

# Perennial Value Shares Wholesale Trust

Monthly Report as at 31 May 2012

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>^</sup> % p.a.
Perennial Value Shares Wholesale Trust*	-7.3	-5.3	-8.4	-9.9	5.0	-3.0	8.2
S&P/ASX 300 Accumulation Index	-6.7	-4.4	-7.5	-9.3	6.8	-4.3	5.8
<b>Value Added (Detracted)</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-1.8</b>	<b>1.3</b>	<b>2.4</b>
Capital Growth	-7.4	-5.5	-11.4	-14.1	0.7	-12.4	-0.9
Income Distribution	0.0	0.0	2.3	3.5	3.4	8.6	8.4
Net Performance	-7.4	-5.5	-9.1	-10.6	4.1	-3.8	7.5

\*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

- Domestic economic data was mixed during the month.
- Utilities (up 2.0%) and telecommunications (up 0.2%) outperformed.
- The best performing stock was AngloGold Ashanti Limited (up 11.2%) which rallied despite the lower gold price.

The Australian equities market sold off sharply in May, with the S&P/ASX300 Accumulation Index (the Index) down 6.7%. International markets were also sold down aggressively during the month as the combination of the failure of the Greeks to form a government, concerns over Spain, softer US economic data and downgrades to Chinese GDP drove risk aversion to very high levels. The falls were broad-based, with the S&P500 down 6.3%, the FTSE 100 down 7.7%, the Euro Stoxx 50 down 8.2% and the Nikkei 225 down 10.3%.

Domestic economic data was mixed, with employment strong while most other data remained weak. In the face of softening conditions, the Reserve Bank of Australia cut the cash rate by 50 basis points, citing a lowering of its assessment of growth in the domestic economy and uncertainty in the international economic and financial environment. The Australian dollar fell sharply, finishing the month down seven cents at USD0.97. Most commodities were also down, with oil (down 3.7%) and gold (down 5.9%) both falling.

With markets highly risk averse, the defensive sectors outperformed with the best performing sector being utilities (up 2.0%), followed by telecommunications (up 0.2%), healthcare (down 0.5%), consumer staples (down 0.7%) and REITs (down 1.2%). The cyclical sectors underperformed with metals and mining (down 11.9%), materials (down 10.9%), energy (down 10.2%) and industrials (down 8.4%).

The Perennial Value Shares Wholesale Trust (the Trust) finished the month down 7.3%, underperforming the Index return by 0.6%. The key drivers of this underperformance were our underweight position in defensive stocks and our overweight in cyclical stocks. The negative, macro-driven

## Perennial Value 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.

### Trust Manager:

John Murray

### Trust FUM

(as at 31/05/12):

AUD1.5 billion

### Team FUM (as at 31/05/12):

AUD8.0 billion

### Trust Inception date:

June 2001

### Risk Profile:

High

### Income Distribution

#### Frequency:

Half yearly

### Minimum Initial Investment:

\$25,000

### APIR code:

IOF0206AU

“risk-off” sentiment in the market has led many quality cyclical businesses to be sold down to levels well below their underlying value while at the same time, a flight to safety has seen many defensives bid up to very expensive levels. For example, CSL Limited, which was the best performing stock in the Top 20 in May, is trading on around 20 times current year earnings with a gross yield of only 2.5%. This company is not held in the Trust as while it is a sound business, we simply cannot justify holding it on the basis of overvaluation. This is also the case with several other stocks in the healthcare sector.

Looking through the macro noise however, at the stock level, the month saw positive developments for several companies in the portfolio. For example, Orica Limited, a core Trust holding, delivered a very sound half-year profit result. Strong growth in the underlying explosives

business almost entirely offset the impact of the shut-down of the Kooragang Island ammonium nitrate plant, which cost it some \$90 million in the half and highlighted the robustness of the business. GrainCorp Limited, another key holding, reported record first half earnings, up nearly 40% on the previous period, driven by favourable conditions in the east coast grain market. The strong earnings and cash flows allowed the company to pay a special dividend, lifting the payout by 50%. Three of the four major banks also announced their interim results during the month, again delivering record earnings despite the challenging environment and lifting their dividends by an average of 5% over the previous period. The major banks are now offering an average FY13 gross yield of 11.0%.

