

# Perennial Asia Equity Trust

Monthly Report as at 31 July 2010

	Month %	Quarter %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.	SI <sup>^</sup> %p.a.
Perennial Asia Equity Trust*	-0.1	1.0	8.9	6.4	-5.0	5.3	4.0
MSCI Far East Free (ex Japan) Accum. Index	-0.7	1.6	4.2	4.8	-4.4	6.7	1.3
Value Added (Detracted)	0.6	-0.6	4.7	1.6	-0.6	-1.4	2.7
Net Performance	-0.4	0.5	7.2	4.9	-6.3	3.8	3.2

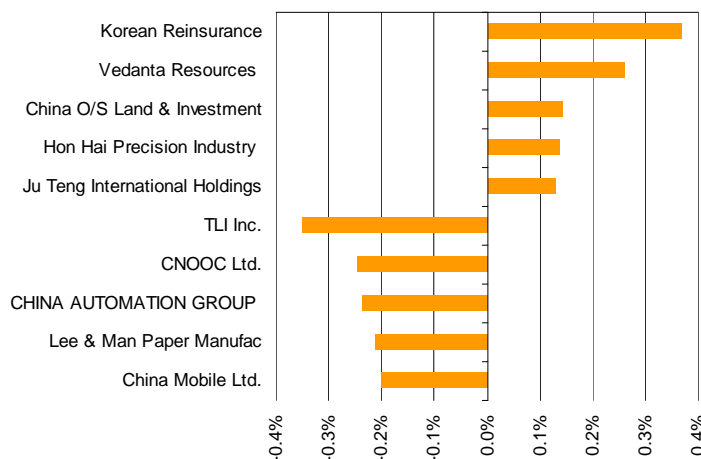
\* Gross Performance ^Since Inception

- Asian markets performed strongly in July.
- Positive returns were negated by the strong AUD, which appreciated by 7.5% against the USD over the month.
- Local markets in China and Hong Kong were among the best performers during the month.

## Performance

The Perennial Asian Shares Wholesale Trust (the Trust) fell 0.1%, outperforming the MSCI Far East Free (ex Japan) Accumulation Index (the Index) by 0.6% in AUD terms. However, in local currency terms, markets in Asia performed strongly, with the Index returning more than 5% in USD terms. This positive return was negated by the strong AUD, which appreciated by 7.5% against the USD over the month.

### Stock Attribution



Local markets in China and Hong Kong were among the best performers in July, rising by more than 5% in local currency terms. This was due to fading concerns of monetary tightening and restrictions in the Chinese real estate market. The announcement of a RMB 5 trillion plan to develop clean energy also helped to boost the region's sentiment. India's SENSEX was the worst performer for the month, partly due to lacklustre quarterly earnings announcements, as well as two rate hikes imposed by the RBI.

## Perennial Asia Equity Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a carefully selected portfolio of Asian shares (excluding Japanese shares) and to provide a total return (after fees) that exceeds the MSCI Far East Accumulation (ex-Japan) Index unhedged on a rolling three-year basis.

