

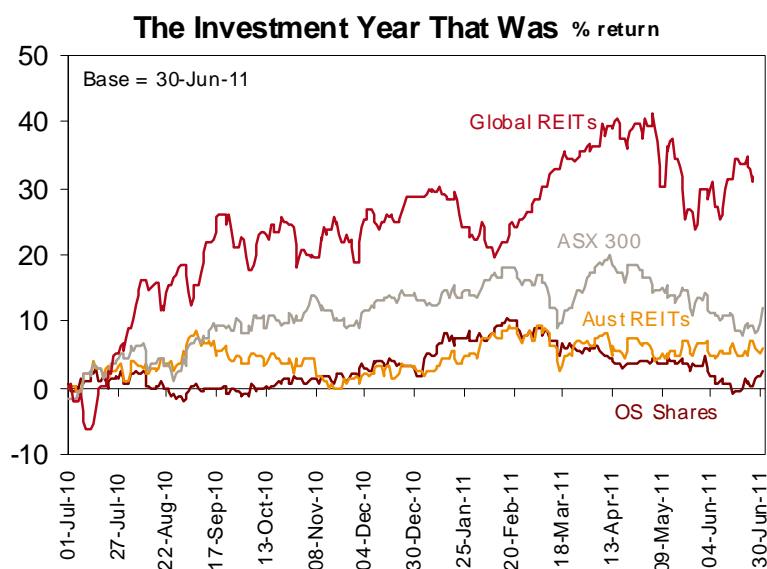
Felt bad, performed OK

In a year that included concerns of deflation, fears of a double dip recession, rising fuel prices, massive flooding and the tragic Japanese earthquake; investors actually fared quite well. All major asset classes delivered positive returns, with the returns largely commensurate with the risk appetite of investors.

The year that was: Growth assets

The financial year began with concerns of deflation and fears of a double dip recession as post GFC fiscal stimulus was withdrawn. Against this backdrop, risk appetite and share markets struggled.

Concerns were greatest for advanced economies, where policy makers responded with steps to boost growth in the December 2010 quarter. On the fiscal side, packages of USD858 billion were announced in the United States (US) and JPY5 trillion in Japan. The US monetary authorities also followed through with further easing in the form of QE2, a USD600 billion program to buy treasuries.



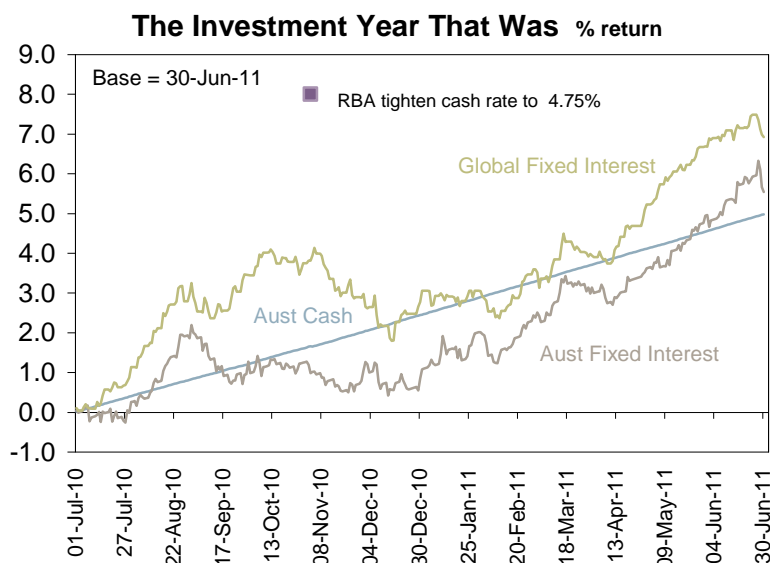
These policy steps helped restore risk appetite. The restoration of risk appetite in combination with stronger economic data and indicators, released from late 2010 through to the Japanese earthquake in early March 2011, underpinned a period of steadily rising share markets.

The disruptions to global supply chains from the Japanese earthquake and the re-emergence of sovereign debt pressures in Europe, led to a loss of confidence in the sustainability of the global recovery and a period of falling share markets.

Despite the soft finish to the financial year, a range of growth asset classes posted solid to very strong returns. At the top of the tree were global REITs¹, up 29.2%; followed by Australian shares², up 11.9%; and, Australian REITs³, up 5.8%. Overseas shares, up 2.7% in Australian dollar terms⁴, posted the lowest returns of the growth assets that Perennial invests in. Strong gains in the Australian currency were a major drag on returns from this sector.

The year that was: Defensive assets

There were mixed influences on global and domestic fixed interest sectors over the year. Periods of stronger returns for bonds coincided with periods of doubt about the recovery and periods of falling risk appetite in equity markets. During the period of bond yield falls and rising capital values, the most notable periods were: early in the September 2010 quarter, when fears of a double dip recession were high, and the June 2011 quarter, when fears of a sovereign default by Greece and signs of a slowing in growth post the Japanese earthquake; led to a sustained fall in yields.



On the flip side, weaker periods for bond market returns coincided with periods of stronger growth where concerns of the re-emergence of inflation led to periods of rising yields. The Reserve Bank of Australia only tightened once this financial year, lifting the cash rate to 4.75% in November 2010.

For the financial year, the cash sector⁵, the least risky of all the asset classes, returned 4.98%. The next best return came from Australian fixed interest⁶, up 5.55%. The riskiest of the defensive assets that Perennial invests in, global fixed interest⁷, generated the highest return and was up 6.93%.

In summary, it was a year where investor returns were commensurate with the amount of risk they took. The only exception was overseas shares on an unhedged basis, where the strongly rising currency ate into sector returns.

***Sector Benchmarks**

1. Global property securities: FTSE EPRA/NAREIT Global Real Estate Total Return Index (Hedged to AUD)
2. Australian equities: S&P/ASX 300 Accumulation Index
3. Australian listed property securities: S&P/ASX 200 A-REIT Accumulation Index
4. International equities: MSCI World ex-Australia Accumulation Index - unhedged
5. Cash: UBS Bank Bill Index
6. Australian fixed interest: UBS Composite Bond Index (All Maturities) Index
7. International fixed interest: Barclays Global Aggregate Index (Hedged to AUD).