

Perennial Value Shares for Income Trust

Quarterly Report as at 31 December 2013

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Shares for Income Trust*	3.5	23.0	13.3	14.4	7.6
S&P/ASX 300 Accumulation Index	3.4	19.7	8.5	12.3	5.9
Value Added (Deducted)	0.1	3.3	4.8	2.1	1.7
Capital Growth	2.3	17.3	7.2	8.7	1.3
Income Distribution	0.9	4.7	5.3	4.9	5.5
Net Performance^^	3.3	22.0	12.5	13.6	6.8

*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.**

- During the quarter, the Trust became entitled to dividends from a number of holdings including ANZ, Harvey Norman, NAB and Orica.
- The Trust's pre-tax distribution yield for the quarter was 1.5%.
- The best performing stock in the Trust was Henderson Group (up 28.1%).

Trust Characteristics

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

Dividend Activity

During the quarter, the Trust became entitled to dividends from ANZ, Aristocrat Leisure, Australand, Harvey Norman, Macquarie Group, NAB, Orica, Premier Investments, Stockland and Westpac.

Quarterly Distribution

The Trust paid a distribution of 1.0 cents per unit for the December quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.6 cents per unit. Based on the unit price at the start of the year (\$1.03), this represents a pre-tax distribution yield for the quarter of 1.5%.

Trust Activity

The December quarter was relatively quiet in terms of Trust activity, with Amalgamated Holdings being the only stock added to the Trust. Amalgamated is a leading Cinema operator in Australia, New Zealand and Germany, and a major hotel operator in Australia, leveraged to an improvement in tourism or business travel. The company is conservatively managed and has negligible debt. At our entry price of \$8.26, it is offering an attractive FY14 gross yield of 7.8% and trading at close to book value.

During the quarter, we increased our holding in Orica. This is a high quality business with the leading position in the global mining explosives industry. The full-year result in November indicated that the company was being successful in both gaining market share as well as moving

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

Risk Profile:
High

Trust FUM (as at 31/12/13):
AUD73.4 million

Income Distribution Frequency:
Quarterly

Team FUM (as at 31/12/13):
AUD8.4 billion

Minimum Initial Investment:
\$25,000

Trust Inception date:
December 2005

APIR code: IOF0078AU

*Gross dividend yield

its customers to a higher value mix of products and services. This should enable the company to maintain margins in the face of pricing pressure from its major mining customers. We also increased our holdings in ANZ and NAB, on the expectation of strong dividend payments at their upcoming results in November.

These positions were funded by taking profits in strong performers such as Crown Resorts. This has been a very pleasing investment for the Trust. We added this stock to the Trust in January 2013 at a cost of \$11.00 per share. At the quarter end share price of \$16.85, this stock has delivered a total return of 56% over the past 12 months. We also reduced our holdings in CBA, Westfield Group and Treasury Wine Estates.

At quarter end, stock numbers stood at 35 with cash at 4.8%.

Stock and Trust Performance

The Trust has delivered a very strong total return of 23.0% for the past 12 months, outperforming the S&P/ASX300 Accumulation Index (the Index) return of 19.7% by 3.3%. Notwithstanding the yield focus of the Trust, it is pleasing to have outperformed the market during a period of such strong total returns.

The Australian market resumed its advance in the December quarter, with the Index increasing 3.4%. The Trust delivered a return of 3.5% for the quarter, outperforming the Index return by 0.1%.

The main issue dominating global markets during the quarter was the decision of the US Federal Reserve to begin tapering its bond buying program, reducing purchases by USD10 billion to USD75 billion per month from January. While the anticipation of tapering caused some volatility during the quarter, markets in general took this in their stride, with the S&P500 up 9.9% over the quarter to a new record high. The FTSE (up 4.4%) and the Nikkei 225 (up 12.7%) both rose, while the Shanghai Composite was down 2.7%.

Domestically, economic data was mixed, with the unemployment rate ticking up to 5.8% and both consumer sentiment and business confidence ticking lower after a post-election spike. On the positive side, housing approvals increased and retail sales growth improved. The Reserve Bank of Australia held cash rates at a record low of 2.5%, albeit officials continued to stress that they would prefer to see a lower AUD. The Australian dollar ended the quarter at USD0.89, down 4 cents.

The better performing sectors over the quarter were telecommunications (up 5.7%), healthcare (up 5.4%) and materials (up 5.0%), while energy (down 3.1%), REITs (down 1.4%), utilities (down 0.6%) and industrials (up 0.7%) lagged.

The best performing stock in the Trust was Henderson Group (up 28.1%), which rallied following positive momentum in European equity fund inflows and signs of an improving European economic environment. Other

strong performers included Orica (up 21.7%) for the reasons discussed above, Macquarie Group (up 18.8%) which delivered a positive half-yearly result, Tabcorp (up 10.7%), Amcor (up 10.0%), Lend Lease (up 9.6%), CBA (up 9.3%), Treasury Wines (up 9.0%), Australand (up 8.5%) and Crown Resorts (up 8.4%).

Poorer performing stocks in the Trust included WorleyParson (down 31.7%) which downgraded earnings in November due to slow contract ramp-ups, Iluka Resources (down 24.7%) on a weak near-term outlook for mineral sands pricing, and QBE (down 21.5%), which significantly reduced profit guidance after a review of its US businesses resulted in a significant strengthening in insurance reserves and a reassessment of the prospects of the lenders placed insurance business. From a valuation perspective, at the quarter-end closing price of \$11.51, QBE offers very good value on a FY14 P/E of 10.4x. This represents a significant 26% discount to the overall market FY14 P/E of 14.0x with greater earnings and dividend upside medium term.

ESG

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. In October, we were pleased to see that ANZ was voted most sustainable bank globally in the Dow Jones Sustainability Index for the fourth time in a row. This is based on an assessment of management practices including corporate governance, risk management, customer relations, brand management, human resources policies and practices, corporate community investment, climate change mitigation and environmental performance.

Outlook

The new financial year has begun positively, with the Index up 14.0% and positive economic signals in many markets. However, the level of macroeconomic uncertainty remains high and ongoing volatility is likely. 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.

Top 10 Holdings as at 31 December 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	9.5	9.1
National Aust. Bank	7.4	6.1
ANZ Banking Grp Ltd	7.4	6.6
Westpac Banking Corp	7.2	7.5
Telstra Corporation.	7.1	4.9
Commonwealth Bank.	6.9	9.4
Woodside Petroleum	4.0	1.8
CASH	3.1	0.0
Wesfarmers Limited	3.0	3.8
Macquarie Group Ltd	2.8	1.3

Asset Allocation as at 31 December 2013

Asset Class	Trust Weight %	Index Weight %
Energy	6.5	5.9
Materials	17.2	17.9
Industrials	3.5	6.7
Consumer Discretionary	10.8	4.8
Consumer Staples	3.9	8.2
Health Care	0.0	4.7
Financials-x-Real Estate	39.2	37.5
Real Estate	6.7	6.6
Information Technology	0.0	0.9
Telecommunication Services	7.1	5.3
Utilities	0.0	1.6
Other	5.0	0.0

Rounding accounts for small +/- from 100%.

Signatory of:



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