

# Perennial Global Shares High Alpha Trust

Monthly Report as at 31 August 2012

	Month %	3 Months %	Financial YTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	SI* % p.a.
Perennial Global Shares High Alpha Trust <sup>^</sup>	4.6	-2.0	3.0	4.9	4.3	-5.9	-1.9
MSCI World ex Australia Net Dividends Index in AUD <sup>#</sup>	4.5	2.3	2.9	12.3	0.8	-6.4	-3.4
<b>Value Added (Detracted)</b>	<b>0.1</b>	<b>-4.3</b>	<b>0.1</b>	<b>-7.4</b>	<b>3.6</b>	<b>0.5</b>	<b>1.5</b>
<b>Net Performance</b>	<b>4.4</b>	<b>-2.2</b>	<b>2.8</b>	<b>3.7</b>	<b>2.2</b>	<b>-7.6</b>	<b>-3.6</b>

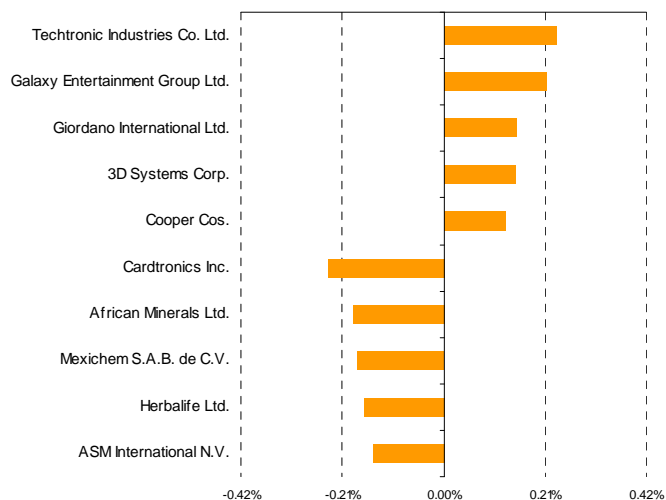
<sup>^</sup> Gross Performance. <sup>\*</sup> Since Inception: February 2006. **Past performance is not a reliable indicator of future performance.** <sup>#</sup> As at 1 April 2010, the Trust revised its Index to the MSCI World ex Australia Net Dividends Index in AUD. In other respects, the investment strategy used by the investment management team has remained the same. Please note that the above table reflects all past performance against the new Index.

- The Trust returned 4.6% for the moth.
- Better performing markets included Spain, Taiwan and Korea.
- During the month, the Trust added a new position in Gilead Sciences Inc.

Global equities were generally stronger through the month and given a further lift for Australian investors by a weak Australian dollar, which declined 1.7%. Among the best performers were Spain, rising 10.2%, Taiwan and Korea up by around 3.0%, while the US market rose just shy of 2%. The laggard markets were Sweden and China, falling around 4%, and, Mexico which declined by 3%.

Over the month the Perennial Global Shares High Alpha Trust (the Trust) generated slight outperformance rising 4.6% versus the MSCI World ex Australia Net Dividends Index in AUD (the Index) return of 4.5%. The main positive contributors to performance were Techtronic Industries Co. Ltd (up 12.9%) following solid results, Galaxy Entertainment Group (up 18%) which bounced strongly from oversold levels earlier in the year and apparel retailer Giordano Group (up 10.5%) following strong operating results.

## Stock Attribution



## Perennial Global Shares High Alpha Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a portfolio of international shares and to provide a total return (after fees) that exceeds the rate of return MSCI World ex Australia Net Dividends Index in AUD.

**Portfolio Manager:**  
Clay Carter, James Soutter

**Risk Profile:**  
High

**Trust FUM (as at 31/08/12):**  
AUD108.8 million

**Income Distribution Frequency:**  
Half Yearly

**Team FUM (as at 31/08/12):**  
AUD217.9 million

**Minimum Initial Investment:**  
\$25,000

**Fund Inception date:**  
February 2006

**APIR code:** IOF0080AU

On the negative side, African Minerals Ltd (down 14%) underperformed due to ongoing declines in iron ore prices, Mexican chemical company Mexichem SAB de CV (down 6.7%) fell mostly on profit taking, and, US ATM operator Cardtronics (down 8.9%) detracted value after delivering an in-line earnings report.

## Trust Activity

During the month, the Trust added a new position in Gilead Sciences Inc, a large cap US biotechnology concern. Our fundamental work determined that the company is dominant in all important high growth categories such as HIV treatment and Hepatitis C. We believe the company can deliver 18% to 20% EPS growth over the coming three years and see an upside of 27% from our purchase price.

The Trust sold positions in United Tractors Tbk, Daihatsu Motors Co Ltd, Don Quiote and Titan Industries Limited as we looked to reduce the number of positions in the Trust.

