Perennial Tactical Income Trust

Monthly Report as at 30 June 2012

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.#
Perennial Tactical Income Trust*	0.66	1.49	5.87	5.87	7.01	8.69	8.69
UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted	0.06	2.80	8.51	8.51	6.88	6.54	6.54
Value Added (Detracted)	**0.60**	**-1.31**	**-2.64**	**-2.64**	**0.13**	**2.15**	**2.15**
Net Performance	0.62	1.38	5.40	5.40	6.53	8.21	8.21

*Gross Performance. #Since inception 15 June 2009. **Past performance is not a reliable indicator of future performance.**

- During the month, performance improved significantly with the Trust outperforming the composite Index by 0.61%
- Since inception, the Trust has outperformed the Index by 2.16%.
- Credit markets responded favourably following developments at the European Union summit.

Performance

After a disappointing May, performance improved significantly in June. The Perennial Tactical Income Trust (the Trust) delivered a solid return of 0.67%, outperforming the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted (the Index) return of 0.06% for the month.

The performance of the UBS Composite Bond Index (0+years) was adversely affected by a rise in government bond yields, most notably at the short to mid part of the yield curve. The catalyst for this was the Reserve Bank of Australia's (RBA) decision to decrease the official cash rate by only 0.25%, less than the 0.50% that was widely expected. The magnitude of the rate cut served to dampen longer term expectations as to how far the cash rate might ultimately fall. The rise in yields was constrained by ongoing uncertainty as to Europe's capacity to develop a solution to the debt crisis. However, late in the month the situation improved following positive developments at the European Union (EU) summit. Most notably, the announcement to give the European Stability Mechanism (ESM) the power to provide capital to troubled banks, as well the ability to buy the sovereign debt of problems countries such as Spain and Italy. These developments pushed bond yields higher on the last day of the month, a trend which has continued into early July.

As was emphasised in our May commentary, we have reduced the overall duration of the Trust to 'cash like' levels reflecting our view that bond yields have moved to very expensive levels and represent a high risk investment over the medium term. This strategy added value over June and served to protect investor's capital from the negative impact of rising yields. To date, this rise has been relatively mild. However, as we witnessed earlier this year, bond yields, in our view, remain extremely vulnerable to any meaningful improvement in the global macroeconomic environment.

Also helping performance in June was the improved performance of corporate debt which benefited from the broader recovery in risk appetite. This was reflected in the excess performance of the underlying Trusts (Perennial Australian Fixed Interest Trust and Perennial Cash Enhanced Trust) relative to their respective Index, along with a solid contribution from that part of the portfolio invested in listed hybrid/debt securities.

Perennial Tactical Income Trust

The Trust aims to provide investment returns in excess of the Trust's benchmark the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted by investing in a diversified portfolio of Australian income producing assets. The Trust aims to provide a total return (after fees), that exceeds the benchmark.

Portfolio Manager: Glenn Feben	**Risk Profile:** Low
Trust FUM (as at 30/06/12): AUD250.8 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 30/06/12): AUD5.7 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: June 2009	**APIR code:** IOF0145AU

Ratings: Zenith Highly Recommended, Lonsec Recommended and Van Eyk 'BB'.

Research House Ratings must be read in conjunction with the appropriate disclaimers available at www.perennial.net.au/Ratings_Disclaimers1.pdf

Since inception, the key features of the Trust's performance are:

- Strong absolute return, with a since inception return of 8.70% p.a.
- Strong relative performance with an excess return of 2.16%p.a.
- Consistent positive monthly returns.
- A more stable return profile than traditional fixed interest.

Market Review

The Australian bond market ended the month higher as cash rate expectations shifted and the worst case scenario of a disorderly Greek exit from the European Economic and Monetary Union (EMU) and major contagion from the undercapitalisation of the Spanish banking sector were not realised.

At the shorter end of the curve, the yield on a three year government bond ended the month 27 basis points (bps) higher at 2.40%. The RBA began the month by cutting the cash rate by 25 bps to 3.50%, in what the minutes from the meeting described as a finally balanced decision. At that point, market expectations were for more aggressive policy action.

Economic data releases following the RBA's move were on the stronger side with the national accounts revealing that the economy expanded by a thumping 1.30% over the March quarter. Following that was May labour force data, where employment gained 39,000 and exceeded expectations for the third time in a row. There were some softer releases though, with the NAB Survey of business conditions falling to its lowest level since May 2009 and consumer sentiment remained subdued, despite 75 bps of easing since May.

Against this overall backdrop, markets began to wind back the amount of prospective easing. After falling to as low as 3.45%, the one month bank bill rate ended the month at 3.58%. Likewise, after falling to 3.27% and 3.09% early in the month, the three and six month bank bill rates ended the month at 3.49% and 3.44%, respectively.

At the longer end, the ten year government bond yield ended the month 12 bps higher at 3.04%. Like shorter dated bonds, long bonds made their lows early in the month before stronger domestic data and progress in Europe, particularly at the EU summit, led to a rise in yields. As a result of these moves, there was some flattening in the yield curve with the spread between three and ten year government bonds narrowing by 15 bps to end the month at +64 bps.

