PERENNIAL FIXED INTEREST

Perennial Cash Enhanced Wholesale Trust

Monthly Report as at 31 July 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Cash Enhanced Wholesale Trust*	0.60	1.43	0.60	5.51	6.17	6.60	6.36
UBS Bank Bill Index	0.29	0.96	0.29	4.57	4.77	4.53	5.22
Value Added (Detracted)	0.31	0.47	0.31	0.94	1.40	2.07	1.14
Net Performance	0.56	1.35	0.56	5.10	5.75	6.18	5.94

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

- The Trust outperformed the Index return by 0.31%.
- Our view still has the cash rate falling to 3.00% late this year or early next year.
- Interest rate strategies added to performance as yields rose late in the month.

Performance

A further sell off in bond and money markets occurred late in July following some powerful words which were voiced by the President of the European Central Bank indicating that it stands ready to do ‘whatever it takes’ to resolve the European Sovereign debt crisis. This caused yields on bank bills and bonds to rise as well as supported the performance of non-government securities such as floating rate credit where credit spreads narrowed.

Overall, the UBS Bank Bill Index (the Index) returned 0.29% over the month. High quality corporate floating rate notes (FRNs) materially outperformed bank bills as credit margins narrowed which added to the running yield advantage these securities offer.

The Perennial Cash Enhanced Wholesale Trust (the Trust) outperformed the Index returning 0.60% over the month.

Pleasingly, many of the strategies employed over the past few months which were built around fundamentals and ‘fair value’ continued to add value in July.

Interest rate strategies in the form of an underweight duration position protected capital and added to performance as yields rose late in the month. Spread sectors more broadly performed well during the month characterised by a ‘risk on’ period with all sectors (semi-government, supranationals and credit) outperforming risk free assets. Given the Trust’s meaningful overweight allocations to credit FRNs and semi-government securities, it benefited from a general contraction in spreads. Finally, security selection also added value over the month including exposures to Queensland Treasury Corporation semi-government bonds, senior and covered major banks, infrastructure and listed property trust debt.

At month end, the weighted average yield of the Trust was 4.89%, as compared to the Index yield of 3.57%.

Perennial Cash Enhanced Wholesale Trust: Fund Facts

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 31/07/12): AUD89.9 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 31/07/12): AUD5.8 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: August 1994	**APIR code:** IOF0047AU

Ratings: Lonsec Recommended

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Market Review

Australian bond yields rallied over most of the month, but strong policy statements out of Europe led a recovery in risk appetite and a late month retracement as markets priced out some of the tail risk associated with a disorderly break up of the Euro.

At the shorter end of the curve, the yield on a three year government bond fell to as low as 2.17% before ending the month 17 basis points (bps) higher at 2.57%. The Reserve Bank of Australia (RBA) began the month by leaving the cash rate unchanged at 3.50%. The minutes for that meeting indicated a weak easing bias at best, with the RBA noting that after a material easing over the past six months and with signs of a little more momentum in the domestic economy, that members saw no need for any further adjustment at the current juncture.

Economic data releases were again mixed. On the stronger side were May building approvals which rose by an astonishing 27.30%. Some of these gains were given back in June data (only -2.50%) but the sector appears to be stabilising after recent falls, with most strength concentrated in the higher density sector. Retail sales were also stronger than expected and there was a post monetary easing bounce in consumer sentiment. On the softer side were business conditions and confidence. The labour market was also weaker with employment falling by 27,000. Inflation remains well behaved, with the headline rate up 0.50% and the average of the statistical underlying measures up 0.6% over the quarter.

Given these developments, there was some modest winding back of easing expectations. While the one month bank bill rate ended the month unchanged at 3.58%, three and six month rates ended the month 9 and 13 bps higher at 3.58% and 3.57%, respectively.

At the longer end, the ten year government bond yield rallied to as low as 2.80% before ending the month 7 bps higher at 3.11%. The key turning point was the ECB's Draghi's vow on 26 July to do "whatever it takes to preserve the Euro". His commentary was consistent with a re-opening of the ECB's Securities Market Programme, something which markets will be looking for in early August. As a result of these moves, the spread between three and ten year government bonds narrowed by 10 bps to end the month at 54 bps.

