

Perennial Value Shares for Income Trust

Monthly Report as at 31 July 2012

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Shares for Income Trust [*]	5.2	0.4	5.2	12.0	6.6	-2.0	4.0
S&P/ASX 300 Accumulation Index	4.2	-2.3	4.2	0.8	4.5	-2.9	2.6
Value Added (Detracted)	1.0	2.7	1.0	11.2	2.1	0.9	1.4
Net Performance ^{^^}	5.2	0.2	5.2	11.1	5.9	-2.8	3.2

^{*}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.**

- Over the past 12 months, the Trust has returned 12.0% compared to the Index return of 0.8%.
- The Australian equities market performed strongly in July.
- The best performing stock in the Trust was Australand Property (up 14.6%).

Trust Characteristics

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

Dividend Activity

July was a quiet month for dividends with GrainCorp Limited (GrainCorp) being the only holding to pay a dividend.

Trust Activity

During the month, we made several changes to the Trust. We sold out of our position in AGL Energy Limited as, after a period of strong outperformance, the company no longer offered a particularly attractive gross yield. Proceeds were reinvested into two new holdings, Flight Centre Limited (Flight Centre) and Myer Holdings Limited (Myer). Flight Centre has demonstrated a very strong track record of earnings growth and is currently benefitting from strong outward bound tourism as a result of the strong Australian dollar (AUD) and cheap international flights. The company is the largest domestic travel agent and has growing businesses in the United States and United Kingdom. At the month end price of \$21.23, the stock is offering a FY13 gross yield of 6.9%, underpinned by a very strong balance sheet. The company is expected to continue to generate strong organic earnings growth and this should translate into growing dividends. In the case of Myer, while operating conditions for department stores are undoubtedly challenging at present, we believe that this is more than reflected in the current share price. At the month end share price of \$1.83, the stock is trading on an FY13 P/E of 8.2x and offering a gross yield of 14.8%. Importantly, the balance sheet is sound with net interest cover of over 6.0x.

Perennial Value Shares for Income Trust Facts:

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

Trust FUM

(as at 31/07/12):

AUD115 million

Team FUM

(as at 31/07/12):

AUD7.5 billion

Trust Inception date:

December 2005

Risk Profile:

High

Income Distribution

Frequency:

Quarterly

Minimum Initial

Investment:

\$25,000

APIR code: IOF0078AU

*Gross dividend yield

The Trust maintains an exposure to the building materials sector as we believe that this is a segment of the market with the potential for very strong earnings and dividend growth when the construction cycle eventually turns. During the month, we switched part of our building materials exposure by selling out of our holding in CSR Limited (CSR) and replacing it with Boral Limited (Boral). In our view, Boral offers a cleaner exposure to an improvement in the building cycle as CSR's earnings are being impacted by the poor outlook for its aluminium smelting operations. Our Boral position complements our holdings in Adelaide Brighton Limited and Fletcher Building Limited.

At month end, stock numbers stood at 29 with cash at 1.3%.

Stock and Trust Performance

The Australian equities market performed strongly in July, with the S&P/ASX 300 Accumulation Index (the Index) up 4.2%. The Trust finished the month up 5.2%, outperforming the Index return by 1.0%. The Trust's focus on high yielding, financially sound companies has delivered very pleasing results for investors over the past 12 months. Over this period, the Trust has returned a strong positive result of 12.0% compared to the Index return of 0.8%.

International markets were mixed, with the S&P500 and FTSE100 up 1.3% and 1.1% respectively, while the Nikkei 225 fell 3.5% and the Shanghai Composite fell 5.5%. International markets improved towards the end of the month as the European Central Bank signalled that it would become more active in resolving the debt issues in Europe. Domestic economic data was mixed, but relatively stable. Unemployment rose slightly to 5.2% and business sentiment was weaker. However, retail sales rose more than expected and consumer sentiment improved for the third consecutive month. The Reserve Bank of Australia left the cash rate at 3.5%. The AUD was stronger finishing 2.5 cents higher at USD1.05.

