

# Perennial Cash Enhanced Trust

Perennial Fixed Interest's investment approach is fundamentally driven and seeks to take advantage of situations where market pricing has become misaligned with economic and investment fundamentals.

## About the Trust

The Trust provides exposure to a portfolio of predominantly short duration fixed interest securities, with the potential to earn returns in excess of cash.

## Description of the Trust

The Trust invests in a range of high quality interest bearing securities, which are predominantly floating rate, including:

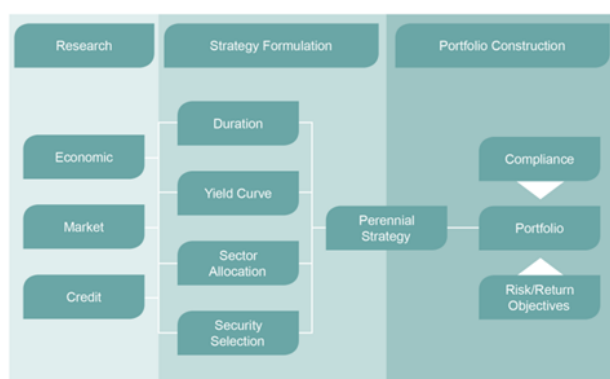
- ▶ bank securities;
- ▶ asset backed securities; and
- ▶ corporate securities.

In managing the portfolio, Perennial Fixed Interest applies a range of strategies that include duration and yield curve management (actively managing the maturity profile of the portfolio), sector rotation and individual security selection.

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The Trust may invest in non Australian dollar denominated securities on the basis that the associated risks inherent in foreign securities are offset by hedging using appropriate instruments.

## Investment process



## Objective

The Trust aims to provide investors with a total return (before fees) that exceeds the benchmark, Bloomberg AusBond Bank Bill Index, by 0.50% p.a. over rolling three-year periods.

## Investment philosophy

Perennial Fixed Interest believe that investment markets are at times influenced by non-fundamental factors that cause prices to periodically overshoot their fair value levels.

In managing cash enhanced portfolios we aim to consistently deliver three things:

- ▶ Returns modestly in excess of the benchmark over the medium term;
- ▶ A high degree of capital security; and
- ▶ Liquidity.

Perennial believes that while fundamentals ultimately determine market prices, for a range of reasons markets tend to overshoot fair value for a time. We believe that by applying a rational and disciplined valuation framework, an active approach in both interest rate and credit management can take advantage of these market overshoots and deliver superior risk adjusted returns over time compared to a purely passive approach.

## Portfolio construction

The Fixed Interest team follows a three stage portfolio construction process that starts with fundamental research. This research covers three key areas:

- ▶ Economic outlook (predominantly driving interest rate management);
- ▶ Market research (predominantly sector allocation); and,
- ▶ Credit research (predominantly security selection).

This research allows the team to identify periods where there is a gap between market/security pricing and the team's estimates of fair value. The size of these gaps will determine the interest rate, sector and security strategies reflected in the portfolio, i.e. the second stage of the portfolio construction process, strategy formulation.

From a bottom up perspective, our credit research uses a three stage filter to determine which securities, and in what magnitude, they find their way into the portfolio:

1. Credit analysis (assessment of quality, price and the diversification benefits to the portfolio);
2. Pricing for risk (to make an assessment of "fair value"); and,
3. Investment guidelines (sector exposures and concentration limits).

The third stage of the process is portfolio construction. Our proprietary risk tool, Perennial One, is used to construct the portfolio through the measurement of interest rate risk, sector risk, credit risk and exposure by security type.

### Trust summary

APIR Code	IOF0111AU
Inception date	August 2002
Risk/return profile	Low
Income distribution	Quarterly
Minimum recommended investment period	3 years
Investment management fee % p.a.	0.28
Performance fee	No
Buy/sell spread %	Nil
Unit pricing, applications and redemptions	Daily

### Investment guidelines summary

Minimum credit rating (security level)	A3, BBB-
Average credit rating (portfolio level)	AA
Modified duration	-0.75 to 1.25 years
Tracking error	0.50%

## Investment team

### Glenn Feben

Portfolio Management  
Interest rate  
Sector strategy  
Perennial: 27 years  
Industry: 34 years

### Frank Uhlenbruch

Macroeconomics  
Interest rate strategy  
Perennial: 19 years  
Industry: 29 years

### Noel Murphy

Portfolio Management  
Interest rate  
Sector strategy  
Perennial: 12 years  
Industry: 34 years

### Jay Sivapalan

Portfolio Management  
Relative value  
Perennial: 14 years  
Industry: 16 years

### Ashley Kopczynski

Credit analysis  
Relative value  
Perennial: 8 years  
Industry: 12 years

### Taf Mugwagwa

Analyst  
Dealing  
Perennial: 1 year  
Industry: 7 years

For further information contact us on 1300 730 032 or visit [www.perennial.net.au](http://www.perennial.net.au)

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