Perennial Value Australian Shares Trust

Monthly Report as 31 December 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Australian Shares Trust*	0.7	4.8	16.2	24.1	8.5	13.6	11.8
S&P/ASX 300 Accumulation Index	0.8	3.3	14.0	19.7	8.5	12.3	8.3
Value Added (Detracted)	**-0.1**	**1.5**	**2.2**	**4.4**	**0.0**	**1.3**	**3.5**
Net Performance	0.6	4.6	15.7	23.1	7.6	12.6	10.9

*Gross Performance. ^Since inception: March 2000. **Past performance is not a reliable indicator of future performance.**

- The Trust delivered both strong absolute and relative performance for the 2013 calendar year.
- For the month of December, the best performing stocks for the Trust included PanAust, AWE, Henderson Group and Bluescope Steel.
- The best performing sectors for the month were telecommunications (up 4.3%), energy (up 3.3%), industrials (up 2.6%), materials (up 2.3%) and consumer discretionary (up 1.9%).

In calendar 2013, the Perennial Value Australian Shares Trust (the Trust) delivered both strong absolute and relative performance. Over the 12 months to December, the Trust generated a return of 24.1%, giving 4.4% outperformance compared to the S&P/ASX300 Accumulation Index (the Index) return of 19.7%. The Trust has also delivered very good outcomes for the quarter and financial year to date, delivering outperformance of 1.5% and 2.3%, respectively.

The Australian market resumed its advance in December, with the Index increasing 0.8%, marginally ahead of the Trust return of 0.7%.

The main issue dominating global markets during the month 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. Markets took this in their stride, with further positive economic data lifting the S&P500 up 2.4% in December to a new record high. The FTSE (up 1.5%) and the Nikkei 225 (up 4.0%) both rose, while the Shanghai Composite was down 4.7%. WTI oil rallied 6.2% to close at USD98/b, copper was stronger, up 5.2% to US$3.40/lb, while iron ore fell 1.6% and gold continued its fall, down 3.9% to US$1,202.

Domestic data was mixed, with Q3 GDP growing below trend at 2.3% p.a., unemployment rising marginally and business confidence slipping, while building approvals and retail sales improved. The Reserve Bank of Australia (RBA) left interest rates on hold at 2.5% and the AUD continued its decline, finishing the month down 2 cents at USD0.89.

The better performing sectors during December were telecommunications (up 4.3%), energy (up 3.3%), industrials (up 2.6%), materials (up 2.3%) and consumer discretionary (up 1.9%), while REITs (down 1.3%) and financials (down 1.0%) underperformed.

Perennial Value Australian Shares Trust Facts:

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	**Risk Profile:** High
Trust FUM (as at 31/12/13): AUD1.9 billion	**Income Distribution Frequency:** Half yearly
Team FUM (as at 31/12/13): AUD8.4 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: March 2000	**APIR code:** IOF0200AU

The best performing stocks in the Trust for the month were PanAust (up 18.8%) on a rise in the copper price and AWE (up 11.7%), which rallied after receiving a takeover proposal from Senex. While the board ultimately rejected the offer, it did serve to highlight the inherent value in the stock. Other strong performers included offshore earners who will benefit from the lower AUD such as Henderson Group (up 9.7%) and BlueScope Steel (up 7.0%). These two stocks have now delivered us 12-month total returns of +110.0% and +68.7%, respectively. Fairfax (up 6.7%) rallied after selling its online accommodation booking business “Stayz” for $220 million and Sims Metal Management (up 6.5%) also performed well. Telstra (up 3.8%) rose on the sale of its Hong Kong mobiles business for $2.0 billion. The market reacted positively to this announcement as the business is non-core to Telstra and the cash received will further underpin the dividend paying ability of the company. At the month end share price of $5.25, the stock is offering a very attractive FY14 gross yield of 8.2%, and this is expected to grow over time.

Stocks which detracted from performance during the month included QBE (down 26.5%), 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. While the magnitude of the downgrade was disappointing, we believe that the company's new management has now set the company on a far more conservative and sustainable footing than their predecessors. While risks remain, in our view these are outweighed by the potential for significant medium-term upside from rebased earnings and market expectations.

Other stocks which underperformed included AMP (down 5.8%), Fletcher Building (down 5.7%) and Aveo Group (formerly FKP Property Group, down 4.2%) which gave back some of the previous month's strong gains.

A feature of the market has been the plethora of IPOs. They have largely been at the smaller end of the market and have not been a consideration for the Trust. Nine Entertainment, however, was of sufficient size for portfolio consideration. After undertaking considerable analysis on the company, we decided not to participate at the share price of $2.05. This has proven to be the correct decision, with the stock closing the month at $1.97. We are mindful that investors must be very wary of IPOs, with many having a limited financial track record and many businesses being "dressed up" for sale.

In other corporate activity, three of our holdings undertook demergers. Brambles spun off Recall, its document management business, Amcor spun off its Australian packaging operations and US distribution business, renamed Orora, while Macquarie Group distributed its holding in Sydney Airport to shareholders via an in-specie distribution. Demergers can often unlock value as the businesses are reinvigorated as standalone entities, with more management focus and better capital allocation. Westfield Group also proposed a restructuring, separating the domestic and international operations.

During the month, the Trust reduced its exposure to a number of stocks including Aristocrat and Macquarie Group (to lock in very strong 12 month returns of +53.5% and +63.8%, respectively) and Boral and Fletcher Building. With regards to the two building companies, while the shorter-term outlook for the companies has improved somewhat, they do not appear particularly cheap based on our FY14 forecasts and it is on this basis that we have scaled back this cyclical component of the portfolio. On a longer-term view, there is little doubt that their earnings upside potential is substantial in a more favourable environment.

Proceeds were predominantly reinvested into QBE post the profit downgrade referred to above. We had not invested in QBE for the best part of the last decade and only reintroduced it into the portfolio in a measured fashion in September 2013. The trading update led to a rapid and large sell down by existing shareholders and this opened an opportunity to increase the Trust's exposure to QBE. From a valuation perspective, at the month-end closing price, QBE appears to offer 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 upside medium term.

At month end, stock numbers stood at 48 with cash at 1.9%.

Top 10 Holdings as at 31 December 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	10.0	9.1
ANZ Banking Grp Ltd	7.4	6.6
Commonwealth Bank.	7.3	9.4
Westpac Banking Corp	7.1	7.5
National Aust. Bank	7.0	6.1
Telstra Corporation.	6.0	4.9
Rio Tinto Limited	3.1	2.2
Macquarie Group Ltd	3.0	1.3
Woodside Petroleum	2.9	1.8
QBE Insurance Group	2.6	1.0

Asset Allocation as at 31 December 2013

Asset Class	Trust Weight %	Index Weight %
Energy	6.9	5.9
Materials	25.0	17.9
Industrials	4.5	6.7
Consumer Discretionary	6.7	4.8
Consumer Staples	2.6	8.2
Health Care	0.1	4.7
Financials-x-Real Estate	38.9	37.5
Real Estate	6.3	6.6
Information Technology	0.2	0.9
Telecommunication Services	6.0	5.3
Utilities	0.3	1.6
Other	2.6	-

Rounding accounts for small +/- from 100%.