Perennial Japanese Equities Trust

Quarterly Report as at 30 September 2010

	3 Months %	Financial YTD	2 Years %	3 Years % p.a.	5 Years % p.a.	SI* % p.a.
Perennial Japanese Equities Trust ^	-7.9	-7.9	-8.8	-9.7	-8.6	-4.1
MSCI Japan Accumulation Index - unhedged	-7.7	-7.7	-10.0	-12.7	-7.0	-6.0
Value Added (Detracted)	**-0.2**	**-0.2**	**1.2**	**3.0**	**-1.6**	**1.9**
Net Performance	-8.2	-8.2	-10.1	-11.0	-9.7	-5.2

^ Gross Performance. * Since Inception.

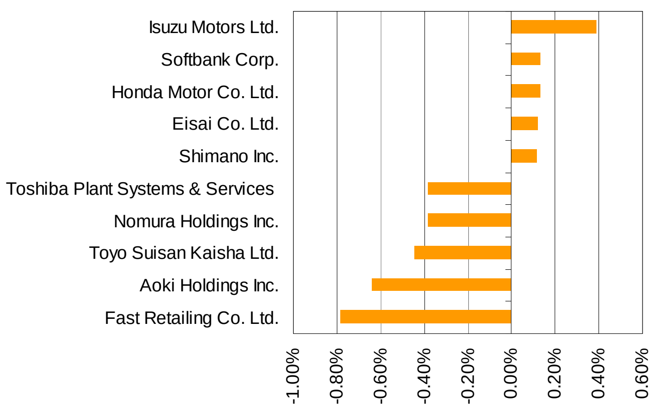
- The Trust's performance benefited from the outperformance of exporters.
- The Trust increased its exposure to the Automotive sector by increasing its weight in Isuzu.
- The Team does not expect the Japanese market to revisit the bottom reached in 2008-2009, despite remaining cautious on developed markets around the world.

Performance

All major Japanese indices finished the quarter flat, in local currency terms. Given the strength of the AUD, the MSCI Japan Accumulation Index unhedged (the Index) decreased by 7.7%.The Perennial Japanese Equities Trust (the Trust) declined 7.9%, marginally underperforming the Index by 0.2%.

The Trust's performance benefited from the outperformance of exporters. This may come as a surprise, given the Yen's continued strength against the USD which is almost back to the levels before Government's intervention. In fact, the good performance of Japanese exporters is quite logical, given that those held by the Trust are very reactive in terms of cost cutting and are able to identify growing markets overseas (mainly in Asia).

Stock Attribution



Once again, the Trust benefited from its large exposure to Isuzu, which outperformed the Index by 20% during the quarter. This was supported by the cheap valuation of the stock and a strong momentum. The company revised

Perennial Japanese Equities Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a portfolio of international shares and to provide a total return (after fees) that exceeds the rate of return MSCI World (ex Australia) Accumulation Index in AUD.

Portfolio Manager:
Patrick Lebourdais,
Clay Carter

Risk Profile:
High

Team FUM
(as at 30/09/10):
AUD $194 million

Income Distribution Frequency:
Half Yearly

Trust Inception date:
February 2006

Minimum Initial Investment:
$25,000

APIR code: IOF0080AU

Did you know?

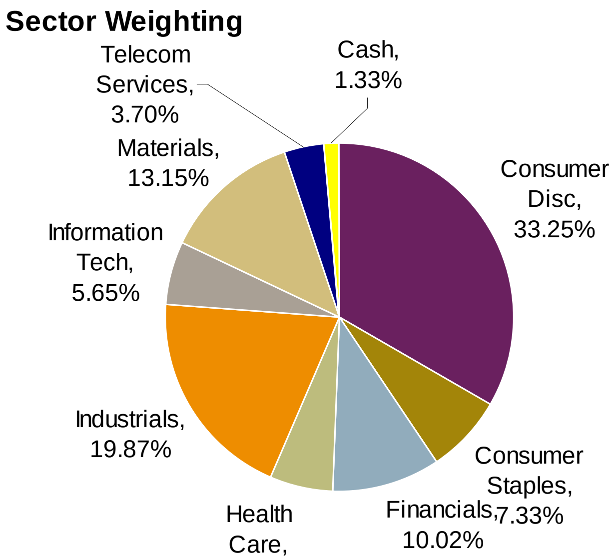
Again, the Trust's largest contributor to performance over the quarter was Isuzu. Isuzu is the world's largest manufacturer of medium to heavy duty trucks.