Defensive sectors tended to outperform over the month, with telecommunications (up 8.3%) the best performing sector, followed by financials (up 7.2%), consumer staples (up 6.8%), utilities (up 5.8%) and REITs (up 5.6%). The worst performing sector was metals and mining (down 1.7%) followed by materials (down 0.7%) and industrials (up 0.1%).

The best performing stock in the Trust was Australand Property (up 14.6%), which rallied after reporting a half year result which was above market expectations. The other property and building industry related holdings also performed well, with Boral (up 13.9%), Lend Lease Group (up 12.5%), Stockland Group (up 8.8%) and Adelaide Brighton Limited (up 5.7%), as signs emerge that the building cycle may be beginning to recover from its current slump as a result of the recent interest rate cuts and a general improvement in housing affordability.

The major banks also outperformed, led by Westpac Banking Corporation (up 9.8%), CBA (up 8.3%), ANZ (up

6.9%) and NAB (up 6.1%) as investors flocked to their relative earnings certainty and attractive gross yields which average 9.7% for FY13. In addition, many offshore investors are now becoming less concerned about the potential for a significant fall in house prices in Australia and the resulting impact on the banks and this is leading to increased offshore buying of Australian bank stocks.

Our energy sector exposure, Woodside Petroleum Limited (up 8.8%) performed well after upgrading production guidance. Pleasingly, the increased production was driven by a faster than expected ramp up of the company's major Pluto LNG project. Other strong performers included Myer (up 13.3%), Flight Centre (up 12.2%), Wesfarmers Limited (up 9.0%) and Telstra Corporation Limited (Telstra) (up 8.4%). Despite outperforming the market by over 40% over the past year, at the month-end price of \$4.00, Telstra is still offering a compelling FY13 gross yield of 10.0%.

For the second month running, the worst performing stock in the Trust was Iluka Resources Limited (down 16.0%), with investors continuing to sell the stock down on the back of slowing demand for its mineral sands products. We continue to believe that this is an attractive investment as it operates in a highly consolidated market, has a very strong balance sheet and is one of the few resource stocks paying a high dividend yield. Our other mining related holdings BHP Billiton Limited (up 1.5%) and Orica Limited (up 0.8%) also underperformed. Other stocks which underperformed included Macquarie Group Limited (down 3.9%) as conditions in financial markets remain difficult, GrainCorp (up 0.1%), Toll Holdings Limited (up 1.0%) and Treasury Wine Estates Limited (up 1.6%).

Outlook

The waves of global macroeconomic uncertainty have continued to buffet markets and it is difficult to say when these issues will abate. Longer term, however, as economic growth resumes, company profits should grow and dividends paid to shareholders should increase, providing a growing stream of reliable, tax-effective income to investors.

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Top 10 Holdings as at 31 July 2012

Stock	Trust Weight %	Index Weight %
Westpac Banking Corp	8.2%	6.8%
Commonwealth Bank.	8.2%	8.8%
National Aust. Bank	8.1%	5.4%
ANZ Banking Grp Ltd	8.0%	6.1%
Telstra Corporation.	8.0%	4.8%
Wesfarmers Limited	3.7%	3.6%
Tatts Group Ltd	3.6%	0.4%
Woodside Petroleum	3.5%	2.0%
Orica Limited	3.5%	0.9%
ASX Limited	3.0%	0.5%

Asset Allocation as at 31 July 2012

Asset Class	Trust Weight %	Index Weight %
Energy	3.5%	6.8%
Materials	15.3%	21.1%
Industrials	2.4%	6.7%
Consumer Discretionary	11.1%	3.6%
Consumer Staples	11.1%	8.5%
Health Care	0.0%	4.1%
Financials-x-Real Estate	40.6%	34.1%
Real Estate	6.8%	7.4%
Information Technology	0.0%	0.7%
Telecommunication Services	8.0%	5.0%
Utilities	0.0%	1.9%
Other	1.3%	-
Rounding accounts for small +/- from 100%.		

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