

# Perennial Global Property Securities Trust

Monthly Report as at 31 July 2010

	Month %	3 Months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.	SI <sup>^^</sup> % p.a.
Perennial Global Property Securities Trust*	7.8	-1.2	27.7	-11.8	-13.6	-	-7.4
FTSE EPRA/NAREIT Global Real Estate Dev. TR Index**	7.4	-2.1	25.2	-8.5	-11.1	-	-4.7
Value Added (Detracted)	0.4	0.9	2.5	-3.3	-2.5	-	-2.7
Net Performance	7.7	-1.5	26.1	-12.9	-14.6	-	-8.4

\* Gross Performance. <sup>88</sup> Hedged to AUD. <sup>^</sup> Financial Year to Date. <sup>^^</sup> Since Inception.

- Global property rebounded strongly in July.
- The major markets of the US, the UK, France and the Netherlands all posted strong returns.
- The poorest relative performers in these stronger market conditions were Australia and Japan.

The global equity markets rebounded strongly in July and global property was no exception. In hedged AUD terms, the FTSE/EPRA NAREIT Global Property Index returned 7.4%. The Perennial Global Property Securities Trust outperformed the Index, returning 7.8%. These returns provide a welcome respite, following the poor performances of May and June.

## Regional Performance as at 31 July 2010

Region	Returns
Americas	9.3
Europe	7.6
Asia Pacific	5.3
World	7.4

Source: FTSE EPRA/NAREIT Global Real Estate Gross TR Index. All returns expressed in local currencies

## Effects of Hedging as at 31 July 2010

Performance	Trust	Index	Value add
Performance Local currency	7.6%	7.4%	0.2%
Performance Hedged in AUD	7.8%	7.4%	0.4%
Effect of hedging	0.2%	0.0%	-

Source: Perennial Investment Partners

The major markets of the US (up 9.7%), the UK (up 7.0%), France (up 9.4%) and the Netherlands (up 8.9%) all posted strong returns. Other continental European markets generally performed well, gaining between 5% and 10%. The only outliers were Italy (up 2.2%) and Greece (up 18.8%). Both countries comprise only a couple of stocks and are quite volatile markets. In Asia, Hong Kong stocks performed well (up 8.7%), as did Singaporean stocks (9.0%).

## Perennial Australian Property Securities Trust Facts:

The Trust aims to grow the value of your investment over the long term through a combination of capital growth and income by investing in a broad selection of international property securities. The Trust aims to provide a total return (after fees) that exceeds the FTSE EPRA/NAREIT Global Real Estate Total Return Index hedged measured over a rolling three-year period.

### Portfolio Manager:

Stephen Hayes

### Risk Profile:

Moderate to High

### Trust FUM

(as at 30/06/10):

AUD \$473 million

### Income Distribution

Frequency:

Half yearly

### Team FUM

(as at 30/06/10):

AUD \$2.7 billion

### Minimum Initial

Investment:

\$25,000

### Trust Inception date:

March 2006

APIR code: IOF0115AU

## Did you know?

Unibail-Rodamco was the Trust's strongest European holding this month. Unibail-Rodamco owns 100 shopping centres in 12 different countries. These shopping centres attract more than 700 million visits per year!

The poorest relative performers in these stronger market conditions were Australia and Japan, up 1.0% and 2.0% respectively.

Whilst these strong monthly returns are welcome, Perennial Real Estate continues to foresee the volatile market conditions continuing. Whilst this affects short term returns, ultimately property is a long term asset with stable cash flows. However, the Team sees the return prospects as quite varied across different stocks, so will continue our endeavour to take advantage of pricing anomalies. This will be achieved by focusing on property securities that have sound capital structures and hold high quality assets in good property markets.

#### North America

North American REITs rose 9.3% in July, after declining in both June and May. US REITs outperformed the broader markets including the Dow Jones Industrial Average (up 7.1%), the S&P 500 (up 6.9%) and the Nasdaq Composite (up 6.9%). North American REITs have generated better year to date price returns (up 14.9%) than the broader markets including the Dow Jones Industrial Average (up 0.4%), the S&P 500 (down 1.2%) and the Nasdaq Composite (down 0.6%).

