

Perennial Western Asset Management Global Bond Trust

Monthly Report as at 31 December 2011

	Month %	Quarter %	FYTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Western Asset Management Global Bond Trust*	2.88	2.63	3.14	7.46	10.05	13.00	5.41
Barclays Capital Global Aggregate Bond Hedged Index	1.90	2.04	6.41	10.51	9.89	9.27	8.73
Value Added (Detracted)	0.98	0.59	-3.27	-3.05	0.16	3.73	-3.32
Net Performance	2.78	2.49	2.84	6.86	9.38	12.34	4.80

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

- The Trust outperformed the Index return by 0.98%.
- A long duration position in Europe made a strong positive contribution.
- Risk assets performed well in December.

Performance

The Barclays Capital Global Aggregate Bond Hedged Index (the Index) finished the month up 1.90%. The Perennial Western Asset Management Global Bond Trust (the Trust) was up 2.88%, outperforming the Index return by 0.98%.

A long duration position in Europe made a strong positive contribution, as German bund yields fell across the curve. Performance was further boosted by tactically adding back duration in the US. An overweight to investment grade corporate bonds and select high yield issues also had a positive impact on performance. Our strategy to remain overweight financials relative to other credit sectors, added to performance. Currency strategies also contributed, as an underweight to the euro versus the US dollar and an underweight to the Czech koruna versus the Polish zloty offset the negative impact from an overweight to a number of other emerging market currencies.

Market Update

Risk assets performed well in December. Confidence was buoyed by lower borrowing rates, an unprecedented liquidity injection by the European Central Bank (ECB) and proposals by Eurozone leaders to tackle the crisis in that region. In an effort to ease growing funding pressures facing European banks, the ECB for the first time in its history made available €489 billion in three year loans to more than 500 European banks through its Long Term Refinancing Operation; this signalled its willingness to act as a lender-of-last-resort to banks. The news was greeted positively as risk premiums on high debt Eurozone countries fell sharply, volatility eased, and corporate bonds, equities and other risk assets rallied toward the end of the year.

Perennial Western Asset Management Global Bond Trust

The Trust aims to provide a total return (after fees) that exceeds the Barclays Capital Global Aggregate Bond hedged measured on a rolling three-year basis.

Portfolio Manager:

Western Asset
Management

Risk Profile:

Moderate

Trust FUM (as at 31/12/11):

AUD30.8 million

Income Distribution

Frequency:
Half Yearly

Minimum Initial

Investment:
\$100,000

APIR code: IOF0118AU

Trust Inception date:

November 2000

The outcome of the EU summit provided some clarity on the mechanisms that EU leaders are willing to implement to address the crisis. In sum, the EU reached an agreement to move toward a set of new fiscal rules embedded in national constitutions, with an automatic correction mechanism in the event of a deviation. Discussions were also held on accelerating the launch date of the European Stability Mechanism (ESM) - the permanent lending facility scheduled to replace the European Financial Stability Facility in July 2013 - by up to a year. In the meantime, EU leaders agreed to provide €200 billion of additional resources to the International Monetary Fund (IMF), which potentially could help address Italy's and Spain's primary funding needs over the next two years. The challenges facing the plan were soon apparent as the UK refused to contribute its expected €30 billion share. Overall, the

outcome of the summit was a step in the right direction toward a “fiscal compact,” but significant uncertainties remain. These include the potential political and legal obstacles to ratifying and implementing a new EU treaty in the coming months.

Economic data continued to point toward a mild recession looming in Europe. The provisional 3Q11 Eurozone GDP release reported a subdued expansion of 0.2% over the quarter (1.4% year on year), with the increase in export activity cushioning the fall in construction output. The Purchasing Managers index (PMI) composite rose mildly over the month but remained depressed at a level of 48.3. The ECB responded by cutting its policy rate by 25 basis points (bps) to 1.00% and signalling additional rate cuts at future meetings. In the UK, 3Q11 GDP growth was finalised higher than previously estimated at 0.6% over the quarter (0.5% year on year). Industrial production fell 0.7% and CPI eased to 4.8%.

In the US, economic data diverged markedly from those in Europe. Rising consumer confidence, falling unemployment, strong PMI prints and a pick up in housing data suggested that the US economy would continue to grow at a moderate pace in the coming quarters. In keeping with the US Federal Reserve’s (Fed) objectives of improving its communication strategy and transparency, the minutes from December’s Federal Open Market Committee meeting revealed that the Fed decided to begin publishing quarterly projections of short term interest rates. The third estimate of 3Q11 US GDP growth was revised downward to 1.8% annualised from the second estimate of 2.0%, with the downward revision attributed to a fall in services consumption. Japan’s December Tankan survey was weak, resulting in the Bank of Japan downgrading its economic assessment. Elsewhere, signs of economic weakness prompted the People’s Bank of China to cut its reserve requirement ratio by 50 bps, while the Reserve Bank of Australia cut its cash target rate for a second consecutive month by 25 bps.

The US 10 year bond yield declined 19 bps, while the German 10-year bund yield declined 45 bps. Spreads on peripheral European sovereign debt compressed, with spreads of Italian five year issues falling nearly 30 bps over equivalent maturity German issues to reach a yield of 6.2%. Investment grade credit spreads tightened 8 bps in the US and 16 bps in Europe, with financial issues leading the way. High yield spreads tightened 55 bps in the US. The S&P 500 gained 1.0% while, the

Euro Stoxx-50 lost 0.3%. The euro depreciated against the US dollar by 3.6%, at one point reaching a 15 month low against the greenback. Gold prices declined nearly 11% and oil prices fell 1%.

