

Perennial Partners Trust

Monthly Report as at 31 July 2010

	Month %	Quarter %	1 Year %	2 Years % p.a.	3 Years % p.a.	SI [^] % p.a.
Perennial Partners Trust*	2.5	-3.3	14.0	0.8	-	-4.3
UBSA Bank Bill Index	0.4	1.2	4.1	4.6	-	4.9
Value Added (Detracted)	2.1	-4.5	9.9	-3.8	-	-9.2
Net Performance	2.4	-3.6	12.5	-0.4	-	-5.4

* Gross Performance. ^ Since Inception

- The Perennial Partners Trust (the Trust) gained 2.5% in July.
- Markets were spurred on by a better than expected outcome on the European banks stress tests.
- The European bank stress test report noted that only 7 out of the 91 banks tested were deemed to have failed.

Performance

The Perennial Partners Trust (the Trust) gained 2.5% in July, outperforming the UBSA Bank Bill Index (the Index) by 2.1%. Markets were spurred on by a better than expected outcome on the European banks stress tests.

Global Market Update

The main policy highlight this month was the release of the European bank stress test. The report noted that only 7 out of the 91 banks tested were deemed to have failed. 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 Fed's Bernanke, in his semi-annual address to congress, reiterated the Fed'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 the month were mixed. Interest rate sensitive sectors like building approvals, housing finance and credit were subdued. The labour market exceeded expectations again with a strong 45.9k gain. Business and consumer confidence bounced, whilst the rise in June quarter CPI at 0.6% was lower than expected. This data is consistent with no near term change in the cash rate and we to hold the view that the next tightening will come in November.

Perennial Partners Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a concentrated selection of international and domestic shares, international and domestic listed property securities and fixed interest securities. The Trust aims to provide a total return (after fees) that exceeds the UBS Bank Bill Index + 5% p.a. measured over a three to five-year period.

Portfolio Manager: James Soutter	Income Distribution Frequency: Half yearly
Trust Inception date: April 2008	Minimum Initial Investment: \$25,000
Risk Profile: High	APIR code: IOF0126AU

Did you know?

The term "Valeo", the name of the Trust's strongest performer during the month, means "I'm fine". This name was chosen by the Group's shareholders in 1980 to unite all aspects of the business under one name.

Investments

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%. 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 was up 0.7% over the month, with a sharp appreciation in the AUD a significant drag on sector returns. The Australian share market benefitted from a recovery in risk appetite, with the S&P/ASX 300 Accumulation Index up 4.5%.

Companies which performed well for the Trust over the month included Equinox, Qantas and Thorn Group. Equinox moved up very strongly due to the strong copper price, where supply is tight and the demand outlook continues to be firm. Qantas recovered from a very over-sold position, where it was trading at an unwarranted discount to overseas airlines. Thorn Group continued to perform well, as the market grows in appreciation for this quality low profile company.

Companies which struggled to keep pace with the market included Onesteel, Fletcher Building and Macquarie Group. Long products steel maker and iron ore producer, Onesteel continued to suffer from pessimism about the overall macroeconomic environment, which traditionally harms the economically sensitive industries such as steel. The Fletcher Building shareprice was soft due to weakening forward indicators for NZ housing consents, house sales and net migration. It appeared that the removal of tax depreciation on NZ residential property and continuing uncertainty about potential changes to negative gearing affected investor behaviour. Macquarie Group continued to be impacted by the tough economic and credit environment for investment banks generally. Investors' appetite for risk remained low, but will likely change over the medium term.

After month end, property major, Stockland bid \$1.50 for retirement village operator, Aevum Limited, against a closing pre-bid price of \$1.09. The Aevum shareprice rose 40% initially and the Board made a preliminary rejection of the bid.

Global equity markets saw a number of events push them higher including the results of the European bank stress tests. The tests were more benign than expected and a sway of company results that, on average, far exceeded expectations. One of the strongest performers amongst

the Trust's global equity names was Valeo, the French auto part maker that rose 21.8% after posting very strong results.

In hedged AUD terms, the FTSE/EPRA NAREIT Global Property Index returned 7.4%. The major markets of United States (up 9.7%), United Kingdom (up 7.3%), France (up 9.4%) and the Netherlands (up 8.9%) all posted strong returns. In Asia, Hong Kong stocks performed well (up 6.7%), as did Singaporean stocks (9.0%). Other continental European markets generally performed well, gaining between 5% and 10%. The only outliers were Italy (up 2.2%) and Greece (up 18.8%). Both countries comprise only a couple of stocks and are quite volatile markets. The poorest relative performers in these stronger market conditions were Australia and Japan, up 1.0% and 2.0% respectively.

Whilst these strong monthly returns are welcome, Perennial continues to foresee the volatile market conditions continuing. Whilst this affects short term returns, ultimately property is a long term asset with stable cash flows. However, the Team sees the return prospects as quite varied across different stocks, so will continue our endeavour to take advantage of pricing anomalies. This will be achieved by focusing on property securities have sound capital structures and hold high quality assets in good property markets.

After several months of strong returns from the Australian bond market, July was more subdued. 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%.

The credit investments in the Trust continued to perform well, as the veil of pessimism that pervaded global financial markets lifted a little. Total returns for this sector of the Trust were 0.82%, comfortably above cash returns and considerably higher than the broader Australian fixed interest market. The majority of the debt securities holdings are Australian listed hybrid bonds which continued to enjoy strong support from both retail and institutional investors. In Perennial's judgement, this support is likely to continue in the months ahead, as their

current pricing still holds out the prospect of a very attractive risk versus reward proposition. Based on prevailing prices, they should deliver returns meaningfully above cash, while against growth assets like shares, should deliver returns broadly commensurate with that sector, but with considerably less volatility.

Outlook

Two differing views seem to be at odds when evaluating the global environment. The top down view of economists that see a number of red flags including unemployment, fiscal policy contraction and deficits. This is at odds to the views that are being portrayed by companies, where the reporting season in the US and Europe has been far better than expected for corporate profits, exceeding expectations. With the Australian reporting season just getting underway, it will be interesting to see if this picture can continue. However, there is a general expectation Australian companies may struggle, as expectations are already very high.

These two view points provide many questions, with fodder for both the bulls and bears. It remains Perennial's contention that the corporate outlook is robust, with non-financial corporate leverage being low, thus providing a backstop in choppy waters but also the ability to use leverage to expand when necessary. Though 2010, the weighting to fixed interest assets within the Trust has been increased and this overweight position will be maintained until greater clarity on the global economic outlook appears.

The next step in the Trust's strategy that differentiates it from other multi-asset class funds is its focus on individual stocks not markets. This is a key driver of performance, a focus on individual companies or securities that can provide outperformance rather than an allocation towards markets, thus allowing the "best ideas" of Perennial to be included in one Trust.

Asset Allocation as at 31 July 2010

Asset	% of Portfolio
Australian Shares	38.3
Australian Fixed Interest	22.8
Cash	4.2
International Shares	21.6
Property	13.2

Source: Perennial. +/-100% is due to rounding .