

Perennial Growth Shares Wholesale Trust

Monthly Report as at 31 December 2011

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Growth Shares Wholesale Trust*	-2.1	0.9	-11.7	-12.9	-6.1	8.5	-2.0
S&P/ASX 300 Accumulation Index	-1.4	2.1	-9.8	-11.0	-4.8	7.7	-2.4
Value Added (Detracted)	-0.7	-1.2	-1.9	-1.9	-1.3	0.8	0.4
Capital Growth	-4.5	-1.7	-14.1	-16.4	-9.7	4.6	-9.9
Income Distribution	2.3	2.4	2.1	2.8	2.8	3.0	7.2
Net Performance	-2.2	0.7	-12.0	-13.6	-6.9	7.6	-2.7

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

- The Trust underperformed the Index return by 0.7%.
- Energy (down 5.1%), materials (down 4.1%), property (down 4.1%) and consumer discretionary (down 4.0%) were the weakest performing sectors.
- Orica continued to be added to the Trust during the month.

The Perennial Growth Shares Wholesale Trust (the Trust) closed down 2.1% in December, underperforming the S&P/ASX300 Accumulation Index (the Index) return by 0.7%, with the Index finishing down 1.4%.

The European debt crisis remains the most significant driver of market sentiment, and while a number of additional measures were taken to provide further support to the existing structure of the Eurozone, the economic situation in the region remains extremely fragile. On a positive note, US economic data continues to show signs of recovery. Global equity market performance was mixed with Hong Kong's Hang Seng (up 2.5%), UK's FTSE100 (up 1.2%), US' S&P500 (up 0.9%) and Japan's Nikkei (up 0.2%) finishing in positive territory, while China's Shanghai Composite (down 5.7%) was down.

During the month the European Central Bank (ECB) announced its plan to conduct longer term refinancing operations (LTROs). The LTROs involve an expansion of the ECB's balance sheet to provide liquidity to the European banking system in exchange for collateral (principally European sovereign debt). This initiative has led to an unprecedented increase in the size of the ECB balance sheet with European financial institutions accessing €489 billion in December alone through the LTROs. Further to this, the ECB reduced its policy rate by 0.25% to 1.0%.

In the US the flow of macroeconomic data continued to provide evidence of an ongoing economic recovery. Housing market data was stronger with housing starts, building permits and home sales all surprisingly on the upside. Employment data was also positive with the number employed increasing by over 200,000 and the unemployment rate falling to 8.6%. A number of manufacturing indicators were ahead of forecasts, while consumer confidence remained solid.

Perennial Growth Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio Manager:
Lee Mickelborough

Risk Profile:
High

**Trust FUM
(as at 31/12/11):**
AUD 260.4 million

**Income Distribution
Frequency:**
Half yearly

**Team FUM
(as at 31/12/11):**
AUD 2.7 billion

**Minimum Initial
Investment:**
\$25,000

Trust Inception date:
March 2001

APIR code: IOF0201AU

Ratings: Lonsec Highly Recommended, Morningstar Recommended, Zenith Recommended, Van Eyk 'A' and Standard and Poor's 5 star.

Research House Ratings must be read in conjunction with the appropriate disclaimers available at www.perennial.net.au/Ratings_Disclaimers1.pdf

Domestically, employment data showed the total number of employed decreasing by 6,300 and the unemployment rate increasing slightly to 5.3%. Third quarter gross domestic product came in ahead of expectations at 1.0%, with the previous quarter's figure also revised up 0.2%. However, despite this the Reserve Bank of Australia reduced rates by 0.25% to 4.25% citing the risks to global growth posed by ongoing sovereign debt market stress. A number of retailers announced profit downgrades highlighting the tough conditions the sector currently faces. The Australian dollar (AUD) and United States dollar (USD) exchange rate traded through a relatively

tight range closing the month at USD1.02 to finish slightly down.

Commodities were mixed over the month with nickel (up 6.9%) and iron ore (up 5.8%) rising, and zinc (down 10.9%), aluminium (down 4.3%), copper (down 3.6%) and oil (down 2.8%) falling. Gold was also sold off, closing the month at USD1,564 per ounce (down 10.5%).

In the domestic equity market defensive sectors were the strongest performers with telecommunications (up 5.0%), utilities (up 2.5%) and healthcare (up 1.7%) the only sectors to finish in positive territory. Energy (down 5.1%), materials (down 4.1%), property (down 4.1%) and consumer discretionary (down 4.0%) were the weakest performing sectors.

The largest positive performance contributor was the Australia and New Zealand Banking Group Ltd (ANZ), up 3.2%. The banking sector outperformed the broader market with ANZ one of the strongest performing of the big four banks. The recent performance is a reflection of the unfolding opportunity in the Asian region. With many European banks exiting the region there are significant opportunities. European banks provide close to one third of the trade finance in the region. With this capacity removed the other regional players, including ANZ, can fill this gap. The company also received a favourable court ruling in relation to its fee type class action brought against it by IMF (Australia) Limited.

The Trust's CSL Limited holding (up 2.6%) also added value. The company held its annual Research and Development Investor Briefing in which it provided an update of its future product pipeline. The company highlighted its recombinant coagulation products for haemophilia, which have the potential to be a strong driver of growth if they realise their commercial potential. Additionally, with a significant proportion of its earnings generated in the US the company would benefit from a sustained recovery in the US economy.