Investment Strategy

Developments in Europe will continue to cast a shadow on the global macroeconomic environment as we enter 2012. Despite the near term success of the ECB’s liquidity injection in preventing a major bank funding crisis and containing a self fulfilling panic in the short run, larger issues remain in addressing the long term sovereign funding crisis. Borrowing costs in peripheral countries, particularly in Italy and Spain (about whose debt dynamics investors are most concerned), remain high and, absent strong growth, are vulnerable to further bouts of risk aversion. Italy and Spain alone need to roll over €150 billion of debt in 1Q12, in what will prove to be a major test of investors’ confidence in the countries’ debt sustainability.

While the ECB comfortably performed its lender-of-last-resort function for the banking system, it is reluctant to do so for sovereigns. This form of quantitative easing cannot be viewed as a direct substitute for fiscal rectitude. It will take time to approve IMF disbursements and determine the exact mechanics of the ESM; this wait will create uncertainties in the interim and put pressure on peripheral sovereign debt. The ECB’s Securities Markets Programme has bought more than €200 billion of peripheral sovereign debt, an amount that we expect to rise if governments are given the time required to tackle their fiscal deficits. Although it is difficult to predict what breakthroughs, if any, can be agreed upon at the upcoming January EU summit, we have great conviction that the European countries face a long journey to fiscal solvency. What is obvious is that aggressive fiscal austerity will continue to take a toll on the European growth outlook. Italy has unveiled more deficit-reduction measures that point to a growth contraction of 0.5% in 2012. Spain’s new spending cuts and tax increases to balance the 2011 budget shortfall still leave a €20 billion gap in its finances. Restoring confidence will require concrete decisions and clear communication, in the absence of which the “risk-on/risk-off” environment will persist.

Against the aforementioned uncertain backdrop for Europe, we expect to see two key major themes will dominate financial markets over the year: deleveraging and global growth divergence. Many countries and sectors have begun to unwind debt, but deleveraging by

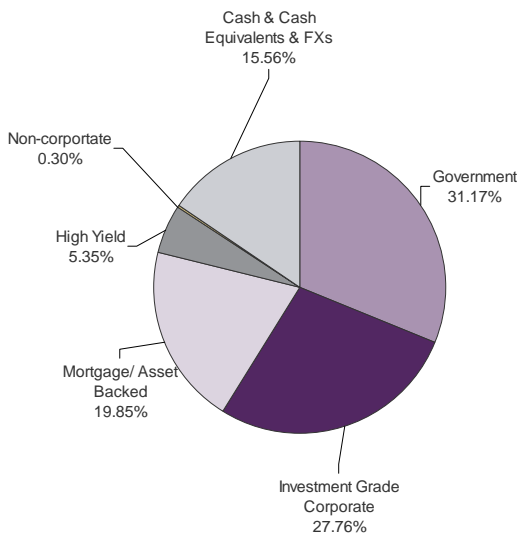
both consumers and governments is likely to be a key feature of many advanced economies. In contrast to Europe, the US economy is likely to fare moderately well in 2012 ahead of the November presidential elections. However, elections and other political uncertainties in the Eurozone, Middle East and Russia - along with concerns about a slowdown in China and India - are key risks to the overall global economy. In China, growth remains robust but continues to slow on a year on year basis; however, we believe that monetary and fiscal policies will allow it to achieve a soft landing. The OECD projection has GDP growth moderating to 8.5% in 2012 from 9.3% in 2011. Monetary policies across the globe will continue to remain accommodative, while the inflation threats (which hurt both emerging and advanced economies in 2011) will continue to abate. The recovery in global manufacturing data further supports our view of an overall moderate path to recovery. However, it is prudent to remain cautious at this juncture, as it will be a bumpy road ahead. We continue to navigate portfolios by employing dynamic hedging strategies to limit downside risk while focussing on long term valuations.

Our underlying thesis remains unchanged as we enter 2012. We are running additional duration in core Europe through German bunds, focussing on the intermediate part of the curve. We expect the ECB to cut rates again in 1Q12, creating further downside pressure for the euro; hence, we maintain a meaningful underweight against the US dollar. We remain constructive on our EM currency programme, seeing it as a long term secular theme that offers strong fundamentals. To balance the overall currency risk allocation, we are overweight currencies of savings rich economies.

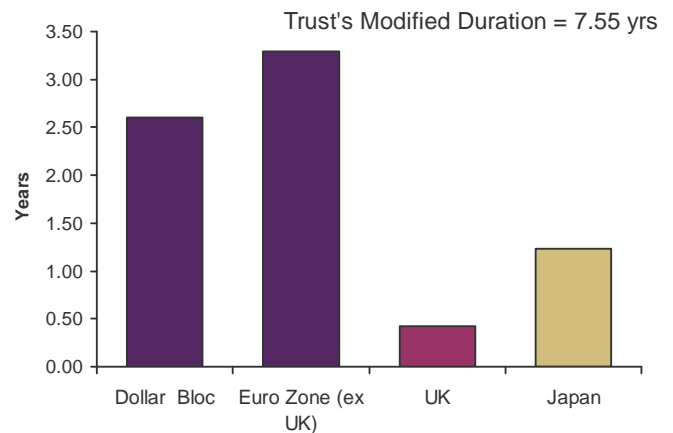
We remain underweight the US agency mortgage backed sector and overweight the investment grade corporate sector, favouring globally diversified financial institutions that continue to build a robust capital base and that have ample liquidity. Against the emphasis on select financial issuers, we continue to run a neutral exposure to the industrial and utility subsectors. We continue to run a modest allocation to high yield bonds, focussing on noncyclical sectors.

Trust Snapshot

Sector Allocation



Duration Contribution by Region



Rounding accounts for small +/- from 100%.

This commentary reflects the views of the Trust's investment manager, Western Asset Management Company Ltd. Western Asset Management Company Limited is referred to as "we", "our" and "us" in this commentary.