July's gains can be attributed to a number of factors. Firstly, the relative valuation of the REITs improved notably. Indeed, US REITs had sold off 11% over the months of May and June and had become more attractive to investors. Secondly, 2Q10 US corporate earnings (including REITs) were better than expected. In fact, more than 75% of companies in the S&P 500 Index reported earnings results that beat expectations. While the current economic data suggests a tepid recovery, strong corporate profits could foreshadow improved commercial activity in the coming quarters. Thirdly, concerns over the health of European sovereign debt issuers and financial institutions, as well as a potential European debt contagion largely subsided. Lastly, money flows into real estate mutual funds turned positive again, with the last three weeks of July seeing inflows of approximately USD 100 million.

In terms of stock selection, Perennial Real Estate continues to focus on a highly select group of REITs that possess attractive earnings profiles, strong market positions, sound balance sheets and quality management. The best performing Trust holdings from the Americas region (owned for the full month) were LaSalle Hotel Properties (up 15.3%), Boston Properties (up 14.8%) and Vornado Realty Trust (up 13.5%). The lagging stocks (owned for the full month) were DuPont Fabros (up 2.8%), Boardwalk Real Estate (up 3.3%) and Host Hotels & Resorts (up 6.4%).

#### Asia Pacific

Asian Pacific property rebounded strongly in July, ending the month up 5.3%. Appetite for risk assets returned, liquidity remained abundant and fears of Europe sovereign and banking sector defaults receded.

Australian property rose 1.0% for the month of July. Reporting season begun slightly earlier this year, with Australand Property Group reporting its half year results at the end of July. Results were in line with expectations and consistent with expectations for other developers. It is anticipated that the second half of 2010 will be solid, with a much higher level of work in progress, underpinning residential earnings for the second half of this year. The best performers over the month were ING Industrial Fund (up 18.7%), Dexus Group (up 5.8%) and Abacus Property Group (up 5.2%). Goodman Group confirmed speculation that it was interested in acquiring the management rights to ING Industrial Fund, but that there is no certainty this would result in a transaction. The worst performers over the month were Charter Hall Retail REIT (down 3.6%), Goodman Group (down 3.2%) and Charter Hall Office REIT (down 2.0%).

Hong Kong and Chinese property rose 8.7% in July, outperformed the broader Hang Seng Index. The Hong Kong residential market remained robust, on the back of encouraging land sales, as well as rising anticipation that the US will not raise interest rates this year. On average, residential prices rose 11% during the first seven months of 2010. Individual mass residential projects recorded prices surpassing the 1997 peak level. In line with Perennial Real Estate's view, several major bankers have expressed concerns that a property bubble has been created. However, there has been no sign of it bursting as yet. During the month, two major landlords, Hong Kong Land and Hang Lung Properties, reported interim and full year results, respectively. Hong Kong Land's result beat market expectation on the back of strong property sales in Singapore. While Hong Kong retail operations continue to be the outperformer, leasing activities in the office segment picked up marginally. Hang Lung Properties' result was slightly lower than expectation. Flat Chinese office rentals due to competitive leasing environment and a mild growth in Hong Kong rental portfolios, partly offset the strong growth in China retailing. In addition, Hang Lung Properties slowed down its divestment of completed residential units in Hong Kong, considering the current residential price rally will last longer.

Following the series of tightening measures, residential sales in major Chinese cities has started to pick up slightly. Some developers have reported contracted sales improvement in July due to a combination of more new launches and flexible pricing. That said, a single month of good data does not promise further recovery ahead. During the month, a few developers took the opportunity to issue senior notes or convertible bonds to raise funds

for ongoing project developments and land acquisition. Perennial Real Estate expects more developers to ride on the current stock price rally for share placement activities.

Japanese property returned 2.0% for the month. Market sentiment remained weak due to the strong local currency and political uncertainty. Property fundamentals did not change much over the month, with the office segment remaining weak overall. However, prime and grade A property stabilised. Residential real estate improved strongly. The Trust invests in a few selective names which are well positioned for a property market recovery. The Team believes will happen within the next two quarters.

Singaporean property performed better than the broader market in July, up 9%. Both REITs and developers performed well. Among the large cap developers, CapitaLand outperformed, returning 10.0%. Recent macro economic news was quite positive, with 2Q 2010 GDP up 19% for the year, on the back of a strong revival in the manufacturing sector. Property recovered well, with prices over the quarter increasing including private residential (up 5.3%), office (up 4.6%), retail (up 3.9%) and industrial (up 5.7%).

