

Perennial Cash Trust

Monthly Report as at 31 December 2011

| | Month % | Quarter % | FYTD % | 1 Year % | 2 Years % p.a. | 3 Years % p.a. | Since Inception % p.a. [^] |
|-------------------------|---------|-----------|--------|----------|----------------|----------------|-------------------------------------|
| Perennial Cash Trust* | 0.42 | 1.30 | 2.54 | 5.27 | 5.19 | 4.71 | 5.08 |
| UBS Bank Bill Index | 0.40 | 1.22 | 2.47 | 5.00 | 4.83 | 4.38 | 4.73 |
| Value Added (Detracted) | 0.02 | 0.08 | 0.07 | 0.27 | 0.36 | 0.33 | 0.35 |
| Net Performance | 0.41 | 1.25 | 2.44 | 5.06 | 4.97 | 4.49 | 4.86 |

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

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- Despite recent monetary easing, consumer sentiment fell sharply.
- Second tier banks currently offer an attractive premium for short term deposits.

Performance

The Perennial Cash Trust (the Trust) returned 0.42% for the month of December. The UBS Bank Bill Index (the Index) returned 0.40%.

Interest rate strategies added slightly to performance. The Trust's small underweight duration position benefitted from a small fall in short term money market securities (higher yields, in particular for 0 to 3 month terms), including the interbank cash contracts in which the Trust had short positions.

The Trust continued to gain some benefit from the higher yield offered by term deposits, with around 20% allocated to this sector. While term deposit rates have fallen sharply, the Trust has 'locked-in' higher rates for periods of between 6 to 12 months and this should add to performance in the coming months.

Market Review

The Australian bond market recorded moderate returns over December, with yields flat to lower. At the shorter end of the curve, three year government bonds rallied over the first two thirds of the month, helped along by a cut in the official cash rate from 4.5% to 4.25% on 6 December and a number of weaker domestic economic readings. These included softer than expected building approval, labour force and housing finance approval data. Despite recent monetary easing, consumer sentiment fell sharply with consumers particularly bearish on the outlook for economic conditions one year ahead. After getting down to as low as 2.99%, the three year government bond yield rose again towards the end of the month, on stronger US economic data, finishing the month at 3.13%. This was largely unchanged from November's close of 3.12%.

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 31/12/11): AUD365.1 million | Income Distribution Frequency: Monthly |
| Team FUM (as at 31/12/11): AUD5.0 billion | Minimum Initial Investment: \$100,000 |
| Trust Inception date: July 2008 | APIR code: IOF0141AU |

Not all domestic data releases were softer than expected. GDP rose 1% over the September quarter, lifting the yearly growth rate from 1.9% to 2.5%.

Expectations for the future path of the cash rate varied over the month, with periods of heightened uncertainty about prospects for European sovereign debt coinciding with markets pricing in a very aggressive easing cycle. The yield on the August 2012 30 day interbank futures contract got down to 2.81% on 19 December, before ending the month at 3.07%.

At the longer end of the government curve, ten year bond yields continued to benefit from flight to quality flows. Yields fell progressively and ended the month at 3.67%, a fall of 26 basis points. As a result of these moves, the spread between 10 year and 3 year government bond yields narrowed by 27 basis points to 54 basis points.

Credit markets recovered some of the margin widening that occurred in the prior month, with the Australian Itraxx 5 year series narrowing by 14 basis points to close the month at 181. However, there were a few subsectors that underperformed, including offshore financials. This was mainly on the back of Standard and Poor's (S&P) sector wide credit ratings downgrades of the banking system. The primary reason was some sweeping changes to the way S&P rate financial institutions. The new methodology, released by S&P in November 2011, changed ratings depending on an entity's 'systemic' importance, potential level of government support, country ratings (BICRA), notching of subordinated debt and strength of parental support for subsidiaries (in particular foreign), among others.

The industry wide changes adversely affected the ratings of a number of US and European financials, and included downgrades of Australia's 'big four' banks. While there was no credit deterioration in the underlying balance sheets, the downgrade of the Australian banks was country specific as a result of the respective BICRA rating. Conversely, oversold European supra-nationals, in particular those explicitly guaranteed by Germany, performed particularly well during December.

