

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	6.3	-2.5	3.2	11.0	10.1	7.2
S&P/ASX 300 Accumulation Index	6.5	-0.4	2.8	9.0	6.7	5.5
Value Added (Detracted)	-0.2	-2.1	0.4	2.0	3.4	1.7
Capital Growth	3.2	-7.5	-4.6	4.6	3.8	0.8
Income Distribution	3.1	4.8	7.1	5.6	5.5	5.6
Net Performance^{^^}	6.3	-2.7	2.5	10.2	9.3	6.4

*Gross Performance. [^]Since inception: December 2005. ^{^^}This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:

Stephen Bruce

Risk profile:

High

Trust FUM (as at 31 December 2015):

AUD 44 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 December 2015):

AUD 6.7 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ Over the 12 months to December 2015, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 9.2%. This compares favourably to twelve month term deposit rates of 3.2% available over the same period.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.6% per annum.

Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Quarterly Distribution

The Trust paid total distributions of 3.4 cents per unit for the December 2015 quarter (this includes the special distribution paid in October). Adding franking credits, the gross (pre-tax) distribution for the quarter was 4.0 cents per unit. Based on the unit price at the start of the financial year (\$1.19), this represents a pre-tax distribution yield for the quarter of 3.4% and brings the pre-tax distribution yield for the last 12 months to 9.2%. This compares favourably to the 12 month term deposit rates available for that period of around 3.2%.

Trust Performance

During the December 2015 quarter, the S&P/ASX300 Accumulation Index (the Index) delivered a return of 6.5%. The Trust delivered a return of 6.3%, underperforming the Index by 0.2%.

Globally, markets were dominated by the US Federal Reserve's decision to finally lift interest rates by 0.25%. Markets were generally stronger over the quarter, with the S&P 500 up 6.5%, FTSE 100 up 3.0%, Nikkei 225 up 9.5% and Shanghai Composite up 15.9%. In Australia, strong job growth continued in October and November, with the unemployment rate falling to 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The Reserve Bank of Australia (RBA) left the cash rate steady at 2% and the Australian Dollar (AUD) moved higher over the quarter to close at 72.9 US cents.

Better performing sectors over the quarter included consumer discretionary (up 13.4%), healthcare (up 12.4%), financials (up 11.5%), information technology (up 9.2%) and utilities (up 8.6%), while metals and mining (down 11.8%), materials (down 6.9%) energy (down 1.3%) and telecommunications (up 0.9%) lagged.

Stocks which contributed positively to performance over the quarter included Event Hospitality and Entertainment (formerly known as Amalgamated Holdings), which continued its outperformance (up 27.6%) after reporting a strong start to FY16 across all their divisions and performers and Aristocrat Leisure (up 19.6%), after reporting a strong FY15 result. Other strong performers included CBA (up 17.6%), Westpac (up 16.8%), Lend Lease (up 13.6%) and AGL Energy (up 13.2%).

The portfolio also benefited from not holding stocks such as Spotless Group (down 49.8%) which fell after issuing a surprise profit warning. Along with the performance of Dick Smith (down 72.5%), this serves as a reminder of why we always treat initial public offerings (IPO's) with caution – particularly when buying from private equity. The Trust also benefited from not holding Primary Healthcare (down 38.3%), which fell after the government unexpectedly cut the bulk-billing rebate. We have previously highlighted the funding risks associated with this sector and the current Medicare review suggests that this may be an ongoing theme.

Stocks which detracted from performance included resource holdings BHP (down 19.6%), Rio Tinto (down 8.0%) and Woodside Petroleum (down 0.7%) which all fell as a result of lower commodity prices. Suncorp (down 0.4%) fell after downgrading earnings expectations due to rising claims costs as a result of higher than usual level of weather events in 2015 as well as the lower AUD. While this is disappointing, on the positive, the premium pricing environment appears to be stabilising and the company remains strongly capitalised, supporting an attractive level of dividends.

Trust Activity

During the quarter we locked in profits and sold out of our holding in Aristocrat Leisure. This has been a very strong performer, (up 58.2%) over the past 12 months. We also took profits and reduced our holding in Macquarie Group, which has risen 48.2% over the past 12 months. We exited out holding in South32, as the current low commodity prices have reduced the likelihood of the company paying attractive dividends.

Proceeds were used to add to a number of existing holdings where we see attractive value including Wesfarmers (FY16 gross yield 7.0%), Stockland (5.9%) and Suncorp (9.0%). We also increased our holdings in the major banks, with their attractive sector average FY16 gross dividend yield of 8.6%. At quarterly end, stock numbers were 24 and cash was 3.9%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert to ESG issues in the portfolio. During the quarter, the tailings dam at BHP's Samarco JV in Brazil failed causing significant environmental damage and loss of life. BHP Billiton and Vale have pledged to establish an emergency fund for community support and rebuilding works and to work with the authorities to ensure that this fund is functioning as soon as practicable. Minimising the environmental impact of this incident is also a priority and an Environmental Recovery Plan is to be developed with the support of an external expert. Further, BHP have subsequently conducted a review of all its tailings dams and engaged an independent international investigation into the event. We are very disappointed by this issue and will continue to monitor developments from an ESG perspective.

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The portfolio is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.6	10.3
Westpac Banking Corp.	8.7	7.9
Telstra Corporation	8.2	4.9
ANZ Banking Grp Ltd	8.1	5.8
National Aust. Bank	7.1	5.6
BHP Billiton Limited	5.5	4.1
Event Hospitality	5.3	0.0
AGL Energy Limited	5.3	0.9
Woodside Petroleum	4.3	1.4
Wesfarmers Limited	4.2	3.3

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.3	4.0
Materials	12.2	12.1
Industrials	0.8	7.9
Consumer Discretionary	9.4	4.9
Consumer Staples	4.2	7.2
Health Care	0.0	6.8
Financials-x-Real Estate	45.7	39.9
Real Estate	6.0	8.3
Information Technology	0.0	1.2
Telecommunication Services	8.2	5.4
Utilities	5.3	2.3
Other	3.9	-

Rounding accounts for small +/- from 100%.

Signatory of:



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