The Trust performed in line with the Index in July. As Hong Kong and Singaporean property posted the strongest return in the region this month, the main contributors to performance came from positions in Hong Kong and Singapore. Shimao Property rose 21.5%, Evergrande rose 24% and CapitaLand Group increased 10.0%. The main detractors came from weak performance in Japan and Australia, with Mitsubishi Estate down 2.3%, Goodman Group down 3.2% and GPT up 1.8%.

### Europe

European property stocks performed strongly in July, up 7.6% in local currency terms. Although this performance did not match the return of broader global property stocks, it was stronger than European equity markets (up 6.3%). Relative to the USD, the Euro appreciated strongly over the month (up 6.7%). The EUR/AUD exchange rate remained stable.

Performance varied across the markets. The UK, whilst still posting a strong 7.0% return, was the poorest performer amongst the major markets. France posted a very strong 9.4% return, following a solid 4.8% return in June. Dutch stocks were also strong, returning 8.9% over the month. Most other markets posted returns of between 4% and 8%. Exceptions were Italy (2.2%) and Greece (18.8%). These small markets comprise very few, quite volatile names.

In the UK, the Bank of England kept its official rate at 0.50%. It was a quieter month on the transaction front. The majority of the White Tower portfolio (six assets) was

sold to the Carlyle Group for around £670 million. Hammerson teamed up with Canada Pension Plan to buy 10 Gresham Street in the City of London for £183 million. The vendor, Union Real Estate, purchased this in July 2009 for £145 million. Derwent London added to its holdings around Tottenham Court Road, acquiring Central Cross for £146 million at a 5.5% yield. London and Regional teamed up with Starwood Capital to purchase the Cumberland Hotel at Marble Arch for £215 million. A few listed REITs reported during the month. Land Securities provided its Interim Management Statement (IMS), confirming it will commence its 750,000 sqf Trinity Leeds Shopping Centre development. Great Portland Estates' first quarter business update was in line with expectations. Big Yellow Group's IMS contained pleasing news, as it revealed greater than expected leasing of its self storage facilities. Development Securities, the investor/developer, raised £100 million in a placement and rights issue for the purposes of acquiring sites where poorly capitalised developers have been unable to raise development finance in current market conditions.

On the Continent, the ECB left rates on hold at 1%. The Riksbank in Sweden increased its base rate by 25 basis points to 0.5%. The European bank stress tests took centre stage on the economic front and, pleasingly, only seven of 91 banks failed. However, given the underlying "stressed" assumptions and the criteria applied, the markets were a little sceptical on the meaningfulness of these results.

Perennial Real Estate had a busy month, with a number of French companies reporting their first half results. These included Silic, Tour Eiffel, Mercialys, Societe Fonciere Lyonnaise, Klepierre, Gecina and Unibail-Rodamco. The only surprise, relative to the Team's expectations, was Gecina's strong cash flow. The market was pleasantly surprised by Unibail-Rodamco's strong results and its proposed €20 per share special dividend. Conversely, Klepierre's results appeared to fall a little short of market expectations. In other activity, Unibail-Rodamco sold more Dutch assets (€156 million), as well as a French shopping centre for €99 million. Klepierre announced its Steen and Strom subsidiary will commence its €385 million Malmo shopping centre development in Sweden. Corio completed its 84,000 sqm Anatolium shopping centre in Turkey for €176 million.

European Trust holdings performed better than the market, returning 8.9% in local currency terms. Unibail-Rodamco was the best performer again, up 12.4%. Eurocommercial Properties also performed well, up 10.4%. Unite Group rebounded from its poor June performance to return 9.0%. Most European Trust holdings kept pace with the market. The exceptions were Polis, the German asset manager (down 6.7%) and Big Yellow Group, the UK self storage operator (up 4.7%).

Only minor adjustments were made to the Trust's European positions during the month, as the current positions reflect the Team's preference for quality retail assets in continental Europe, as well as quality management teams operating in more specialists markets.

During the month, positions in China Resources Land and Shimao Properties were reduced on pricing strength.

**Asset Allocation as at 31 July 2010**

Stock Name	% of Portfolio
Retail	38.1%
Office	18.8%
Industrial	3.1%
Hotel	7.4%
Residential investment	5.7%
Residential development	8.0%
Infrastructure	0.1%
Construction	0.1%
Funds management	1.6%
Other	16.8%
<b>Total</b>	<b>100%</b>

Source: Perennial Investment Partners

**Trust Country Allocation as at 31 July 2010**

Refers to location of underlying gross property assets, not listing domicile.

