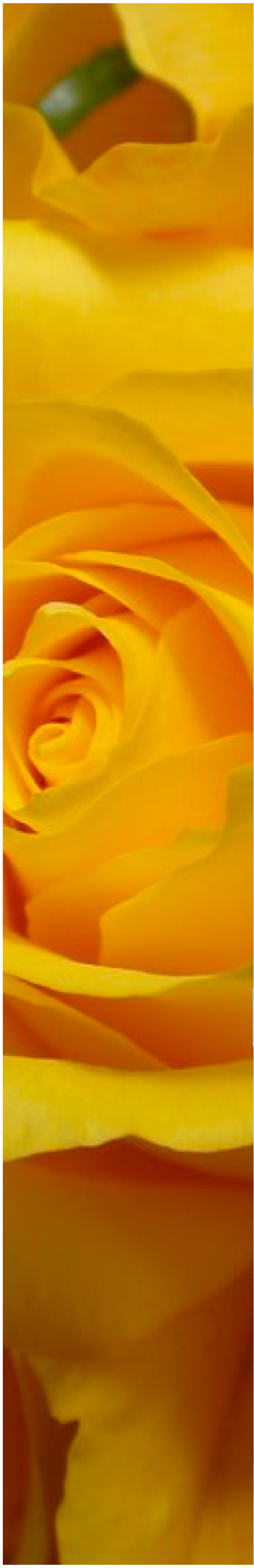

NEWSLETTER #9
MAY 2009

PERENNIAL ASSET MANAGEMENT

Perennial Perspective

Current Turmoil

The markets continue to provide investors with worries and sleepless nights. Those hoping for a rebound to recoup their losses from last year are finally feeling like there might be some hope. At Perennial we continue to earn our investors excellent returns.

As at April 30/2009	**Perennial**	Benchmark*	Outperformance
Year to Date	**19.6%**	-5.2%	24.8%
1 Year	**41.8%**	-27.1%	68.9%
3 Year Annualized	**16.9%**	-12.7%	29.6%
Since Inception Annualized	**16.0%**	-7.9%	23.9%
Since Inception Total Return	**63.9%**	-23.9%	87.8%

* Benchmark - ***S&P500 Index*** *converted 70% to Canadian dollars. All returns and performance calculations are net of trading costs and gross of management fees.*

Managing vs. Reacting

Most entities plan. Businesses conduct an annual budgeting process and every few years they review long term strategic plans. Experienced management understands you cannot build a business by reviewing today's sales.

In managing our portfolios we too plan. As I write, our equity portfolio is fully invested and it is positioned aggressively for what we expect will be a strong market. This stance surprises people who know us because we have been conservatively invested for three years. This was not happenstance. Our process kept our portfolio away from an overvalued market where the best

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outcome was already priced in. Now, our portfolio is positioned to benefit from a market that is inexpensive, oversold and which has discounted the bad news we are currently experiencing. While market commentators are trying to bring our attention to poor earnings reports, swine flu fears and political propaganda, we are looking at a company's long-term earnings potential and normal economic cycles. We are focused on where we will be in 9-12 months and not on what is in the paper today.

Process Flexibility

At Perennial our process incorporates structural flexibility and this is quite different from what most portfolio managers do. We do not start with the pre-set assumptions they prefer such as:

1. Buy and hold is better because no one can predict markets and markets rise over time.
2. Value stocks outperform because by definition they are cheaper than the market.
3. Growth stocks excel because they are in better businesses with superior growth prospects.
4. The prospects for small cap stocks are far superior because they have more room to grow.
5. Emerging markets represent the future. Returns in those markets can be enormous.

Jim and I believe that at times each of these views can be correct while at other times quite wrong. The Perennial process looks to benefit from each of these views when the environment is suitable. At the same time we would not want to be limited to only one view.

<u>The Perennial Process</u>

A. We first review risk pricing levels across many markets to set our portfolio's risk profile.

B. Secondly we review relative valuations across all markets (stocks, bonds, materials etc.) to focus our attention on those areas that present the best value and potential.

C. We then analyze all sectors of the market and their sub-industries to concentrate our research in those areas that will benefit from where we are in the business cycle.

D. From the chosen sub-industries we select companies that meet our desired quality and profitability criteria. This research goes on constantly. Even after we have decided we want to own a company it may be months before we actually purchase the shares.

E. Every decision we make is checked for reasonableness given our view of how all markets are performing and how economic conditions are evolving.

This process leads us to investments that offer opportunity for growth, superior quality characteristics and which are undervalued. These holdings will benefit from their individual qualities as well as from the broad sweep of economic change.

The reason we look at the world this way is that we believe an investment portfolio needs to be flexible to benefit from what are very different market and economic environments. Following only one path is not the correct answer when conditions change.

The Horizon

As I mentioned our equity portfolio is fully invested. Currently our time and energy are focused on the horizon which is what we always do. What do we think will happen next year and what will we need to do to protect our clients' wealth and earn excellent risk adjusted returns?

This is easy to put on paper but it is far from simple to implement. We are looking for the equity market to rally strongly over the coming months as investors come to the conclusion that the world is not coming to an end. It will become evident that 92% of Canadian and US workers are still employed and they are still buying clothes, food and cars. Maybe not as aggressively as two years ago but sales are not going to zero. At the same time corporate America has focused on driving costs lower and the surviving companies will earn decent returns even if we do not return to the economic environment we experienced in 2006.

Our portfolios will benefit from the renewed confidence of investors as they begin to invest the huge amounts of cash which are currently sitting in banks earning around 1%. But then what? What can we expect 9 months from now? This is what we currently see:

1. The markets are starting to believe that interest rates could rise. Governments around the world have been driving rates lower to stimulate demand and to keep individuals and corporations afloat. Administered rates will rise from these unsustainably low levels as it becomes evident that we have avoided a depression.
2. As corporate profits improve investors will begin to worry about inflation from the huge stimulus of the preceding two years. Long term bonds will fall in value. Materials prices will rise.
3. The brush with catastrophe that consumers and corporations experienced because of unsustainable debt levels will keep their focus on improving their balance sheets. The rising interest rates will increase the necessity for saving and debt repayment. This deleveraging process could last a few years.
4. Economic growth will be slow and investors will be unwilling to pay high multiples for modest future growth.
5. Inflation worries will eventually lessen. Long term bonds will strengthen and materials prices will fall.

This is the scenario we currently envision. It is logical and it is not built on hyperbole. However our world is dynamic and it changes constantly. Our flexible process will change too and we will adjust our stance. As Darwin surmised, those that adapt successfully survive and prosper.

Opportunity Comes to the Prepared Mind

Since January 1st 2008 our equity portfolio is up approximately 50%. At the same time the S&P 500 is down approximately -39%. Our clients therefore have 145% more money than if they had invested in the index. In dollars this means $1 million grew to $1.5 million instead of shrinking to $610 thousand.

Our clients have earned excellent returns in very difficult markets not because we took risk but because we avoided it when it was expensive. Today while investors are very fearful opportunity exists and risk is cheap. We believe investors should be invested and we have found many strong companies trading at very attractive prices.

Your investment plan needs to be strategic in focus and your money manager should ensure your portfolio is designed to benefit from the coming markets. Do not settle for less.

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To earn a good investment return, you need to avoid following the crowd; you do not need to be a nimble trader and you do not have to own the hottest new stock. All you need to do is be reasonable and own stocks at prices that underestimate their potential.