM ^{^^} % p.a. |
|------------------------------------------------|-------------|---------------|------------------------|-------------|-------------------|-------------------|-----------------------------|
| Perennial Australian Property Wholesale Trust* | 3.3 | 10.6 | 22.8 | 33.8 | 13.4 | -0.2 | 8.4 |
| S&P/ASX 200 A-REIT Accumulation Index | 3.5 | 11.2 | 23.5 | 33.4 | 12.7 | -3.0 | 7.2 |
| Value Added (Detracted) | -0.2 | -0.6 | -0.7 | 0.4 | 0.7 | 2.8 | 1.2 |
| Capital Growth | 3.3 | 9.4 | 21.1 | 28.4 | 7.3 | -6.0 | -0.6 |
| Income Distribution | 0.0 | 1.0 | 1.1 | 4.4 | 5.3 | 5.1 | 8.4 |
| Net Performance | 3.3 | 10.4 | 22.2 | 32.8 | 12.6 | -0.9 | 7.8 |

* Gross Performance. [^]Financial Year to Date. ^{^^} Since Inception: August 1994. **Past performance is not a reliable indicator of future performance.**

- For the month, the best performing names were Charter Hall Group and Stockland Group.
- We added to the Trust's position Goodman Group, based on its solid earnings profile and growing development pipeline.
- The Trust remains positioned with a defensive bias towards stocks with stable, recurring high quality income streams.

Trust Performance

The Perennial Australian Property Wholesale Trust (the Trust) finished the month up 3.3%, marginally underperforming the S&P/ASX 200 A-REIT Accumulation Index (the Index) return of 3.5% by 0.2%.

The best performing names were Charter Hall Group (up 10.6%), following a strong half year result in which earnings were lifted; and, Stockland Group (up 9.0%) with investors focused on the medium term turnaround story and the Group's commitment to maintain its distribution at the current level going forward, rather than the reduction in its earnings guidance and inventory values.

The worst performing names included Commonwealth Property Office Fund (up 0.4%), following ongoing concerns regarding its near term lease expiry profile and key vacancies, which raised questions over its short term earnings capabilities. Investa Office Fund (up 0.7%) was also a laggard for the month for similar reasons, including key lease expiries in FY14 and the uncertain timing of the exit from its European portfolio.

Trust Activity

During February, we took the opportunity to reduce the Trust's underweight position in Stockland Group. Stockland "cleared the decks" so to speak, by impairing a large quantum of its residential inventory at its half year result. Despite the current difficult operational environment, Stockland Group remains one of the few turnaround stories and is set to benefit from a recovery in the housing sector.

We also took the opportunity to book profits in Dexus Group after accumulating the stock at an attractive entry point in January. Additionally, we trimmed the Trust's exposure to CFS Retail Trust based on its soft result and guidance, preferring other retail names. We continue to support Westfield Retail Trust, with exposure to strong assets that would be difficult to replicate; and, Charter Hall Retail REIT, which is exposed to defensive grocery anchored assets that are capturing non-discretionary spending.

Perennial Australian Property Wholesale Trust Facts:

The Trust aims to grow the value of your investment over the long term through a combination of capital growth and income by investing in a broad selection of Australian property investments. The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 200 A-REIT Accumulation Index measured on a rolling three-year basis.

Portfolio Manager:

David Kivell

Trust FUM

(as at 28/02/13):

AUD62.9 million

Team FUM

(as at 28/02/13):

AUD802.6 million

Trust Inception date:

August 1994

Risk Profile:

Medium

Income Distribution

Frequency:

Half yearly

Minimum Initial

Investment:

\$25,000

APIR code:

IOF0044AU

Sale proceeds were used to further add to the Trust's holding of Goodman Group, which we continue to view as attractive based on its solid earnings profile and growing development pipeline.

The Trust remains positioned with a defensive bias towards stocks with stable, recurring high quality income streams, with a focus on high quality assets and robust underlying fundamentals as well as strong capital structures.

Market overview

The Reserve Bank of Australia (RBA) kept interest rates on hold at 3.00% at its February meeting, allowing previous rate cuts to flow through to the economy. There is however, scope for further cuts during the first half of the year, especially given the current low inflation rate.

Domestic economic data was again mixed, with leading indicators pointing to weakness in the domestic economy and no improvement in key business indicators since the RBA began its easing cycle in October 2011. Non mining investment remained weak, with the job market softening. On the positive side, both consumer confidence (up 7.7%) and business confidence (up 3.0%) trended up.

Global economic sentiment improved slightly over the month, with global share markets generally performing well. However, headwinds remain, especially in the Eurozone, where the inconclusive Italian election result created further uncertainty and instability.

Outlook

We continue to be selective in our residential exposure believing that groups with projects targeting the mid-end of the market should benefit from a stronger and more consistent level of demand. In this regard, we prefer Mirvac Group at this stage in the cycle. The stock comes with the benefit of having a majority of its earnings backed by a quality passive property portfolio. We remain cautious on the office sector, which we view as trading on expensive relative valuations and continue to maintain an underweight position in this sector. Office fundamentals remain challenging, with historically high incentive levels and an economic backdrop not conducive to business expansion and subsequent net absorption of office space.

Sector News

During the month, sector news included:

- Mirvac Group announced a \$273.2 million provision (circa \$5.9 cps) against its development projects, relating to changes to assumptions around future sales rates. The provisions largely relate to projects in QLD (72% for eight projects) and WA (27% for two projects). Mirvac noted that across "specific residential submarkets of Brisbane, regional QLD and Perth, both price points and sales have either deteriorated or not shown signs of improvement".
- Charter Hall Retail announced the results of its asset revaluations as at 31 December 2012. The value of the Australian portfolio, representing 92% of the REIT's net tangible assets NTA, increased by \$0.4 million, offset by \$6.8 million of acquisition costs incurred during the period. Underlying income growth from the portfolio offset the expansion of cap rates from 8.17% to 8.22%. Overall, the portfolio declined in value by 1.2% or \$25.1 million over prior book value. This was mainly attributable to the European portfolio's value dropping by \$17.9 million.
- Federation Centres announced an agreement with ISPT Pty Ltd for the sale of 50% of four sub-regional shopping centres and a convenience centre for \$371.4 million located in Mandurah WA, Cranbourne and Karingal in Victoria; and, Warriewood in NSW. Federation Centres will continue to manage the shopping centres to be held with ISPT. The transaction represents a 2.9% premium to 30 June 2012 book value (pre transaction costs) and an average yield of 7.49%. Proceeds will initially be applied to reduce debt.
- The Lowy Family announced the sale of its entire 7% stake in Westfield Retail Trust to "diversify its investments internationally", via an institutional book build conducted by UBS AG.

Asset Allocation as 28 February 2013

| Sector Name | % of Trust |
|-------------------------|--------------|
| Retail | 61.3 |
| Office | 11.6 |
| Industrial | 12.2 |
| Hotel | 0.9 |
| Residential investment | 0.1 |
| Residential development | 5.1 |
| Infrastructure | 0.0 |
| Construction | 0.0 |
| Funds management | 7.2 |
| Other | 1.6 |
| Total | 100.0 |

Signatory of:



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