

Perennial International Equities Trust

Monthly Report as at 31 December 2011

	Month %	3 Months %	Financial YTD	1 Year %	3 Years % p.a.	5 Years % p.a.	SI* % p.a.
Perennial International Equities Trust ^	-1.9	2.0	-11.3	-13.6	-2.0	-8.4	-4.3
MSCI World Accum. (ex Australia) Index unhedged	0.2	2.0	-6.1	-5.3	-2.6	-7.5	-4.0
Value Added (Detracted)	-2.1	0.0	-5.2	-8.3	0.6	-0.9	-0.3
Net Performance	-2.0	1.7	-11.8	-14.9	-3.3	-9.5	-5.4

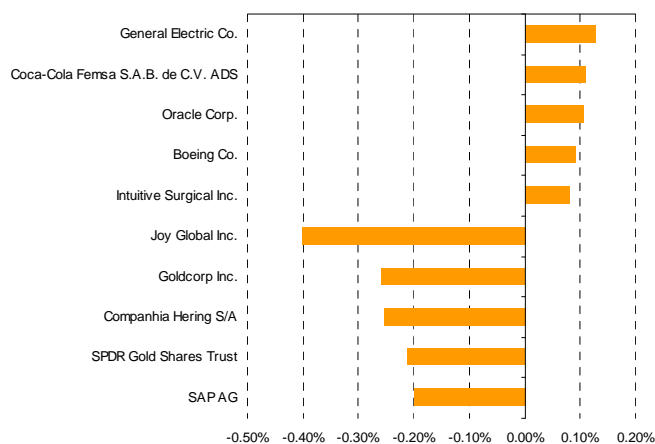
^ Gross Performance. * Since inception: July 2001. **Past performance is not a reliable indicator of future performance.**

- The Index finished the month flat; having fallen by as much as 4.2% earlier in the month.
- In 2011, Herbalife was the strongest performer in the Trust rising 51% in AUD terms.
- Improved data in the US and Europe was offset by mixed economic data in China.

Global equity markets were mixed during December. The MSCI World Accumulation (ex Australia) Index unhedged (the Index) finished the month flat in AUD and local terms. The Perennial International Equities Trust (the Trust) finished the month down 1.9%, underperforming the Index return by 2.1%.

Macroeconomic matters continued to dominate markets during the month. Equity markets were spooked on 25 November, when Italy was charged a yield of 6.5% on 179 day bills sold in the market. However, the volatility in debt markets was highlighted on 28 December, when Italy was able to sell debt of the same maturity for just 3.25%. This gave equity markets a late boost.

Stock Attribution



Perennial International Equities Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a diversified portfolio of international shares and to provide a total return (after fees) that exceeds the return of the MSCI World Accumulation (ex-Australia) Index unhedged measured in Australian Dollar terms on a rolling three-year basis.

Portfolio Manager:

James Soutter, Clay Carter

Risk Profile:

High

Trust FUM

(as at 31/12/11):

AUD38.4 million

Team FUM

(as at 31/12/11):

AUD229.9 million

Trust Inception date:

July 2001

Income Distribution

Frequency:

Half Yearly

Minimum Initial

Investment:

\$25,000

APIR code:

IOF0213AU

US macroeconomic data continued on a positive note, with the unemployment rate falling to 8.6% - the third consecutive monthly decline. Furthermore, the Chicago Purchasing Manager's index came in at 62.5, well above consensus of 58.5. Perhaps most importantly, the ADP national employment report indicated that 206,000 jobs were created in November and 325,000 in December, both well ahead of consensus.

Improved data in the US and Europe was offset by mixed economic data in China. During the month, November retail sales growth of 16.8% was below consensus of 17.3% and 17.2% recorded in October. The external trade balance also declined markedly. However, the purchasing manufacturers index (PMI) and industrial production growth were both stronger than expected.

The Trust's performance during the month benefitted from stock picking in the IT and energy sectors, with General Electric, Boeing and Intuitive Surgical all generating strong returns.

In the past year, the strongest performers in the Trust have come from a variety of sectors and geographies. On an aggregated basis, holdings in consumer staples, financials and IT have all contributed positively to the Trust. This has been adversely affected by holdings in materials and energy.

Since December 2010, the strongest performer in the Trust has been Herbalife, a US based health foods retailer. On a split adjusted basis, Herbalife has rallied 51% in AUD terms since 30 December 2010, adding 77 basis points of outperformance to the Trust.

In the past year, Philip Morris has also been a stellar performer, rallying 40.9% in AUD terms and adding 66 basis points of contribution to the Trust. Philip Morris, a US based tobacco company, has strong and predictable cash flow that has seen it outperform in this period of uncertainty.

