

Perennial Cash Trust

Monthly Report as at 31 August 2010

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	Since Inception % p.a.#
Perennial Cash Trust*	0.44	1.33	0.90	4.65	4.78	-	4.95
UBS Bank Bill Index	0.41	1.23	0.83	4.21	4.41	-	4.57
Value Added (Detracted)	0.03	0.10	0.07	0.44	0.37	-	0.38
Net Performance	0.43	1.28	0.87	4.43	4.55	-	4.72

*Gross Performance Past performance is not a reliable indicator of future performance

July 2008

- The Australian bond market produced very strong returns over August, with yields falling across the curve.
- Credit markets again performed well, with credit spreads narrowing and an active secondary market.

Performance

The Perennial Cash Trust (the Trust) returned 0.44% for the month of August whilst the UBS Bank Bill Index (the Index) returned 0.41%.

Interest rate strategies, namely exposure to one to three month money market securities, added value as they outperformed both overnight cash and longer term maturities. The Trust also participated in the liquidity premium that was embedded within the pricing of Bank Bills. This also contributed to the outperformance.

Sector strategies, including exposure to the term deposits of 'big 4' Australian banks added value, as they offered slightly higher yields.

Some exposure to the premium yields being paid by better rated smaller banks to secure short term funding, also added to performance.

Market Review

The Australian bond market produced very strong returns over August, with yields falling across the curve. At the shorter end of the curve, mixed domestic economic releases and increasing uncertainty about the durability of the global recovery, were behind a 32 basis point rally in the three year Government bond to 4.24%, well below the current cash rate of 4.50%.

On the domestic data front, June retail trade and housing data was weaker than expected. These releases were followed by solid labour market data, where total employment rose 23.5k but a rise in the participation rate pushed the unemployment rate up to 5.3%. Consumer confidence was very strong, bouncing back to historically high levels. Towards the end of the month, the tone of data improved, with July retail trade and buildings approvals data much stronger than

Perennial Cash Trust

The Trust aims to provide investors with a low risk exposure to secure cash investments, and returns that closely track the prevailing level of short-term interest rates. The Trust aims to outperform the UBS Bank Bill Index, over rolling annual periods.

Portfolio Manager: Jay Sivapalan	Risk Profile: Low
Trust FUM (as at 31/08/10): AUD \$114.7 million	Income Distribution Frequency: Monthly
Team FUM (as at 31/08/10): AUD \$5.1 billion	Minimum Initial Investment: \$100,000
Trust Inception date: July 2008	APIR code: IOF0141AU

Did you know?

That the Perennial Fixed Interest Team has on average 22.5 years experience per Team member.

expected. Capital expenditure plans for 2011/12 rose strongly and other data also points to solid GDP growth for the June quarter and the likelihood of an upward revision to GDP growth of 0.5% for the March quarter.

Stronger data had limited impact on domestic yields, with offshore factors dominating. In the US, softening economic data, the Fed announcement that it would reinvest maturing holdings of Agency and Agency MBS securities in “longer-term” Treasury securities mid month and Fed comments late in the month that it could provide further stimulus if required, all contributed to a sharp fall in longer dated Treasury yields. This rally dragged global long bond yields lower, with offshore investors becoming increasingly attracted to Australia’s “relatively” high yields. Against this backdrop, the yield on an Australian 10 year Government bond fell 44 basis points over the month to finish at 4.76%.

Credit markets again performed well, with credit spreads narrowing and an active secondary market as investors sought to top up their allocation to this sector. Encouraged by this sentiment, we saw a spate of new issuance as the month progressed, with a number of high profile global financial institutions issuing debt in Australian debt markets.

Market Outlook

The Reserve Bank of Australia (RBA) left the cash rate unchanged in August, at 4.50% and updated their forecasts for growth and inflation in the May Statement on Monetary Policy. Their central case remains for growth to lift to 3.25% by the end of 2010 and to 3.75% by mid 2011. Growth then remains at that level until mid 2012 when it rises to 4.00% by the end of 2012. Against this backdrop, underlying inflation runs at a 2.75% rate until it lifts to a 3.00% rate in 2012.

This month’s run of data, particularly upward revisions to longer term capital expenditure and the lift in July retail sales, suggest the RBA’s domestic forecasts are on track. Yet expectations for the cash rate shifted significantly over the month, with the yield on the December 2010 and December 2011 30 day interbank cash contract falling from 4.56% to 4.38% and 4.71% to 4.38%. Perennial Fixed Interest’s (we/our) view remains that there is little prospect of the RBA easing, and the risks remain firmly tilted towards further monetary tightening over the next 18 months. As such, we see the three year Government bond yield at 4.25% at the time of writing, as very expensive.

Further along the curve, we see a ten year bond yield at 4.76% as offering poor long term value. While offshore central bank action is designed to lower term structures, the aim of that action is to stimulate growth and once the economy begins to respond, rates will begin the long process of normalising. At current levels, global bond

yields are extremely vulnerable to any improvement in the economic outlook. Furthermore, significant increases in government bond supply should place upward pressure on offshore yields over the medium term. We are reflecting these views by holding underweight duration positions.

Despite recent volatility, we remain constructive on investment grade corporate and asset backed debt. Margins remain at relatively attractive levels and the yield advantage they enjoy relative to Treasuries provides some protection against further bouts of risk aversion. Solid corporate fundamentals combined with a gradually improving macro-environment should allow this sector to continue to outperform Treasuries over the medium term.

Investment Strategy

The following is a summary of the key strategies in the Trust:

Interest rates – at the end of the month, the duration position of the Trust was as follows:

Modified Duration	Years
Trust	0.18
Index	0.13
Active Position	0.05

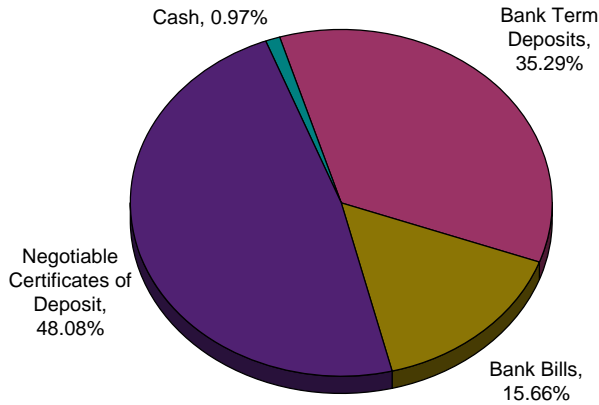
Current pricing of interest rate markets imply a pessimistic view of the world. Whilst we are sympathetic to this assessment from a global perspective (in particular large developed economies), we feel it doesn’t fit well with Australia. The fundamentals of the domestic economy continue to be resilient, with a number of positives, including tight labour markets, strong capital expenditure driven by the resources sector and improving consumer sentiment. As such, we feel that interest rate markets are overpriced in general.

However, funding premiums embedded within longer term money market securities, still warrant allocation to slightly longer maturities. Therefore, the Trust’s duration is slightly longer than that of the Index.

Sector allocation – An amount of the funding premium anomalies embedded within Bank Bill pricing still exist. We remain exposed to this premium in order to capture value. Second tier banks currently offer an attractive premium for short term deposits. We continue to access these premiums on a selective basis to ensure liquidity in the Trust and to add value. Finally, we have been participating selectively in the term deposits of the ‘big four’ Australian banks which offer attractive yields.

Trust Snapshot

Sector Allocation



Credit Rating Distribution