Credit markets were stronger over the month with the iTraxx index finishing 22 bps tighter at 183 bps. Credit markets responded favourably to the news out of Europe, in particular the Spanish bank recapitalisation plan, and the removal of preferred creditor status as announced at the EU summit late in the month. Primary markets welcomed ANZ Wealth's launch of its inaugural bond issue, and most of the major banks tapped existing bond lines to raise funds prior to the financial year close.

Market Outlook

Following the run of stronger domestic data, further policy stimulus in China and the US, and another incremental step towards European fiscal integration, the bar for further RBA easing has been raised. Market expectations for the low point in the cash rate have shifted significantly, from a low of around 2.00% by February 2013 in early June, to a low of 2.50% by March 2013 at the end of June. We believe this is still too aggressive and continue to factor in a 3.00% cash rate by the end of 2012, followed by a pause and then a gradual tightening cycle commencing late 2013.

To get further easing, we will need to see ongoing sluggishness in the non mining part of the economy, labour market softness and weaker demand conditions in our major trading partners. It may turn out that the economy responds to more recent easings quicker than expected and forestall the need for further easing. To validate market pricing of another 100 bps of easing, a major shock from Europe, which derails the global economy and financial markets, is needed. While a risk, we believe that this is not the most likely outcome. At the longer end, we see little value of 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. 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	0.44
Index	2.06
Active Position	-1.62

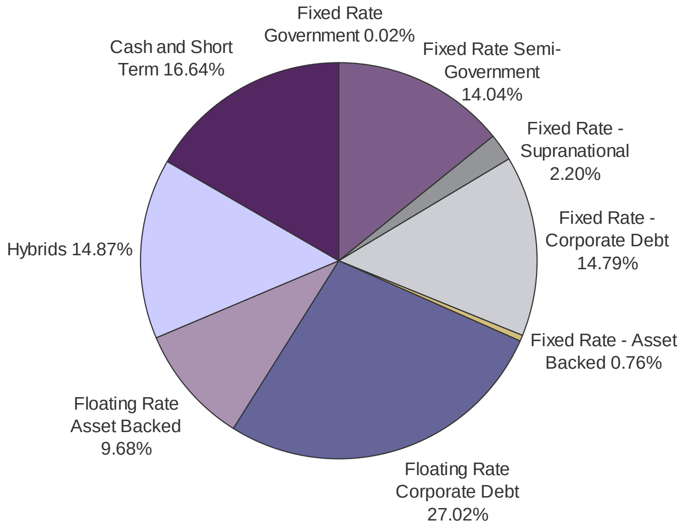
Underweight fixed interest/overweight cash.
For some months now, our view has been that pricing of bond and money markets has been excessively pessimistic reflecting sentiment rather than fundamentals of the Australian economy and the outlook for monetary policy. We continue to maintain a significant underweight allocation to fixed interest in order to protect investor capital during periods of bond market corrections, such as the one we witnessed this month and earlier in the year. Current market pricing has the cash rate falling towards 2.50% by year end, which is a more aggressive profile than our own expectations. However, bond yields continue trade at lower levels with three and ten year bond yields at 2.55% and 3.19% respectively, partly reflecting the offshore demand for Australia's AAA government bonds which remain attractive from a yield perspective against a shrinking pool of AAA issuers. While lower yields can persist for some time, ultimately they will have some relationship with the level of short term rates. If monetary policy is not eased to the level priced in, then at some stage it is reasonable to expect a meaningful rise in bond yields.

Sector allocation: overweight credit.

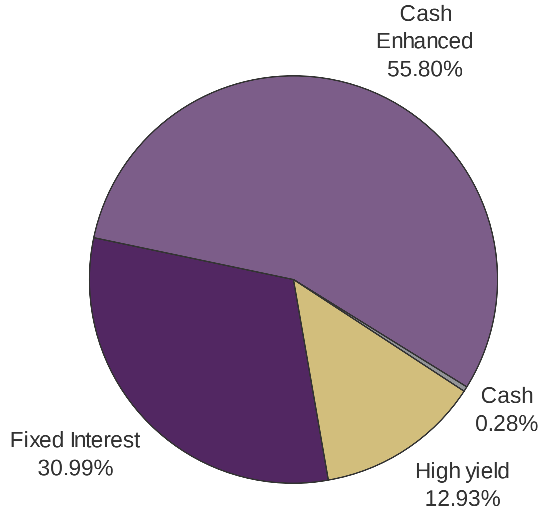
In our view, relative to risk free assets, corporate debt provides investors with opportunities that are both fundamentally sound and attractively priced. Corporate balance sheets remain healthy, while cash flows continue to exhibit stability. While we acknowledge that corporate debt is a little more exposed to the volatility of 'risk on, risk off' episodes, the higher running yield should more than compensate for any capital price fluctuations over 12 month investment horizons. Accordingly, 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 covered bonds from the 'big four' Australian banks covered bonds as well as senior bonds, listed property trusts and infrastructure debt.

Trust Snapshot

Asset Allocation



Sector Allocation



Rounding accounts for small +/- from 100%.

Signatory of: PRI Principles for Responsible Investment