

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	3.9	-0.2	4.2	8.2	14.1	7.1	10.2
S&P/ASX 300 Accumulation Index	4.3	-0.7	3.7	6.1	13.3	7.9	7.9
<b>Value Added (Detracted)</b>	<b>-0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>2.1</b>	<b>0.8</b>	<b>-0.8</b>	<b>2.3</b>
Capital Growth	3.8	-0.4	3.9	3.6	8.6	2.4	1.6
Income Distribution	0.0	0.0	0.0	3.7	4.6	3.9	7.8
Net Performance	3.8	-0.4	3.9	7.3	13.2	6.2	9.4

\*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

## Perennial Value Shares Wholesale Trust

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 October 2014):

AUD1.5 billion

### Income distribution frequency:

Half yearly

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

AUD7.8 billion

### Minimum initial investment:

\$25,000

### Trust inception date:

June 2001

### APIR code:

IOF0206AU

- ▶ **The Australian equities market delivered a strong return in October, up 4.3%.**
- ▶ **The better performing sectors during the month were financials, real estate and telcos.**
- ▶ **The best performing stock in the portfolio for the month was Aristocrat Leisure, Lend Lease and Downer.**

The Australian equities market delivered a strong return in October, with the benchmark S&P/ASX300 Accumulation Index (the Index) up 4.3%. The Perennial Value Shares Wholesale Trust (the Trust) was up 3.9%, underperforming the Index by 0.4%.

Global equity markets performed strongly in October, with the S&P500 up 2.3% as the US economy reported real GDP growth of 3.5% in 3Q14 and the unemployment rate fell 0.2% to 5.9%. The Shanghai Composite finished up 2.4% as China's 3Q14 GDP and Industrial Production both exceeded expectations rising 7.3% and 8.0% respectively. The Nikkei 225 (up 1.5%) was supported by the Bank of Japan announcing further monetary stimulus. The exception was Europe, with the FTSE (down 1.2%) and the Euro Stoxx 50 (down 3.5%) weaker as Eurozone markets remained dogged by growth concerns.

Domestically, data was mixed. Building approvals for August rose 3.0% month on month and business confidence for September slipped three points. Retail sales and consumer confidence edged slightly higher, increasing 0.1% and 0.9% month on month respectively. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% and the AUD ended the month up one cent at US88c.

The better performing sectors during the month were financials (up 6.9%), real estate (up 6.5%) and telcos (up 6.2%). Energy (down 3.6%) was the worst performing sector, followed by metals and mining (down 1.2%) and materials (down 0.2%).

The best performing stock in the portfolio for the month was Aristocrat Leisure (up 9.8%) after announcing the completion of its acquisition of VGT, ahead of previous guidance for March 2015. Other strong performers included, Lend Lease (up 9.2%) which held its investor day during the month and highlighted its strong development, infrastructure and residential pre-sales pipeline. Downer (up 7.5%) announced that it has signed an agreement to purchase Tenix for \$300m. Tenix is a leading provider of maintenance services to the electricity, gas and water sectors in Australia and New Zealand. This acquisition helps diversify earnings away from the mining sector and gearing levels post acquisition support the possibility of a future share buyback.

The major banks performed strongly, returning between 6.9% and 8.3%. Readers will recall that we have reduced the overall bank exposure in recent months. The subsequent sell off into early October was such that the overall sector was trading on a healthy forecast FY'15 gross yield of 8.5%. As a result, we bought back into CBA, NAB and Westpac early in the month, bringing the sector exposure back to a mild underweight. Our rationale is that, in looking forward over the next year or so, it is difficult to envisage scenarios where the overall sector either significantly under or outperforms. Major job losses could lead to the former and strong credit growth to the latter, neither of which we see as being likely to occur over this time period.

Stocks which underperformed included Iluka, Origin Energy and Henderson Group which were down in the range of -1.3% to -8.4% for the month. We took advantage of this short-term weakness to top up some holdings, as referred to below.

The Trust's underweight stance in the outperforming defensive sectors of real estate (up 6.5%), health care (up 6.0%) and consumer staples (up 5.0%) detracted from performance. Within those sectors were three outperforming Top 20 stocks, CSL, Scentre Group and Westfield Corporation. Whilst all are robust, well-managed businesses, the portfolio continues to retain an underweight or nil stance on these stocks on the basis of quite considerable overvaluation. CSL for example, trades on a demanding forecast FY'15 P/E of 23.4x and a gross yield of only 1.7%.

The portfolio was quite active during the month, with the key theme being the selling down of a number of stocks which have outperformed. Portfolio holdings sold down included

Aristocrat, Asciano, Brambles, Harvey Norman, Lend Lease, Macquarie Group.

Proceeds were reinvested into a handful of very good quality existing holdings where share prices have recently been quite weak. Examples include Crown Resorts, Fairfax, Henderson Group and Newcrest. We believe that both Crown and Henderson have been unduly sold down of late and offer good value over the medium term from these lower levels. Henderson for example, trades on a forecast FY'15 P/E of 12.2x and a gross yield of 4.9%. This rotation has enhanced the overall valuation characteristics of the portfolio and has also partially reduced the cyclical exposure in the portfolio.

At month end, stock numbers were 45 and cash was 1.7%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	9.2	7.8
Westpac Banking Corp	8.4	7.7
National Aust. Bank	7.3	5.9
ANZ Banking Grp Ltd	6.9	6.6
Telstra Corporation.	6.1	5.0
Commonwealth Bank.	6.0	9.3
Woodside Petroleum	3.6	2.0
Rio Tinto Limited	3.1	1.9
Macquarie Group Ltd	2.9	1.4
AMP Limited	2.8	1.2

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.1	5.9
Materials	23.3	15.7
Industrials	3.2	7.0
Consumer Discretionary	8.1	4.2
Consumer Staples	2.3	8.0
Health Care	2.8	5.2
Financials-x-Real Estate	38.3	38.3
Real Estate	6.5	7.4
Information Technology	0.0	1.0
Telecommunication Services	6.1	5.5
Utilities	1.5	1.7
Other	1.7	-

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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