### Stock Story – Sky Deutschland

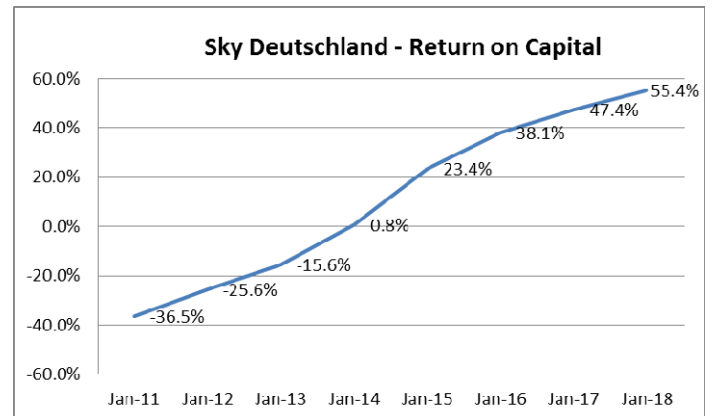
The Trust recently began to build a position in German pay TV provider Sky Deutschland (SKYD). SKYD are the leading, and only satellite pay TV provider in Germany with over three million subscribers. Prior to its current incarnation, SKYD's history is somewhat chequered. Previously known as Premiere, the company went public in 2006 only to shortly thereafter lose the rights to key content for the German football league. After some management changes and rightsizing of its cost base the business was effectively recapitalised under the stewardship of News Corporation (News Corp), who today own 44.3% of the company.

News Corp saw an opportunity to overlay its very successful experience in the UK market with BSky B, to capitalise on one of the last remaining developed market pay TV opportunities. The German market remains significantly underpenetrated with only 8% of households subscribing to pay TV. This compares to other European countries which have typically ranged from 20 to 60% penetration levels. Why so low you ask? Germany after all, is not a poor country, with national GDP per head among the richest countries in the world and the German economic model proving to be among the most resilient through the financial crisis of the past five years.

Our assessment is that the low adoption of pay TV is as much to do with the packaging of the product, as it is to do with price or other factors. BSky B have proven over the past five years that if you can package together high quality content with top notch service and customer experience, you can invoke great customer loyalty in the face of strong competition.

SKYD were recently awarded the five year exclusive rights to the all important German Football League. The arrangement spans satellite, internet and mobile distribution, positioning them well for distribution deals with other infrastructure owners such as the cable companies and the incumbent telecommunication operators. This should help defray some of the upfront programming costs associated with the deal, which although expensive, should prove to be a sound

investment if the company execute on its long term subscriber plans.



Source: Perennial Investment Partners.

Our modelling of SKYD suggests that although burning cash at present, the business has the potential to earn very high returns as they break even on subscriber levels in the coming 12 to 18 months. This analysis though does not factor the likelihood of SKYD expanding its portfolio offering to include services such as telephone and broadband services, something that BSky B have done with great success in recent years. Moves in this direction would limit the near term return potential of the business. However, if done thoughtfully could secure its position in the market much more firmly than only offering a standalone TV product.

What will News Corp make of all this? We expect they will view the German market with its low penetration rates, strong economic model and wealthy population as a very rich opportunity over the coming decade. Having stumbled at the final jump in their bid to secure all of BSky B, we would be surprised if they did not have eyes for full control of SKYD at some point, though our investment is not predicated on this. News Corp have tended to be very long term players when they enter into a venture, so as shareholders today we should receive the benefit of this longer term vision with a tried and tested formula successfully applied to the German market. Having locked in key sports and movie content for the next five years, management can now dedicate themselves to subscriber growth, which in our view holds the key to long term value creation for shareholders. We are mindful of

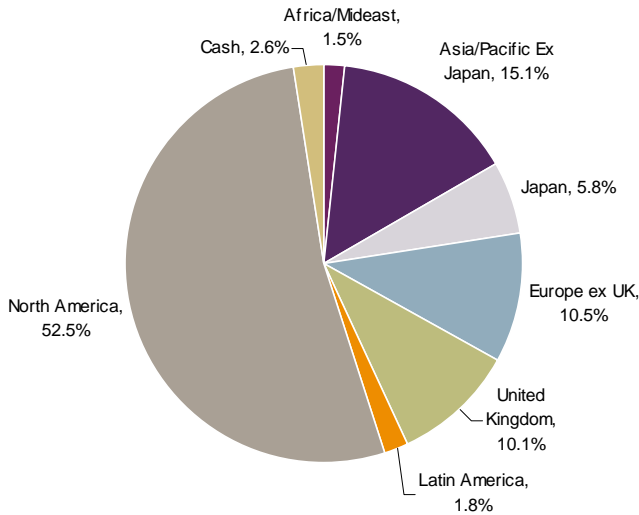
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Germany's past pay TV troubles, but believe News Corp bring much that has been lacking under prior efforts to capitalise on this opportunity.

### Regional Allocation as at 31 August 2012



### Top Five Stocks as at 31 August 2012

Stock Name	% of Trust
Apple Inc.	3.2%
Techtronic Industries Co. Ltd.	2.4%
PetSmart Inc.	2.1%
Giordano International Ltd.	2.1%
Hyundai Motor Co. Ltd.	2.1%

Source: Perennial Investment Partners

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