Perennial Socially Responsive Shares Trust

Monthly Report
30 September 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	-5.0	-0.5	-0.5	6.8	16.4	15.6	6.5
S&P/ASX 300 Accumulation Index	-5.4	-0.6	-0.6	5.7	14.3	14.4	6.6
Value Added (Detracted)	**0.4**	**0.1**	**0.1**	**1.1**	**2.1**	**1.2**	**-0.1**
Net Performance	-5.0	-0.8	-0.8	5.8	15.3	14.5	5.5

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

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio manager:
Lee Mickelburough

Risk profile:
High

Trust FUM (as at 30 September 2014):
AUD48.8 million

Income distribution frequency:
Half yearly

Team FUM (as at 30 September 2014):
AUD2.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The Trust outperformed the Index by 0.4% in September.**
- **Healthcare was the standout outperforming sector finishing flat as it was cushioned by its high overseas earnings component and defensive nature.**
- **With the AUD weakening significantly over the period, the market performed poorly on a global basis.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 0.4% in September, returning -5.0% against the Index which returned -5.4% for the month.

In the month of September the heavyweight banking sector was a major drag (down 7.6%) as investors showed concern about the risk of higher capital charges and the possibility of tighter credit controls. Both materials and energy fared little better (down 6.4% and 5.7% respectively) with declining commodity prices. Healthcare was the standout outperforming sector finishing flat as it was cushioned by its high overseas earnings component and defensive nature.

Infigen Energy (up 13%) rallied after investors became less pessimistic over the future of the renewable energy target. We do not believe that the renewable energy target will be removed in its entirety; however a reduction in the target is possible. Further news is due out shortly to add further clarity to the situation (until the Government comes out with a comprehensive plan) the Infigen Energy share price will remain volatile.

Healthscope (up 7.0%) continued its strong performance since listing in July 2014. Healthscope is one of two major players in the Australian private hospital sector which continues to benefit from the positive backdrop of the ageing population and increased demand for healthcare services. We expect Healthscope to grow faster than peer Ramsay Healthcare due to procurement savings, improved payment terms with health fund customers and investment to expand bed numbers at healthy ROIC.

Lend Lease (up 3.8%) continued its recent outperformance and added to its success in the global construction market by announcing that it has entered into an approximately $5.3b Public Private Partnership (PPP) with the Victorian State Government to finance, design and construct stage one of the East West Link in Melbourne. We have taken management's confidence around the company's earnings outlook for the next three years as a positive sign and believe that their recent earnings result was conservatively stated with write downs and restructuring charges totalling about $150m impacting this year's profits. Lend Lease's strong profit outlook in FY16 and FY17 remains unchanged when returns will be realised on its development pipeline in residential apartments and the Barangaroo commercial towers.

CSL (up 1.3%) outperformed on limited company specific news as it benefited from weakness in the Australian dollar (AUD). In the August earnings result, CSL's outlook commentary was strong, with the company guiding to 12% NPAT growth and stronger growth in EPS due to the ongoing share buybacks. We remain attracted to CSL's above-industry growth rates, prospective R&D pipeline and strong ROIC.

Vocation (down 23.3%) underperformed after conducting a capital raising to increase their capacity to make acquisitions in line with their corporate strategy. Vocation updated the market on the audit of the BAWM Group one of the company's Registered Trading Organisations (RTOs) by the relevant Victorian State Government authority.

After reviewing the situation thoroughly and accounting for the audit procedure and history of outcomes, we are comfortable with our holding in Vocation have been adding to the position in this time of weakness.

Mermaid Marine (down 13.8%) was weaker in the month following continued concerns with respect to domestic activity levels, industrial action and progress on the integration of Jaya. While the domestic activity levels are expected to be weaker over the coming years as several large LNG projects on the North West Shelf transition from construction to production, the market looks to be over estimating this impact both in terms of the quantum and the timing. With regards to the potential for industrial action it seems the operators in the sector look to be well organised and we expect that rational heads will prevail. Finally, there are lingering concerns on the integration of Jaya but we are confident that steady progress is being made.

Wesfarmers (not held, down 2.7%) outperformed on little company specific news and detracted value. We remain comfortable not holding Wesfarmers as based on Perennial Growth research estimates the company remains overvalued.

SAI Global (down 13.7%) announced that despite receiving proposals from a numbers of interested parties to acquire one or more of SAI's underlying businesses, none of the company offers had been received. We have conducted a large amount of analysis on SAI Global's business and believe there is a significant opportunity for cost reductions given there are several acquisitions still not yielding their full synergies. Further, group wide systems are not in place for key functions such as HR, payroll and procurement. Based on our estimates the business has improving returns, a steady growth profile and greater than 30% valuation upside as such we used the share price weakness during the month to increase the position.