**Portfolio Manager:**  
James Soutter, Clay Carter

**Risk Profile:**  
High

**Trust FUM  
(as at 30/07/10):**  
AUD \$32 million

**Income Distribution  
Frequency:**  
Annually

**Team FUM  
(as at 30/07/10):**  
AUD \$191 million

**Minimum Initial  
Investment:**  
\$25,000

**Trust Inception date:**  
July 1997

**APIR code:** IOF0112AU

## Did you know?

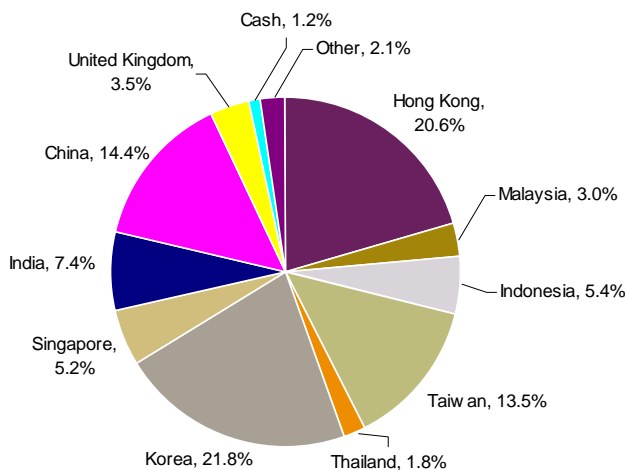
One of the Trust's strongest performers over the month was Giordano International Limited. Giordano listed on the Hong Kong Stock Exchange in June 1991. It is, along with HSBC, one of the few Hong Kong-listed companies with a 100% free-float. The company now has over 1,900 stores in over 30 different markets in the Asia Pacific and Middle Eastern regions.

The Trust's outperformance against the Index was led by stock selection in Consumer Discretionary and Financial sectors. Apparel retailer, Giordano; notebook casing manufacturer, Ju Teng; and, Korean Reinsurance helped the Trust's performance in local currency terms. Performance was held back by Korean cement company, Hanil Cement, and Korean semiconductor manufacturer, TLI.

### Trust Activity

The Trust initiated a new position in Tripod Technology, a Taiwan printed circuit board manufacturer. The stock offers compelling growth at attractive valuations. The Trust's weighting to financial stocks such as HDFC Bank in India, United Bank of India and Industrial Bank of Korea were increased. While Perennial International continues to like the long term prospects of Thailand's Tisco Financial Group, positions were reduced in the stock following strong performance.

### Regional Weighting



### Outlook

Perennial International's initial bullish position on 2010 remains. In such a global environment, the Team continues to like Asia for the following reasons:

- Good domestic economies in most Asian countries
- Expansion of the trades between Asian countries
- Good financial situation of most Asian governments and households.

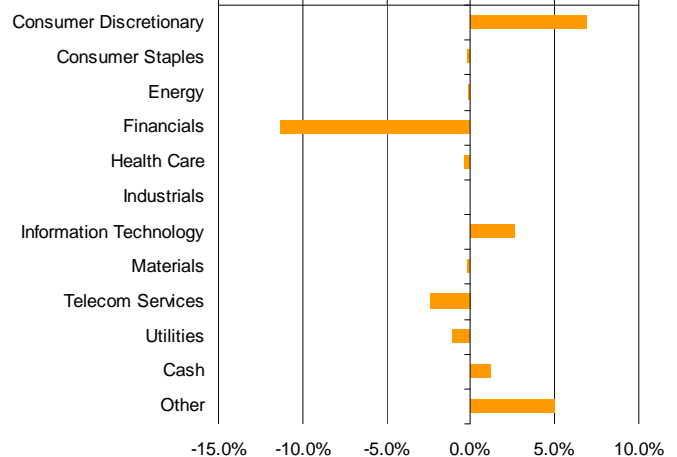
The best evidence of Asian economic improvement is the increase of interest rates, in several Asian countries, unlike Western countries.

### Stock Story - Giordano

Hong Kong listed Giordano is an international retailer of clothing. Perennial International started buying Giordano in March for two main reasons:

- The large regional recovery which began in 2009 (confirmed so far in 2010)
- Cheap valuation for a retail stock with a large exposure to China.

### Relative Sector Position



The Team continues to like the long term story of consumption across Asia (and China, in particular). At the same time, finding good value stocks in this area is a struggle, especially among big caps. As a result, the Team prefers to buy small/mid caps (consumer stocks) and try to find companies which have a diversified exposure across Asia (not pure mainland exposure).

Giordano fits these criteria (China accounted for half of Giordano's profit in 2009). In the second half of 2009, the company strongly improved its operating profit margin by focusing on a few elements:

- closing loss making stores
- reducing discounts to its customers
- improving buying conditions, achieved by decreasing the number of items, so increasing volumes by item.

So far in 2010, Giordano has been able to keep a high profit margin. Perennial International attributes this mainly to the improvement of its markets across Asia. Giordano is positioned in low/mid end market where competition is tough. A positive outlook for the Asian region should result in a continuation of this growth. The Team sees large upside for the stock which has a low PE 2010 of 14.4 and a high dividend yield of 4.8 %.