

Perennial Balanced Trust

Monthly Report as at 31 July 2010

	Month %	Quarter %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Net Performance	2.8	-2.9	10.0	-0.3	-3.3	2.8

* Gross Performance. ^ Since Inception

- The Trust returned 2.8% for July.
- A recovery in risk appetite over the month, helped by strong corporate earnings data in the US, helped underpin returns.
- The European bank stress test report noted that only seven of the 91 banks failed the test.

Performance

The Perennial Balanced Trust (the Trust) returned 2.8% for July and 10.0% over the last 12 months. A recovery in risk appetite over the month, helped by strong corporate earnings data in the US, helped underpin returns.

Economic and Policy Trends

The main policy highlight this month was the release of the European bank stress test. The report noted that only seven of the 91 banks failed the test. The release of the report was not a definitive circuit breaker to European sovereign concerns, as there was some conjecture that the tests could have been more severe. That said, there appears to have been a gradual improvement in European liquidity conditions since its release. In the US, the Federal Reserve's Bernanke, in his semi-annual address to congress, reiterated the Federal Reserve's cautious outlook and its preparedness to "take further policy actions as needed" to support the US recovery.

In Australia, the RBA left the cash rate unchanged at 4.5% in early July. Its commentary suggests that it remains in a wait and see mode against the backdrop of lending rates at longer run average levels. Data releases over July were mixed. Interest rate sensitive sectors like building approvals, housing finance and credit were subdued. The labour market exceeded expectations again, with a strong 45,900 gain. Business and consumer confidence bounced, whilst the rise in June quarter CPI of 0.6% was lower than expected. This data is consistent with no near term change in the cash rate and Perennial continues to hold the view that the next tightening will come in November.

Sector Trends

Equity Market Trends: Equity markets had a strong month, with a strong reporting season in the US overcoming ongoing concerns about the durability of the global recovery. In the US, the S&P 500 gained 6.9%.

Perennial Balanced Trust Facts:

The Trust aims to grow the value of your investment over the medium to long term by investing in a range of growth and income producing assets, and to provide a total return (after fees) that exceeds the return of its benchmark measured on a rolling three-year basis.

Portfolio Manager:

Frank Uhlenbruch

Risk Profile:

Moderate

Fund FUM

(as at 30/06/10):

AUD \$16.0 million

Minimum Initial

Investment:

\$25,000

Income Distribution

Frequency:

Half yearly

APIR code:

IOF0114AU

Trust Inception date:

July 2001

Did you know?

Five of the seven banks that failed the European bank stress tests were Spanish: Diada, Espiga, Banca Civica, Unnim and Cajasur. The other two were Germany's Hypo Real Estate and Greece's ATEbank.

In Europe, the Euro Stoxx 50 gained 6.6% in local currency terms. Gains were more subdued in Japan, with the Nikkei up 1.6%. The MSCI World ex-Australia Accumulation Index in AUD rose 0.7% over the month, with a sharp appreciation in the AUD a significant drag on returns. The Australian share market benefitted from a recovery in risk appetite, with the S&P/ASX 300 Accumulation Index up 4.5%.

Bond Market Trends: After several strong months, returns from the Australian bond market were more subdued in July. Yields on both three and ten year government bonds crept up over the month in anticipation of a high CPI result. When the number came in lower than expected, yields edged lower. However, three and ten year government bond yields still ended the month 13 and 11 basis points higher at 4.56% and 5.2% respectively. These moves underpinned a 0.27% gain in the UBSA Composite Bond Index. The cash sector, as measured by the UBSA Bank Bill Index, returned 0.42%.

Investment Strategy

Tactical asset allocation added value over the month. Despite the rebound in Australian shares, Perennial's valuation metrics suggest that the sector still remains attractively valued. Accordingly, the tactical overweight Australian shares position remains.

Despite a small rise in yields, the Australian fixed interest sector still looks expensive. Markets are factoring in little chance of tightening over the next 18 months, even though the RBA have Australian growth and underlying inflation rising over that period. The Trust remains tactically underweight Australian fixed interest.

Sector	Weighting -%	Month -%		One Year - %	
		Perennial	Benchmark	Perennial	Benchmark
Value Australian Shares	22.6	4.4	4.5	8.9	10.0
Growth Australian Shares	22.1	3.9	4.5	8.0	10.0
International Equities	22.1	0.4	0.7	4.5	0.5
Australian Listed Property	2.3	1.3	1.0	22.2	18.8
Australian Fixed Interest	13.2	0.44	0.27	10.20	7.81
Global Fixed Interest	7.9	1.91	1.14	17.29	11.10
Global Property	7.7	7.8	7.4	27.7	25.2
Cash	2.1	0.60	0.42	7.48	4.05

Past performance is not a reliable indicator of future performance