Other stocks to announce positive developments included Macquarie Group Limited (Macquarie), which announced several infrastructure transactions including the establishment of an infrastructure vehicle in partnership with the Philippines government and the acquisition of Germany's largest gas transmission network. Since the market low of last September, Macquarie has outperformed the market by over 20% and it is reassuring to see that some of these more cyclical stocks have been gaining some share price traction in recent months. Brambles Limited, another of our major holdings, gave an earnings update during the month in which they reiterated full-year earnings guidance and highlighted good organic revenue growth despite the subdued economic conditions in most of their markets.

The best performing stock in the Trust was AngloGold Ashanti Limited (up 11.2%) which rallied despite the lower gold price. Other strong performers included defensives Stockland (up 2.9%), Treasury Wine Estates Limited (up 2.3%), GrainCorp Limited (up 1.7%) and Tatts Group Limited (up 1.6%). The Trust continues to hold a core group of defensives where they can be justified on valuation grounds.

The worst performing stock in the Trust was Aquarius Platinum Limited (down 45.0%) as platinum prices fell. Other detractors included Billabong International Limited (Billabong) (down 27.3%), Sims Metal Management Limited (down 22.9%), Iluka Resources Limited (down

21.2%), Toll Holdings Limited (down 21.2%), Seven West Media Limited (down 16.6%) and Henderson Group PLC (down 15.4%). We remain of the view that the underlying value of these businesses is significantly higher than their current depressed share prices. For example, Billabong's month-end share price of \$1.92 is some 35% below our valuation of over \$3.00.

During the month, we sold out of our holdings in Echo Entertainment Group Limited. The stock had been a positive contributor, however we had concerns over its ability to meet earnings expectations over the coming year. Following its strong outperformance, it no longer represented good value.

We also exited our small position in Whitehaven Coal Limited and reduced our holding in Sims Metal Management Limited. The proceeds were used to increase our existing holdings in Woodside Petroleum Limited, Lend Lease Group, AWE Limited, Macquarie Group Limited and Orica Limited.

At month end, stock numbers stood at 46 with cash at 2.1%.

*Signatory of:*



Investment Manager: Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Managers: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Perennial Fixed Interest Partners Pty Limited ABN 35 099 336 357, Perennial Growth Management Pty Limited ABN 41 099 336 384 and Perennial Real Estate Investments Pty Limited ABN 35 117 913 685 are Subsidiaries and Authorised Representatives of Perennial. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. Whilst every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by the application form attached to the current product disclosure statement. The current product disclosure statement can be found on Perennial's website [www.perennial.net.au](http://www.perennial.net.au).

**Top 10 Holdings** as at 31 May 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	10.1%	10.3%
ANZ Banking Grp Ltd	7.7%	5.6%
National Aust. Bank	7.2%	5.1%
Commonwealth Bank.	7.2%	7.9%
Telstra Corporation.	7.0%	4.4%
Westpac Banking Corp	5.0%	6.2%
Rio Tinto Limited	4.0%	2.5%
Woodside Petroleum	3.5%	2.0%
Macquarie Group Ltd	3.0%	0.9%
Brambles Limited	2.9%	1.0%

**Asset Allocation** as at 31 May 2012

Asset Class	Trust Weight %	Index Weight %
Energy	4.9%	7.4%
Materials	29.0%	23.1%
Industrials	5.7%	7.4%
Consumer Discretionary	9.4%	3.6%
Consumer Staples	3.4%	8.2%
Health Care	0.0%	4.0%
Financials-x-Real Estate	32.3%	31.6%
Real Estate	5.2%	7.3%
Information Technology	0.0%	0.7%
Telecommunication Services	7.0%	4.7%
Utilities	0.6%	1.9%
Other	2.5%	-

Rounding accounts for small +/- from 100%.

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