

	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	2.6	15.6	13.4	13.4	15.9	7.8
S&P/ASX 300 Accumulation Index	2.0	16.3	13.0	8.0	13.2	6.0
<b>Value Added (Detracted)</b>	<b>0.6</b>	<b>-0.7</b>	<b>0.4</b>	<b>5.4</b>	<b>2.7</b>	<b>1.8</b>
Capital Growth	1.1	11.0	8.0	7.2	9.9	1.4
Income Distribution	1.2	3.9	4.5	5.3	5.1	5.5
Net Performance <sup>^^</sup>	2.3	14.9	12.5	12.5	15.0	6.9

\*Gross Performance. <sup>^</sup>Since inception: December 2005. <sup>^^</sup>This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

## Perennial Value Shares for Income Trust

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 March 2014):

AUD75.2 million

### Income distribution frequency:

Quarterly

### Team FUM (as at 31 March 2014):

AUD8.4 billion

### Minimum initial investment:

\$25,000

### Trust inception date:

December 2005

### APIR code:

IOF0078AU

\*Gross dividend yield.

- ▶ **The best performing stock in the Trust for the quarter was Premier Investments (20.1%).**
- ▶ **AMP was reintroduced to the portfolio during the quarter and several positions were exited or reduced following very strong share price performances.**
- ▶ **There are positive economic signals in many markets, however, the level of macroeconomic uncertainty remains high and ongoing volatility is likely.**

## Trust Characteristics

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

## Quarterly Distribution

The Trust paid a distribution of 1.4 cents per unit for the March quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.8 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 1.7%.

## Portfolio Activity

The March quarter was busy in terms of portfolio activity. We exited or reduced several positions following very strong share price performances over the past 12 months, they no longer offered attractive gross yields. Henderson Group (108.3%), Crown Resorts (38.2%) and Australand (26.4%) were exited completely, while we reduced our holding in Macquarie Group (64.6%). We exited our holding in Fletcher Building (36.4%) as we believe that earnings may come under pressure as the New Zealand housing market may be nearing a peak and the Christchurch rebuilding program slows. In addition, we sold out of Asciano, Worley Parson and Treasury Wines Estates as we believe the outlook for these businesses has deteriorated, presenting a risk to earnings and dividends.

Proceeds were used to reintroduce AMP to the portfolio. We had previously sold out of AMP in June 2013, due to concerns over the outlook for the life insurance business. The stock subsequently underperformed the market by 9% before the point we bought back in. However, we now believe that steps have been taken to address the issues and the company stands to benefit as flows pick up into its wealth management business. At our entry price of \$4.85, AMP is offering an FY14 gross yield of 7.1%, increasing to 8.2% in FY15.

We also increased our exposure to a number of stocks which offer very attractive FY15 gross yields including Telstra (8.5%), Woodside Petroleum (10.7%), ASX (7.2%), Suncorp (9.7%), Amalgamated Holdings (7.8%) and the major banks (average gross yield 8.2%). The portfolio remains well diversified, with exposures to a range of industries and holdings across eight sectors.

At month end, stock numbers were 27 and cash was 5.2%.

## Stock and Portfolio Performance

The Perennial Value Shares for Income Trust (the Trust) has delivered a total return of 13.4% for the past 12 months, outperforming the Index return of 13.0% by 0.4%.

Notwithstanding the income focus, it is pleasing to note that the Trust has been able to deliver a strong total return outcome of 15.9% p.a. over the past 5 years, outperforming the Index by 2.7% p.a.

Globally, economic data released over the quarter was mixed, showing overall improvement in developed economies, but slower activity in emerging markets. The data was also distorted by severe weather conditions in North America. The S&P500 rose 1.3% over the quarter while the FTSE declined 2.2% despite continued indications that a modest recovery in Europe remains on track. The key concern over the quarter was China, which is experiencing a cyclical slowdown in growth with credit concerns arising following China's first onshore bond default in modern times. The Shanghai Composite ended the quarter down 3.9% with markets looking toward the central government for any fiscal response to stabilise growth. In Japan the Nikkei ended down 9.0% after a very strong market rally throughout 2013.

Domestically, economic data was mixed with the unemployment rate ticking up to 6%, a 12-year high, as the economy continues its attempts to transition away from mining-investment led growth. On the positive side, the current low interest rate environment continues to benefit house prices and consumer spending. The RBA held cash rates steady at 2.5%, however they moved to a more neutral stance, citing a period of stability in interest rates in contrast to the easing bias held last quarter. The Australian dollar ended the quarter at US\$0.927, up 3.4 cents.

Utilities (4.2%), IT (4.1%) and Financials (3.7%) were the better performing sectors while Consumer Staples (-0.7%), Materials (-0.3%) and Telecommunications (0.2%) lagged.

The best performing stock in the portfolio was Premier Investments (20.1%) which rallied after an interim result which showed improved sales performance, with 6 of its 7 key retail brands growing comparable store sales in the half. Other strong performers included Boral (19.9%), AMP (16.1%), Iluka Resources (15.3%), Aristocrat Leisure (14.7%) and QBE (12.4%).

Poorer performing stocks in the portfolio included Myer (-15.6%) following a disappointing interim result, Orica (-8.3%) over concerns around mining activity levels and Wesfarmers (-4.5%).

## ESG Factors during the quarter

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. In January we engaged with Lend Lease in relation to safety at its Barangaroo development following a fatality at this worksite. LLC advised that Workcover has investigated and cleared the site of safety concerns and work has subsequently been allowed to continue at the site. We note that LLC has significantly improved its safety performance over the past several years with its Lost Time Injury Frequency Rate (LTIFR) declining in each of the last three years to a level that is less than half its rate in 2007. The company has also dramatically improved its safety record in relation to fatalities over the past three years, including a fatality free year in 2013. We remain comfortable with the company's safety performance and will continue to monitor the situation closely going forward.

## Market Outlook

The 2014 financial year to date sees the S&P/ASX300 Accumulation Index up 16.3% 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 will grow and dividends paid to shareholders should increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank.	9.6	9.2
Telstra Corporation.	9.5	4.6
Westpac Banking Corp	8.2	7.9
National Aust. Bank	8.1	6.1
ANZ Banking Grp Ltd	8.1	6.7
BHP Billiton Limited	7.5	8.6
Woodside Petroleum	5.9	1.8
Suncorp Group Ltd	4.0	1.2
ASX Limited	3.8	0.5
Amalgamated Holdings	3.0	0.0

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.4	5.8
Materials	12.5	17.4
Industrials	1.9	6.8
Consumer Discretionary	8.1	4.8
Consumer Staples	1.9	7.9
Health Care	0.0	4.7
Financials-x-Real Estate	48.1	38.2
Real Estate	5.4	6.7
Information Technology	0.0	0.8
Telecommunication Services	9.5	5.1
Utilities	0.0	1.6
Other	5.2	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032  
or visit [www.perennial.net.au](http://www.perennial.net.au).

Signatory of:



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