Credit markets were again stronger over the month with the iTraxx index finishing 17 bps tighter at 166 bps. Primary markets had a steady stream of supply with both Westpac Banking Corporation and Caltex Australia Limited launching subordinated debt issues that will be listed on the Australian Securities Exchange. Investor demand for yield provided strong support to the secondary market resulting in a general narrowing in corporate debt and enabling this sector of the bond market to comfortably outperform over July.

Market Outlook

Recent commentary from the RBA suggests that they are relatively comfortable with the current setting of policy given the current stock of information and the outlook for growth and inflation. As they note, there has been a material easing in monetary conditions and given the lags involved with monetary policy, it is still too early to see clear signs of more recent policy action. Much will depend on developments in Europe, with a sanguine set of outcomes suggesting little need to change monetary conditions. A disruptive event in Europe has the scope to derail global growth and pressure global financial markets. Such an event would require a burst of further monetary easing and depending on the severity, an easing in fiscal policy.

Our base case view still has the cash rate falling to 3.00% late this year or early next year, followed by a long pause and then a gradual modest tightening cycle. Market expectations for the low point in this cash rate easing cycle continue to move up towards our target of a 3.00% low. At the end of July, markets were looking for a low of 2.75% in April 2013 compared to a low of 2.50% in March 2013, a month earlier. At the longer end, we see little value at a long bond around 3.00% with investors vulnerable to any improvement in the economic outlook or recovery in risk appetite and on a longer timeframe, any lift in inflation. We continue to persist with defensive interest rate strategies.

At a sector level, our preferred sectors remain semi-government and corporate debt, with the latter currently offering attractive spreads relative to the healthy state of company balance sheets, and strong demand from investors searching for yield. In this regard we believe the benefit of additional yield will be of increasing value to investors as the prospect of further capital gain from lower yields on sovereign bonds diminishes. We 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 the 'big four' Australian 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:

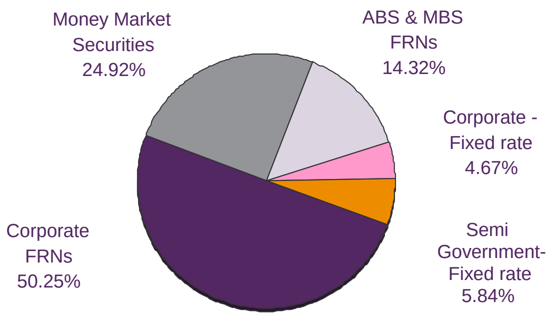
Modified Duration	Years
Trust	0.02
Index	0.13
Active Position	-0.11

Interest rates – Underweight duration. Given market pricing still has more cash rate easing priced in than what we forecast based on our assessment of the economy and the outlook for cash rates, we remain underweight duration. While markets have sold off somewhat towards our assessment of 'fair value' for bond and money market yields, market pricing is still expensive and reflective of 'tail risk' scenarios in relation to the European sovereign crisis.

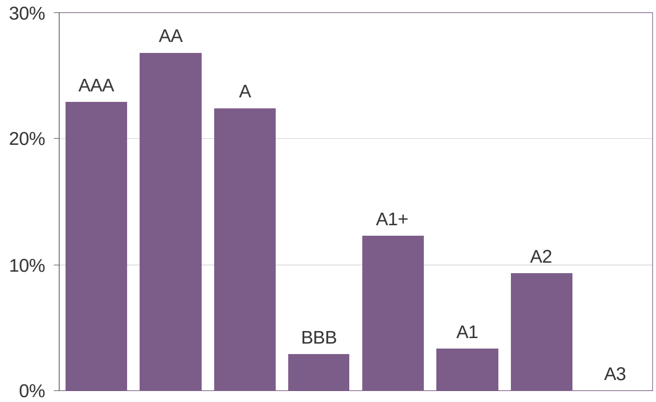
Corporate Debt and asset backed – Overweight. This area of the bond market remains the sweet spot for investors. Relative to risk free assets, corporate debt provides investors with opportunities that are both fundamentally sound and attractively priced. Corporate balance sheets remain healthy while cash flows continue to exhibit stability. While we acknowledge that corporate debt is a little more exposed to the volatility of 'risk on, risk off' episodes, the higher running yield should more than compensate for any capital price fluctuations over the 12 month investment horizons. As such, we remain overweight this sector and expect that it will outperform risk free assets over the medium term. Our favoured sub-sectors are low risk 'AAA' rated 'big four' Australian banks covered as well as senior bonds, listed property trusts, and infrastructure debt.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



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