

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	6.6	-2.0	3.8	11.2	7.2	9.5
S&P/ASX 300 Accumulation Index	6.5	-0.4	2.8	9.0	6.7	7.4
Value Added (Detracted)	0.1	-1.6	1.0	2.2	0.5	2.1
Capital Growth	4.1	-4.5	-1.4	6.2	2.2	1.2
Income Distribution	2.3	2.1	4.3	4.1	4.2	7.6
Net Performance	6.4	-2.4	2.9	10.3	6.4	8.8

*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 December 2015):

AUD 1.2 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 December 2015):

AUD 6.7 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ In the December 2015 quarter, the Trust delivered a return of 6.6%, outperforming the Index by 0.1%.
- ▶ The Trust announced a December half-yearly distribution of 2.7 cents per unit (CPU) or 3.9 CPU including franking credits, up 9% on the prior corresponding period.
- ▶ This equates to a half-year distribution yield of 2.1% or 3.0% including franking credits.

Trust performance

During the December 2015 quarter, the S&P/ASX300 Accumulation Index (the Index) delivered a return of 6.5%. The Perennial Value Australian Shares Trust (the Trust) delivered a return of 6.6%, outperforming the market by 0.1%.

Globally, markets were dominated by the US Federal Reserve's decision to finally lift interest rates by 0.25%. Markets were generally stronger over the quarter, with the S&P 500 up 6.5%, FTSE 100 up 3.0%, Nikkei 225 up 9.5% and Shanghai Composite up 15.9%. In Australia, strong job growth continued in October and November, with the unemployment rate falling to 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The Reserve Bank of Australia (RBA) left the cash rate steady at 2% and the Australian Dollar (AUD) moved higher over the quarter to close at 72.9 US cents.

Better performing sectors over the quarter included consumer discretionary (up 13.4%), healthcare (up 12.4%), financials (up 11.5%), information technology (up 9.2%) and utilities (up 8.6%), while metals and mining (down 11.8%), materials (down 6.9%), energy (down 1.3%) and telecommunications (down 0.9%) lagged.

Stocks which contributed positively to performance over the quarter included Metcash (up 53.8%) which rallied after holding a strategy day which was well-received by investors and delivering a H116 result which was ahead of market expectations. Event Hospitality and Entertainment (formerly known as Amalgamated Holdings) continued its strong performance (up 27.6%) after reporting a strong start to FY16 across all its divisions and Crown Resorts (up 26.3%) rallied amid speculation that James Packer may attempt to privatise the company.

The Trust also benefited from not holding stocks such as Spotless Group (down 49.8%) which fell after issuing a surprise profit warning. Along with the performance of Dick Smith (down 72.5%), this serves as a reminder of why we always treat Initial Public Offerings (IPOs) with caution – particularly when buying from private equity. The Trust also benefited from not holding Primary Healthcare (down 38.3%), which fell after the government unexpectedly cut the bulk-billing rebate. We have previously highlighted the funding risks associated with this sector and the current Medicare review suggests that this may be an ongoing theme.

Stocks which detracted from performance included resource holding BHP (down 19.6%), AWE (down 19.4%), Rio Tinto (down 8.0%) and Woodside Petroleum (down 0.7%) which all fell as a result of lower commodity prices. Sims Metal (down 23.7%) fell after downgrading earnings expectation due to falling scrap metal prices.

Sims Metal (down 23.7%) fell after downgrading earnings expectation due to falling scrap metal prices. While this was disappointing, the company has moved swiftly to lower its cost base in the face of this pressure. Importantly, the balance sheet remains strong.

Trust activity

During the quarter we sold out of our positions in Asciano and BlueScope Steel both of which had been strong performers for the Trust, with Asciano having received a takeover offer and BlueScope Steel rallying after announcing a major restructuring. We also took profits in a number of stocks which have performed strongly in recent times including Aristocrat Leisure, CIMIC Group, Macquarie Group and Metcash. In addition, we continued to selectively reduce exposure to the resources sector, exiting a number of holdings including Iluka Resources, Origin Energy and South32. The Trust remains mildly overweight to resources companies, with balance sheet strength a key criteria of the stocks held.

Proceeds were used to add to a number of existing holdings where we see attractive value including Flight Centre, Myer, Navitas, Telstra and Wesfarmers. We also increased our weightings in CBA and Westpac and introduced Suncorp Group to the Trust. At quarter end, stock numbers were 45 and cash was 4.0%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert to Environmental, Social and Corporate Governance (ESG) issues in the Trust. During the quarter, the tailings dam at BHP's Samarco JV in Brazil failed causing significant environmental damage and loss of life. BHP Billiton and Vale have pledged to establish an emergency fund

for community support and rebuilding works and to work with the authorities to ensure that this fund is functioning as soon as practicable. Minimising the environmental impact of this incident is also a priority and an Environmental Recovery Plan is to be developed with the support of an external expert. Further, BHP have subsequently conducted a review of all its tailings dams and engaged an independent international investigation into the event. We are very disappointed by this issue and will continue to monitor developments from an ESG perspective.

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Trust is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.7	10.3
Westpac Banking Corp	9.2	7.9
National Aust. Bank	7.3	5.6
ANZ Banking Grp Ltd	6.7	5.8
Telstra Corporation	6.0	4.9
BHP Billiton Limited	4.7	4.1
Wesfarmers Limited	3.8	3.3
Woolworths Limited	3.1	2.2
AGL Energy Limited	2.7	0.9
AMP Limited	2.4	1.2

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	2.9	4.0
Materials	13.5	12.1
Industrials	1.8	7.9
Consumer Discretionary	11.7	5.0
Consumer Staples	8.7	7.2
Health Care	0.0	6.8
Financials-x-Real Estate	43.0	39.9
Real Estate	5.2	8.3
Information Technology	0.0	1.2
Telecommunication Services	6.4	5.4
Utilities	2.7	2.3
Cash & Other	4.1	-

Rounding accounts for small +/- from 100%.

Signatory of:



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