James Hardie Industries (up 1.8%) contributed positively to performance during the month. The recent positive momentum to the US housing market continued with housing starts, building permits and home sales all surprising on the upside once again.

The biggest detractor to performance in December was JB Hi-Fi Limited (JB Hi-Fi), down 27.4%. JB Hi-Fi announced total sales growth of 7.8% (comparative store growth was down 1.8%) for the five months to November compared to 6.6% for the first quarter. While the sales trend is improving, the company expects earnings before interest

and tax (EBIT) to be down 5% for the first half of 2012 with earnings per share (EPS) down 1%. This EBIT reduction was largely the result of gross sales margin pressure with a 0.3% reduction. This has been attributed to the high level of discounting with some competitors pricing inventory below cost to drive foot traffic and clear excess inventory. The toughest category was in televisions, with price declines in the range of 20 to 25% but volume impacts only 15%. Stronger categories were computers, IT and accessories with an improving trend in telecommunications which showed solid growth following the release of the iPhone 4S in early October 2011. Online transactions continue to grow strongly with sales up 80% and the group recently launching its music streaming service JB Hi-Fi NOW.

The Trust's holding in Newcrest Mining Limited (down 14.5%) also detracted value. In our opinion the decline is largely explained by the 10.5% fall in the gold spot price over the month which negatively impacted gold equities globally. This view is supported by the declines witnessed in both the HUI (Amex Gold BUGS Index) and XAU (Philadelphia Gold and Silver Index) which were down 14.6% and 13.2% in AUD, respectively. The gold miner issued a reduced full year production guidance with forecast output of 2.43 to 2.55 million ounces of gold, representing a downgrade to previous guidance of around 6%. Disruptions at the company's Cadia Valley and Lihir mines and lower feed grades and recoveries at Telfer, were cited as the primary reasons for the downgrade.

OneSteel Limited (OneSteel) also detracted value (down 15.2%). Local and global steel companies were sold down in December and OneSteel fared worse than most despite no negative news emerging. Local competitor, Bluescope Steel Limited announced a AUD600 million equity capital raising to assist it in the closure of one of its Port Kembla blast furnaces and restructure of other parts of the business. This led to speculation that OneSteel may also raise capital, something the company CEO and Chairman continue to refute. The company also announced the write-down on the valuation of intangible assets (mainly goodwill on some Smorgon Steel Group Ltd assets purchased four years ago) and a number of smaller asset sales, neither of which have a significant impact on valuation.

The Trust's position in Hastie Group Limited (down 33.5%) also detracted value. The company issued a market update following its recent strategic review of the Middle East and International operations. Following this review the company announced a one off charge to calendar year

2012 EBIT of AUD48 to 55 million, with two significant uncompleted Middle Eastern projects predominantly cited.

The Trust continued to add to the position in Orica Limited (Orica). In December the NSW Environmental Protection Agency lifted the Prevention Notice on the ammonia storage system at Orica's Kooragang Island site, allowing the start-up of the ammonium nitrate plant. The company began partial ammonium nitrate production, and expects to resume full production in early January.

We see the current sell-off of JB Hi-Fi as a buying opportunity and we added to the Trust's position in the stock. We believe the company is well positioned to weather the current cyclical down turn in consumer spending. The company is attractively valued and continues to grow its store numbers profitably.

During the month Tox Free Solutions Limited completed a AUD27 million placement, with the proceeds used to partly fund the acquisition of Chemsal, BCD Technologies, Entech Industries and Waste Audit, from DoloMatrix International Limited. The transaction should provide immediate EPS accretion. We regard the acquisition favourably and as a consequence we elected to participate in the capital raising and increase the Trust's allocation to the company.

Following a period of outperformance we elected to partially trim the Trust's holding in Woolworths Limited (Woolworths) and move to an underweight position. We are concerned that the discretionary retail businesses within Woolworths such as Dick Smith and Big W will show poor results when the company reports in February. We also reduced the Trust's holding in the Australian Infrastructure Fund as the company reached our valuation target. Positions in Asciano Limited, Computershare Limited and James Hardie Industries were also trimmed to bring back to target following outperformance of the market.

At month end, stock numbers stood at 37 with cash at 0.7%.

Top Ten Holdings as at 31 December 2011

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	13.1%	11.2%
Westpac Banking Corp	7.9%	6.2%
ANZ Banking Grp Ltd	7.6%	5.5%
National Aust. Bank	7.2%	5.3%
Commonwealth Bank.	6.0%	7.9%
RIO Tinto Limited	4.2%	2.7%
Newcrest Mining	4.0%	2.3%
AMP Limited	3.9%	1.2%
CSL Limited	3.6%	1.7%
Woodside Petroleum	3.5%	1.9%
Total	61.0%	45.9%

Asset Allocation as at 31 December 2011

Stock Name	Trust Weight %	Index Weight %
Energy	6.7%	7.1%
Materials	30.2%	25.0%
Industrials	12.3%	7.2%
Consumer Discretionary	1.9%	3.9%
Consumer Staples	2.4%	8.0%
Health Care	3.6%	3.6%
Financials-x-Real Estate	36.9%	31.7%
Real Estate	2.2%	6.6%
Information Technology	3.1%	0.7%
Telecommunication Services	0.0%	4.5%
Utilities	0.0%	1.6%
SPI Futures	0.0%	-
Cash	0.7%	-
	100.0%	100.0%

Rounding accounts for small +/- from 100%.