

Perennial Capital Stable Wholesale Trust

Monthly Report as at 31 December 2011

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	0.0	1.5	0.8	2.9	7.4	3.2

^ Since Inception: July 1999. Past performance is not a reliable indicator of future performance.

- Europe's ongoing fiscal problems continued to dominate investors' and policy makers' minds.
- The fall in Australian yields has seen the fixed interest sector become even more expensive.
- Australian shares ended December towards the lower end of the trading band evident over last five months.

Performance

The Perennial Capital Stable Wholesale Trust finished the month flat.

Economic and Policy Trends

In the US, the tone of economic data continued to improve with signs of a modest but welcome improvement in the labour market. In China, signs are emerging that growth has begun to moderate with a lag to earlier tightening efforts and inflation is easing. These developments have given Chinese policy makers some room to ease overall policy settings, with the most visible move being a cut in the reserve requirement ratio from 21.5% to 21%.

Europe's ongoing fiscal problems continued to dominate investors' and policy makers' minds. The latest political instalment delivered a new 'fiscal compact', a proposal for an additional €200 billion to be made available to the IMF and an agreement to bring forward the start date for the European Stability Mechanism from July 2013 to July 2012. The European Central Bank responded to these initiatives, not with direct support for European sovereign debt but with monetary easing and a strong package supporting liquidity in the financial sector. The sum of these measures is not a panacea to the current problems. While implementation risks abound, at least some progress was made. Nevertheless, significant and difficult structural reform will be required in southern European countries to help improve their competitiveness, testing the will of politicians as well as the populace.

Given the deterioration in the global economic outlook and the prospect of a very weak start to 2012, the Reserve Bank of Australia (the RBA) took out further insurance in December, cutting the cash rate from 4.5% to 4.25%. We look for the RBA to cut the cash rate again in February, with a further and final easing in May looking increasingly likely. This should provide a buffer against negative offshore developments and local fiscal tightening, as well as provide a fillip to the interest rate sensitive sectors of the economy.

Perennial Capital Stable Wholesale Trust Facts:

To provide a relatively low risk of capital loss and a total return (after fees) that exceeds the return of the Trust's composite benchmark* measured on a rolling three-year basis.

*The composite benchmark incorporates the applicable benchmarks for each asset class weighted against the Trust's neutral asset allocation.

Portfolio Manager: Frank Uhlenbruch	Risk Profile: Low to Moderate
Trust FUM (as at 31/12/11): AUD34.6 million	Minimum Initial Investment: \$25,000
Income Distribution Frequency: Half yearly	APIR code: IOF0100AU
Trust Inception date: July 1999	

Equity Market Trends

Equity markets were again volatile, oscillating between optimism, inspired by bursts of good US data, and pessimism, driven by European policy uncertainty. In the US, the S&P 500 ended the month up 0.90% in US dollar terms, while in Japan, the Nikkei edged up 0.2%. In Europe, the Euro Stoxx 50 ended the month 0.6% lower. The MSCI World ex-Australia Accumulation Index in Australian dollars ended up 0.2%, with an appreciating currency a modest drag on sector returns. In Australia, the S&P/ASX 300 Accumulation Index ended the month down 1.4% and the year down 11%.

Bond Market Trends

Yields were largely unchanged at the shorter end of the yield curve, but lower at the longer end which was underpinned by flight to quality flows emanating from the European sovereign debt crisis. The three year government bond yield ended the month at 3.13%, up one

basis point, while the ten year government bond yield ended the month at 3.67%, 26 basis points lower. The overall move in yields resulted in some modest capital gain for the sector, with the UBSA Composite Bond Index gaining 0.78%. The cash sector, as measured by the UBSA Bank Bill Index, returned 0.40%.

Investment Strategy

Australian shares ended December towards the lower end of the trading band evident over last five months. At current levels, valuations continue to remain attractive with strong reward for risk. Recent monetary easing should help stimulate the non resources sectors of the economy and help improve the earnings environment. We maintain our overweight Australian equities strategy.

The fall in Australian yields has seen the fixed interest sector become even more expensive, with the market continuing to factor in an overly aggressive easing cycle. We remain tactically underweight the fixed interest sector.

Sector	Weighting %	Month %		One Year %	
		Perennial	Benchmark	Perennial	Benchmark
Value Australian Shares	11.8%	-1.1%	-1.4%	-12.2%	-11.0%
Growth Australian Shares	11.7%	-2.1%	-1.4%	-12.8%	-11.0%
International Equities	4.5%	-1.9%	0.2%	-13.7%	-5.3%
Australian Listed Property	4.9%	-2.5%	-2.7%	-1.1%	-1.5%
Australian Fixed Interest	35.84%	0.69%	0.78%	9.75%	11.37%
Global Fixed Interest	10.42%	2.88%	1.90%	7.46%	10.51%
Cash	20.92%	0.44%	0.40%	5.44%	5.00%

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