

# Perennial Value Shares Wholesale Trust

Monthly Report as at 31 October 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>^</sup> % p.a.
Perennial Value Shares Wholesale Trust*	4.6	10.4	15.9	29.3	9.0	12.2	10.4
S&P/ASX 300 Accumulation Index	3.9	8.9	14.6	24.8	9.7	11.0	8.1
<b>Value Added (Detracted)</b>	<b>0.7</b>	<b>1.5</b>	<b>1.3</b>	<b>4.5</b>	<b>-0.7</b>	<b>1.2</b>	<b>2.3</b>
Capital Growth	4.5	10.1	15.6	23.0	3.7	6.9	1.5
Income Distribution	0.0	0.0	0.0	5.4	4.4	4.4	8.1
Net Performance	4.5	10.1	15.6	28.4	8.1	11.3	9.6

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

- For the month, the Trust outperformed the Index return by 70 basis points.
- FKP Property Group (up 54.2%), was a key performer for the Trust in October 2013.
- Profits were realised in some of the stronger performing holdings, such as Crown, Lend Lease, Macquarie Group and NAB, with the proceeds reinvested into existing holdings, including BHP, Origin Energy, QBE and Sims Group.

In what has been another strong month for the Australian sharemarket, the Perennial Value Shares Wholesale Trust (the Trust) rose 4.6% to deliver outperformance of 0.7% over the S&P/ASX300 Accumulation Index (the Index) return of 3.9%.

For the year to 31 October, the Trust has continued to deliver both strong absolute and relative performance. The total return of 29.3% has delivered 452 basis points of outperformance relative to the Index return of 24.8%.

US headlines continued to dominate global markets, with the US Government partially shut down until mid-month when a deal was made to avoid breaching the country's debt limit. Despite this uncertainty, the S&P500 finished up 4.5%. Global economic news was mixed, however on the positive side, China recorded third quarter GDP growth of 7.8%, the Euro Area PMI reading was the highest level since mid-2011 and the US ISM in September was solid. The FTSE finished up 4.2% while the Shanghai Composite and Nikkei 225 were down 1.5% and 0.9%, respectively.

Domestic data was upbeat with residential building approvals ahead 12.8% year on year, the NAB survey of business confidence for September reached a 3.5 year high and September unemployment fell 20 basis points to 5.6%. Unsurprisingly, the Reserve Bank of Australia left the cash rate unchanged and the AUD finished relatively flat at \$0.95.

The better performing sectors during September were financials (up 5.5%) and healthcare (up 4.5%) while energy (up 0.2%) and utilities (up 1.1%) underperformed.

Both ANZ and NAB announced profit results for the year to 30 September 2013. The results highlighted the ability of the banks to continue to grind out earnings growth in what is a subdued credit growth environment. ANZ (up 9.9%) delivered a record FY13 profit result driven by

## 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.

<b>Trust Manager:</b> John Murray	<b>Risk Profile:</b> High
<b>Trust FUM (as at 31/10/13):</b> AUD1.7 billion	<b>Income Distribution Frequency:</b> Half yearly
<b>Team FUM (as at 31/10/13):</b> AUD8.5 billion	<b>Minimum Initial Investment:</b> \$25,000
<b>Trust Inception date:</b> June 2001	<b>APIR code:</b> IOF0206AU

modest revenue growth, good cost control and lower bad debt charges. The bank is in a strong capital position, and this allowed an increase in the full-year dividend by 13%. An interesting aspect of the result was that the company has provided specific financial targets for both FY14 and the next three years. In addition, management commentary and outlook lacked the usual global macroeconomic caveats that have been prevalent over the past few years, suggesting increased comfort with the external environment. NAB (up 2.9%) also produced a solid result. NAB has been our highest conviction bank holding over the past year and has delivered a total annual return of 44.0%, well ahead of the Index.

A key performer for the Trust was FKP Property Group (up 54.2%) which had an eventful month. Investor interest in the stock increased as FKP sold assets at a premium to book value, however uncertainty about the timing of settlements on further asset sales resulted in FKP undertaking a deeply discounted rights issue. While disappointed with the quantum of the raising and the size of the discount, there was some encouragement with Stockland's stake in FKP being sold at a premium to the theoretical ex-rights price. Looking forward FKP is now sufficiently capitalised and well placed to close the remaining 30% discount to net tangible assets.

Other strong performers included Fairfax (up 13.1%) and Lend Lease (up 12.2%) both benefiting from better sentiment towards companies exposed to the improving property market.

A number of holdings rose in the range of 5% to 10% including Aristocrat Leisure, ASX, BlueScope, Brickworks, Crown, Henderson Group, Macquarie Group and Treasury Wine Estates.

The Trust also benefited from not holding top 20 stock Woolworths which underperformed.

Boral (up 2.9%) consolidated its recent gains, having now returned 44% over the past year. During the month it announced a joint venture with USG Corporation, a large North American manufacturer of plasterboard. The joint venture will combine Boral's extensive Asian manufacturing and distribution footprint with USG's innovative technology which produces 30% lighter plasterboard. Asia is the world's fastest growing plasterboard market and is expected to be the largest plasterboard market by the end of the decade. This joint venture positions Boral to compete effectively in this rapidly growing market. Boral will also receive an initial USD500 million strengthening its balance sheet. Significant synergies are expected over time, such as manufacturing and freight savings. At its AGM, Boral announced a further cost out program to improve its efficiency.

Stocks which detracted from performance over the month included Iluka (down 10.1%) due to a falling rutile price. We view the dip in achieved prices for Iluka to be temporary and expect pricing to recover on the back of improving demand and supply side discipline. Worley Parsons (down 9.3%) underperformed despite the company confirming its FY14 guidance at its AGM.

In terms of Trust activity, we realised profits in some of the stronger performing holdings, including Crown, Lend Lease, Macquarie Group and NAB. Proceeds were reinvested into existing holdings, including BHP, Origin Energy, QBE and Sims Group. Readers will recall that we introduced both Origin and QBE into the Trust last month and we have taken advantage of its mild underperformance in October to buy more shares.

At month end, stock numbers stood at 47 with cash at 1.2%.

#### Top 10 Holdings as at 31 October 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	9.9	8.9
ANZ Banking Group Ltd	8.1	6.9
National Aust. Bank	8.1	6.1
Westpac Banking Corp	7.1	7.9
Commonwealth Bank.	7.0	9.1
Telstra Corporation.	5.9	4.8
Macquarie Group Ltd	3.5	1.3
Woodside Petroleum	2.9	1.8
Rio Tinto Limited	2.8	2.1
Brambles Limited	2.5	1.1

#### Asset Allocation as at 31 October 2013

Asset Class	Trust Weight %	Index Weight %
Energy	7.2	6.1
Materials	24.5	17.3
Industrials	4.2	6.7
Consumer Discretionary	7.7	4.7
Consumer Staples	3.2	8.2
Health Care	0.1	4.6
Financials-x-Real Estate	39.0	37.9
Real Estate	6.6	6.9
Information Technology	0.0	0.8
Telecommunication Services	5.9	5.2
Utilities	0.3	1.6
Other	1.3	-

Rounding accounts for small +/- from 100%.

Signatory of:



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