PERENNIAL FIXED INTEREST

Perennial Tactical Income 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 Tactical Income Trust*	0.72	2.31	1.65	10.56	-	-	11.87
UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted	1.16	2.41	1.51	6.64	-	-	6.35
Value Added (Detracted)	-0.44	-0.10	0.14	3.92	-	-	5.52
Net Performance	0.68	2.20	1.58	10.07	-	-	11.37

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

June 2009

- Longer term performance remains well above Index levels, with an excess of 5.52% since inception.
- 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

Whilst the Perennial Tactical Income Trust (the Trust) delivered investors a solid return over August (0.72%), it underperformed the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted (the Index) by 44 basis points. Its longer term performance remains well above Index levels, with an excess of 5.52% since inception.

The underperformance over August was principally due to the Trust's defensive interest rate positioning. This position occurs via an underweight fixed allocation and defensive duration positioning in the underlying Trusts (The Perennial Australian Fixed Interest Trust and The Perennial Cash Enhanced Trust). During August, the recent rally in Australian bond yields continued, with the Index 10 year yield falling decisively below 5%, a level rarely breached during the past 10 to 15 years. Perennial Fixed Interest (we) believe bond yields have become significantly over valued and we continue to expect yields to move higher over the medium term.

The Trust's exposure to floating rate credit securities, which occurs via its investment in the Perennial Cash Enhanced Trust along with an allocation to listed hybrid securities, added modest value as credit spreads drifted lower on the back of strong investor demand for high yielding income investments.

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

Perennial Tactical Income Trust

The Trust aims to provide investment returns in excess of the Trust's benchmark the UBS Bank Bill Index and UBS Composite Bond Index (0+years) equally weighted by investing in a diversified portfolio of Australian income producing assets. The Trust aims to provide a total return (after fees), that exceeds the benchmark.

Portfolio Manager: Glenn Feben	**Risk Profile:** Moderate
Trust FUM (as at 31/08/10): AUD $35.5 million	**Income Distribution Frequency:** Quarterly
Team FUM (as at 31/08/10): AUD $5.1 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: June 2009	**APIR code:** IOF0145AU

Ratings: Zenith Recommended, Van Eyk 'BB' and Standard and Poor's 4 star.

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Did you know?

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

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 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	0.36
Index	1.87
Active Position	-1.51

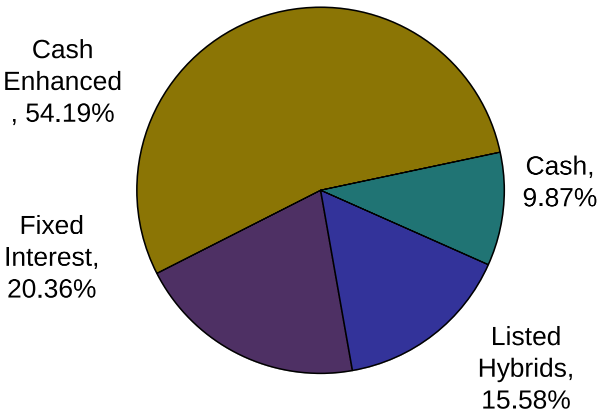
We extended the defensive bias of the Trust during August via a 10% reduction in its fixed interest allocation. As detailed in last month’s report, our primary focus at this point is on protecting the fund from the negative impact rising yields have on the value of bonds. Whilst this may take some time to play out, we feel the risk/reward balance is tilted strongly towards being defensively positioned.

Sector Exposure - underpinned by solid economic and corporate fundamentals, we expect credit spreads to tighten over the medium term. The positive valuation impact of this, together with the excess income inherent in these securities should enable these assets to comfortably outperform cash and Government securities over the next 1-2 years. Our overweight allocation to credit securities occurs via overweight positions in the underlying Trusts, along with a target allocation of 15%

to hybrid securities. Our focus within this sector is on higher quality issues that still offer attractive margins over bank bills. Securities issued by major Australian banks remain the largest exposures within this part of the Trust.

Trust Snapshot

Asset Allocation



Sector Allocation