Market Outlook

The global outlook progressively deteriorated over the latter part of 2011, with the likelihood of a European recession in early 2012 increasing. The Chinese economy is also slowing more quickly than expected, with an engineered slow down compounded by developments in Europe. Chinese policy makers have already begun to respond but stimulus measures will take several quarters to grip. Growth in the US appears to be lifting but remains vulnerable to developments in Europe. The global economy appears most vulnerable over the first half of 2012 and, it is against this backdrop, that we look for the Reserve Bank of Australia (RBA) to ease in February with a further and final easing in May looking increasingly likely. A burst of front end loaded easing 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. Once we move into 2013, the worst of the drag from fiscal policy should move behind us and pressure may mount on the RBA to shift monetary conditions from accommodative to neutral levels.

Markets continue to discount a more aggressive easing profile, implicitly factoring in a more dire outcome for Europe despite recent progress. While this remains a possibility, we do not believe it is the most likely outcome given the political capital invested in the Euro vision. In our view, bond yields remain well below fair value levels and we continue to maintain a defensive interest rate bias.

Investment Strategy

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

At the end of the month, the duration position of the Trust was as follows:

| Modified Duration | Years |
|-------------------|-------|
| Trust | 0.10 |
| Index | 0.12 |
| Active Position | -0.02 |

Interest rates.

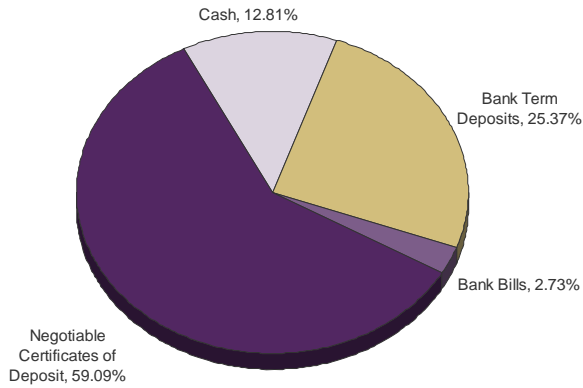
We maintain a smaller underweight duration position on the view that yields are expensive relative to our expectations for the cash rate and the outlook for the economy. Markets continue to price in substantial monetary easing in the near term which we feel may not eventuate to the degree priced in. In the event that they do, given what is already in the price, the risks of running a short duration position will be limited in time. We temper this position with the additional funding premium embedded in bank bill pricing as we pay up to secure three to six month funding.

Sector allocation.

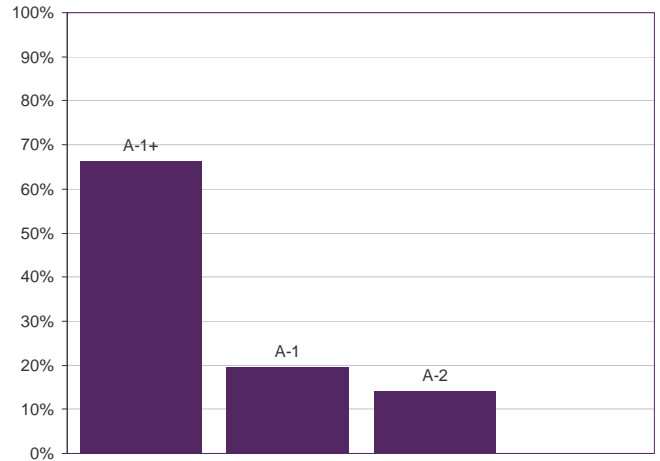
Second tier banks currently offer an attractive premium for short term deposits. We continue to access these premiums on a selective basis to ensure liquidity in the Trust and to add value. Finally, we have been selectively participating in the term deposits of the 'big four' Australian banks which offer attractive yields.

Trust Snapshot

Sector Allocation



Credit Rating Distribution



Rounding accounts for small +/- from 100%.