upward its full year net profit forecast by 100% in August, thanks to both better top line and margin than expected.

Trust Activity
During the quarter, there were three main changes made to the Trust:

- The overweight position in exporters was increased, for the reasons mentioned above
- The Trust's weighting in Financials was decreased. Financials have been impacted by both a low demand for funds from individuals and corporates, as well as stricter regulation for banks
- The Trust's weighting in the IT sector was decreased, given the weaker global demand, in particular for PC and LCD TV related products.

The Trust increased its exposure to the Automotive sector by increasing its weight in Isuzu (for reasons mentioned above) and initiated a position in Daihatsu Motor. Daihatsu looks interesting, given the company's product mix (focusing on mini-vehicles in Japan), its geographic mix (43% of OP from Indonesia and Malaysia) and its aggressive cost cutting stance. As a result, the company's profits seem to have a large upside potential, driven both by top line and margins (which are higher overseas). The Trust increased its exposure to the Healthcare sector, given the low valuation of the sector (high yield) and the good pipeline for some companies (Eisai in particular). The Trust also significantly increased its weight in Yamato Holding (see the Quarterly Stock Focus).



Outlook
Perennial International believes that markets have now returned to more reasonable valuations, after discounting fiscal problems in Europe and slower growth potential in the US. The Team does not expect the Japanese market to revisit the bottom reached in 2008-2009, despite remaining cautious on developed markets around the world. The Team is relatively optimistic, expecting some level of growth in the US. This is supported by government spending, as long as the USD remains the reserve currency. Perennial International remains positive on emerging countries (excluding Eastern Europe), as they are supported by a strong fiscal situation and low levels of leverage. A couple of the main emerging markets are also supported by good levels of domestic demand. This is positive for Japan's exporters, as Japan remains very export driven and dependent on Asia and the US for two-thirds of its total exports. However, Perennial International's levels of expectation remains quite low for the Japanese domestic economy, as more production is leaving Japan in order to decrease manufacturing costs and get closer to end markets.

Quarterly Stock Focus: Yamato Holding
Yamato Holding is the Japanese leader in parcel delivery, with a market share of 40%. This is an interesting market which has been increased in volume by 3% pa during 2000-2008.

The main achievement of Yamato has been to keep a stable level of operating profit margin (around 5%) during the last 10 years, despite a fiercely competitive market (regular price decrease). This is due to the successful strategy of Yamato, in expanding non delivery businesses. These services include third party logistics, home convenience (ex delivery and installation of products like TV) and financial services (collecting payment and leasing). These non delivery businesses represent only 19% of sales, but 50% of operating profit and have been growing much faster than the delivery business (16% compound annual growth rate over the past decade).

The stock has been weak in the short term, following weak Q1 results. However, Perennial International remains confident that the company will continue to regularly publish good results, based on its past strategy, as well as potential improvement in the competitive environment. During the last two months, Yamato has shown a clear improvement of volumes. Yamato has gained new customers, thanks to the problems of one of its main competitors, Japan Post, which has struggled with its parcel business since it merged with Nippon Express. Its other main competitor, Sagawa Express, has a market share of around 35% and is also struggling due to a bad financial situation (gearing of 138% vs 21% for Yamato) and a low net margin of 1%.

In the Team's view, the stock looks cheap based on price to book vs sustainable return on invested capital and discounted cash flows, assuming that the company should be able to maintain its operating profit margin.