

Perennial Partners Trust

Monthly Report as at 31 December 2011

| | Month % | 3 Months % | 1 Year % | 2 Years % p.a. | 3 Years % p.a. | SI [^] % p.a. |
|--------------------------------|-------------|---------------|--------------|-------------------|-------------------|---------------------------|
| Perennial Partners Trust* | -1.2 | -0.4 | -9.2 | 0.2 | 10.9 | -2.4 |
| UBSA Bank Bill Index | 0.4 | 1.2 | 5.0 | 4.8 | 4.4 | 5.0 |
| Value Added (Detracted) | -1.6 | -1.6 | -14.2 | -4.6 | 6.5 | -7.4 |
| Net Performance | -1.3 | -0.7 | -10.4 | -1.1 | 9.5 | -3.6 |

* Gross Performance. ^ Since Inception: April 2008. Past performance is not a reliable indicator of future performance.

- Equity markets were again volatile, oscillating between optimism, inspired by bursts of good US data, and pessimism, driven by European policy uncertainty.
- Better performing Australian equity holdings included Macquarie Group, Fletcher Building and Fantastic Furniture.
- US REITs reversed November's poor performance and were the best performers in December.

Performance

The Perennial Partners Trust (the Trust) fell 1.2% in December, underperforming the UBSA Bank Bill Index (the Index) by 1.6%. 2011 was a tough year for investors and as we enter 2012, the Trust continues its cautious stance. The Trust maintains significant weighting to lower risk assets (cash and fixed interest), which make up nearly 37% of the Trust.

Global Market Update

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 International Monetary Fund and an agreement to bring forward the start date for the European Stability Mechanism from July 2013 to July 2012. The European Central Bank (ECB) responded to these initiatives with monetary easing and a strong package supporting liquidity in the financial sector. However, the sum of these measures is not a solution 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.

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

Given the deterioration in the global economic outlook and the prospect of a very weak start to 2012, the Reserve Bank of Australia (RBA) took out further insurance in December, cutting the cash rate from 4.5% to 4.25%. We expect 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.

Investments

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 0.9% 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 finished 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%.

Within the Trust's Australian equity holdings, the better performing stocks included Macquarie Group, Fletcher Building and Fantastic Furniture. There were minimal changes for Macquarie Group. Although, there was better sentiment about the US economy and positive news that the US banks would be adopting the latest Basel 3 capital requirements which, if not done, could have disadvantaged some of Macquarie's US operations. Fletcher Building was recovering from recent underperformance and was helped by some positive trends in New Zealand housing and more detail on the Government funding for the Christchurch rebuild. Unfortunately, further aftershocks in the Christchurch region will most likely lead to further delays. There was no particular news on Fantastic Furniture.

The main underperforming stocks included Harvey Norman, TPG Telecommunications and Thorn Group. The poor trends evident in the discretionary retail sector continue to impact on Harvey Norman and management commentary pointed to a difficult Christmas period. There was little news on TPG Telecommunications which increased its stake in broadband provider and ISP, linet Limited, on the last day of the previous month. However, the market is wary of acquisitions, despite TPG's sound history. There was no update regarding Thorn Group which provided a four cent dividend last month.

Global equity holdings within the Trust maintained a tight spread of returns throughout December, despite a high level of intra month volatility across markets. The strongest performer was Alliance Data Systems, the US based technology company that supplies data and marketing information to the retail sectors. The weakest performer was Vale, the Brazilian iron ore miner (down 7.7%).

US REITs reversed November's poor performance and were the best performers in December, finishing the month up 4.4% in local currency terms. Better than expected economic data in the US, with signs of a modest but welcome improvement in the labour market, together with increased activity in the sector, contributed to price gains during the month. Across the Atlantic, despite concerted efforts to address Europe's ongoing sovereign debt issues, concern about the situation continued to

dominate the market and investor sentiment. European REITs were the worst performing region, finishing the calendar year down 1.8% in local currency terms and significantly underperforming the broader equity market.

The Asian real estate securities markets finished down for the second month in row, as signs that China's growth has begun to moderate and weak European economies weighed on property markets and investors. While markets in Australia, Hong Kong and China finished in positive territory, any good news was tempered by the falls in the Japanese (down 6.1%) and Singaporean markets (down 6.8%), as well as poor sector performance relative to equity markets. While finishing the month up 2.7%, Australian REITs underperformed the broader equity market by 1.3%.

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 Index, returned 0.40%.

Outlook

The overhang from the European Debt crisis remains ever present, despite incremental news flow in recent days becoming more positive. Changes to the European Union (EU) treaty and more substantial ECB and EU actions are required before the threat of European financial meltdown will begin to abate. European GDP is likely to slow in 2012, with Bloomberg consensus estimates for European area growth declining to -0.2%, from 1.8% earlier in the year. Risks to 2013 estimates remain to the downside, given that growth of 1.1% is still expected. However, this estimate has declined from 1.6% earlier in December.

Despite the European slowdown, the macroeconomic picture remains far from dire. According to Bloomberg, Global GDP will grow at over 2.3% in 2012, down from 2.7% expected this year. This will be driven by the US (2.1%), Japan (1.7%), South Korea (3.8%) and China (8.5%). Furthermore, inflationary fears in emerging economies are declining. As such, much anticipated monetary policy easing is beginning to occur across a range of emerging markets including Brazil, China and Thailand.

The recent market sell-off has created a great deal of value, particularly in more cyclical sectors such as financials, materials and energy. We continue to favour stocks with conservative balance sheets, strong and visible cash flows and attractive valuations. Many such opportunities fitting these criteria have become available in recent months.

Asset Allocation as at 31 December 2011

| Asset | % of Trust |
|---------------------------|------------|
| Value Australian Shares | 18.3 |
| Growth Australian Shares | 18.7 |
| International Equities | 17.1 |
| Fixed Interest Securities | 17.7 |
| Global Property | 9.3 |
| Cash | 18.9 |

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