Iluka (down 11.1%) underperformed due to negative Chinese and European demand concerns. Third party prices for zircon and titanium dioxide remained largely unchanged in USD during the month so the key risk to near term cash flows remained sales volumes. Iluka earns a mining royalty from iron ore production in an area operated by BHP in the Pilbara. We estimate that every USD10/t decline in the iron ore price reduces Iluka's cash flows by around AUD10m, however as Iluka is a significant beneficiary from a falling AUD, with every 1c fall in the AUD improving cash flows by AUD10m, the weaker AUD has more than offset the impact of weaker iron ore royalties. The only issues that remain outstanding are whether or not Iluka formalises their bid for Kenmare and whether they add a cash component to their bid. Given that Kenmare is trading at a 60% discount to the previously disclosed bid we do not believe that a new bid is imminent.

Market overview

The Australian market gave back all of its 2014 gains in September after registering a 5.9% decline. With the AUD weakening significantly over the period, the market performed poorly on a global basis declining 12.3% when measured in USD. This compared unfavourably to the MSCI World Index which only declined 2.7% for September. In the major global markets, the S&P 500 fell 1.6%, the FTSE 100 fell 2.9% and the Hang Seng collapsed 7.4% while the Euro Stoxx finished up 1.7% and the Nikkei 225 increased 4.9%. When measured in USD terms all of the major indexes finished lower.

The US experienced a raft of positive economic data led by 2Q14 GDP growth revised up by 0.6% to 4.6% due to upward revisions in business investment and export growth. The Thompson Reuters/University of Michigan Consumer Confidence Index came in at 84.6, the highest level since July 2013. ISM surveys were also particularly strong as the manufacturing PMI rose to 59.0 and the non-manufacturing PMI rose to 59.6, the highest levels since 2005. Nonfarm payrolls increased 142,000, behind expectations and the unemployment rate moved down 0.1% to 6.1%. Housing data was the primary point of weakness as starts tumbled 14.4% in August on a month to month basis however considering the revised 22.9% gain in the period prior it is difficult to read too much into the result given the volatility in the series.

Chinese economic data remained underwhelming with the HSBC manufacturing flash PMI coming in unchanged at 50.2. M2 money supply growth eased to 12.8% year on year. New loan creation rebounded from 385.2b Yuan in July to 702.5b Yuan in August, however given the June reading was 1080 Billion Yuan, the downward calendar year trend remained intact.

Domestically the Reserve Bank of Australia (RBA) kept the cash rate on hold for a 12th consecutive meeting. While their minutes added little to prior statements, they have added discussion on Australia's buoyant housing sector with a note of concern. NAB business confidence decreased 3 basis points to 8 basis points while the NAB business conditions index halved to 4 basis points. The Westpac MI Consumer Confidence Index slumped in September 4.6%. While the economy gained 121,000 jobs in August; the largest monthly gain on record, this result appears to be significantly impacted by a recent change in the reporting panel and an increase in the participation rate. Evidence of the statistical discrepancy can be identified when comparing the strong jobs number to the meagre growth in aggregate monthly hours worked which grew by the smallest measurable increment of 0.1 million hours.

The AUD fell 6.6% against the USD over the month. The trend of a stronger USD has continued from recent months as the currency markets continue their transition to a more normal US monetary policy.

Spot Brent crude oil finished the month down 8% as the risk of supply disruptions eased further and some Libyan ports resumed exports. In iron ore, strong supply growth and signs of waning demand in China weighed heavily on the benchmark price as it registered a steep fall of 11.8%. Base metals were collectively weaker as aluminium fell 7.5%, lead declined 6.7%, copper 3.2%, zinc 3.3% and nickel tumbled 11.3%. Spot gold had its worst month since June 2013 falling 6.2%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank.	7.1	9.1
National Aust. Bank	7.0	5.7
ANZ Banking Grp Ltd	7.0	6.3
Westpac Banking Corp	5.7	7.4
CSL Limited	4.9	2.6
QBE Insurance Group	3.6	1.2
Westfield Corp	2.8	1.1
Santos Ltd	2.7	1.0
Aurizon Holdings Ltd	2.5	0.7
Goodman Group	2.4	0.6

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	9.1	6.4
Materials	10.2	16.4
Industrials	9.6	7.1
Consumer Discretionary	2.6	4.2
Consumer Staples	0.8	7.9
Healthcare	12.4	5.1
Financials-x-Real Estate	38.6	37.4
Real Estate	7.6	7.2
Information Technology	0.9	1.0
Telecommunication Services	2.0	5.5
Utilities	2.7	1.8
Cash	3.5	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
or visit www.perennial.net.au.

Signatory of:

PRI Principles for Responsible Investment