During December, the following positions were added to the Trust:

- BMC Software (BMC) provides management software for mainframes and other distributed computer systems. The company has good market share and is displaying good growth of revenues, profits and operating cash flows. BMC was added to the Trust following a large sell off, which offered an attractive entry point.
- LAM Research (LAM) manufactures, markets and services semiconductor processing equipment. The recently completed Novellus acquisition, a lowly price and cyclical low valuation, provides a compelling investment case.

During the month, the following positions were exited:

- Haitian International, a Chinese based manufacturer of plastic moulding machines, was sold because the macroeconomic impact of a slowing Asia could have a disproportionately large impact on the company.
- Tidewater Inc., a US based offshore marine company, was sold due to weaker earnings than its peers.

Outlook

The overhang from the European debt crisis remains ever present, despite recent incremental news flow turning more positive. Changes to the EU treaty and more substantial European Central Bank and EU actions are required before the threat of a European financial meltdown will begin to abate. European GDP is clearly likely to slow in 2012, with Bloomberg consensus estimates for European area growth declining to -0.2%, from 1.8% earlier in the year. Risk to 2013 estimates remains to the downside, given 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, the much anticipated monetary policy easing is beginning to occur across a range of emerging markets including Brazil, China and Thailand.

Stock Story

Hugo Boss AG (Boss) designs, produces and markets brand name clothing. The company's products, marketed under the brand names Boss, Hugo and Baldessarini, are sold through subsidiaries, franchises and retail outlets throughout the world. Boss licences its name for spectacle frames, fragrances, watches, shoes, leather goods, children's fashion and motorcycle helmets.

Boss is taking share from competitors, driven by several structural growth trends. Its retail division is expected to generate around 55% of total sales by 2015, up from 40% in 2010 and 24% in 2006. This channel mix change is boosting overall margins. The brand is underdeveloped in womenswear representing just 12% of total sales, as well as shoes and accessories which are currently just 10% of group sales. In US wholesale, the number of shop-in-shops at Bloomingdale's and Sak's is expected to grow from 2 in 2010 to 27 in 2012. European wholesale is continuing to recover despite a tough macroeconomic backdrop, driven by implementing retail best-of-breed strategies. e-Commerce sales more than doubled in 2010 on the previous corresponding period to €20 million and are expected to generate €150 million in revenue by 2015. The growth in revenue is expected to be driven by the launch of a Mobile store in 1H12 and an online store in China in 2H12. Total sales from China represented just 7% of group sales in 2010 and are expected to grow to approximately 17% by 2015. The Chinese market is dominated by male spending, which is Boss' key strength

(menswear accounted for 76% of group sales in 2010) and higher margin.

On the cost front, under project DRIVE which aims to improve retail execution, the company has fully implemented the 38 week lead time (down from 50 weeks) between the start of development of a collection and the delivery of the finished product. Boss will aim to offer four equally weighted collections based on actual consumer buying behaviour, which should drive fuller pricing (versus just two main collections per annum). DRIVE aims to reduce complexity, with the number of styles offered over 2009 to 2012 falling to around 12,500 – a drop of 34%. Global sourcing can be much improved, especially in Asia. Once the new wholesale warehouses are open in Shanghai and Hong Kong, the company can reduce replenishment lead time from four weeks to one week and merchandise for China can be sourced locally rather than from Europe.

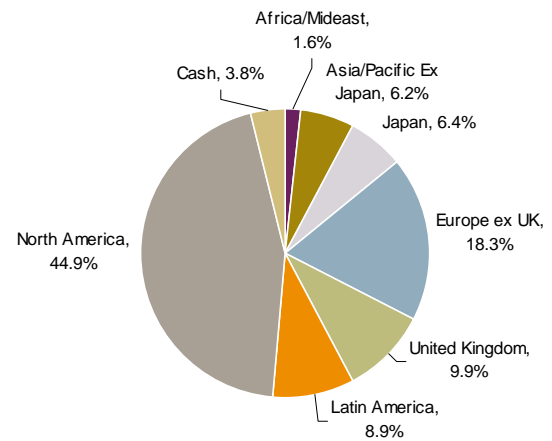
Boss is a high quality investment offering a strong management team, high dividend payout ratio of up to 80%, low capital intensity and high ROE. It may be net cash positive from 2013. At its Investor Day in November 2011, the company upgraded its medium term 2015 sales target to €3 billion from €2.5 billion and its EBITDA target to €750 million from €500 million. Post the end of this reporting period, in January 2012 its current year (upgraded) guidance was reiterated, highlighting good holiday sales and no slowdown in the Americas.

Top Five Stocks as at 31 December 2011

Stock Name	% of Trust
Petrofac Ltd.	2.2
British American Tobacco PLC	2.2
Philip Morris International Inc.	2.2
BG Group PLC	2.1
General Electric Co.	2.0

Source Perennial Investment Partners

Regional Allocation as at 31 December 2011



Rounding accounts for small +/- from 100%.