

# Perennial Socially Responsive Shares Trust

Monthly Report as at 30 November 2013

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Socially Responsive Shares Trust*	-1.4	5.8	16.7	25.9	19.8	9.3	13.7
S&P/ASX 300 Accumulation Index	-1.4	4.7	13.1	22.7	18.4	9.5	12.1
<b>Value Added (Detracted)</b>	<b>0.0</b>	<b>1.1</b>	<b>3.6</b>	<b>3.2</b>	<b>1.4</b>	<b>-0.2</b>	<b>1.6</b>
Net Performance	-1.4	5.6	16.2	24.9	18.7	8.3	12.6

\* Gross Performance. Past performance is not a reliable indicator of future performance.

- Global monetary policy remains accommodative, with indications of a long period of easy policy settings.
- James Hardie (up 14.7%) was the best performer for the month, reflecting strong Q2 results and earnings guidance upgrade.
- Within commodity markets, base metals traded softer with nickel, aluminium and copper all falling.

## Trust Performance Overview

The Perennial Socially Responsive Shares Trust (the Trust) finished down 1.4%, in-line with the S&P/ASX300 Accumulation Index (the Index) return for the month.

Global monetary policy remains accommodative and communications from a range of central banks indicate that a long period of easy policy settings remains in store. The timing of quantitative easing tapering can be debated, but we believe as the US economy continues to improve it is an inevitability. Consequently, we forecast higher global interest rates and a stronger US dollar and we believe that companies offering growth and effectively deploying their capital base will be recognised by the market and outperform over the medium term. The Trust has been constructed to be a beneficiary of these themes and we believe that the Trust is positioned to capture above Index investment returns as a result.

The top performer during the month was James Hardie Industries (up 14.7%) in response to a very strong Q2 result and a 9% upgrade to the midpoint of earnings guidance. As stated by CEO Louis Gries, in Q2 “things are back to normal at James Hardie”, with good market conditions in the US, Australia and New Zealand and improved business execution. With quarterly volume growth of 21% and price increases of 4%, the results show strong evidence that market penetration and product differentiation strategies are working well. Pleasingly, the company also pointed to an increase in dividend payout ratio given strong cash flows. We continue to see a positive outlook for the company, with its proprietary technology and exposure to recovering housing markets in the US and Australia.

## Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

**Trust Manager:**  
Lee Mickelborough

**Risk Profile:**  
High

**Trust FUM (as at 30/11/13):**  
AUD48.0 million

**Income Distribution Frequency:**  
Half yearly

**Team FUM (as at 30/11/13):**  
AUD2.4 billion

**Minimum Initial Investment:**  
\$25,000

**Trust Inception date:**  
December 2001

**APIR code:**  
IOF0117AU

QBE Insurance Group (up 5.7%) also contributed positively during the month. QBE continues to be supported in the market, with the prospect of the current benign weather conditions persisting for the remainder of the year. These conditions should result in favourable financial outcomes for QBE’s financial year end at December. A further driver has been the continuing rise in bond yields highlighting the sensitivity for QBE’s earnings. Finally, the market conditions for primary insurance rates have maintained their momentum with low single digit growth for many insurance classes in QBE’s largest market (the US).

Fortsecue Metals Group (up 9.0%) also contributed positively during November. Iron ore prices remained strong during the month and as a result Fortescue outperformed the market. Continued positive news flow on debt repayment provided further evidence that the company’s balance sheet continues to be repaired.

Newcrest Mining (not held, down 25.3%) also contributed positively during November as good economic data out of the US saw the gold price fall. The current Australian dollar gold price sits below the level that management has guided to in order for the company to achieve cash flow breakeven. While we do not subscribe to the thesis that Newcrest's balance sheet is in trouble (yet) we do recognise that with the updated reserve statement due early next year that it is highly probable there will be significant downgrades and changes to mine plans.

The Trust's biggest detractor to performance was WorleyParsons (down 25.9%). WorleyParsons announced a surprise profit warning during November, guiding to an FY14 result that would be down about 13% compared to FY13. The downgrade was attributed to deferrals of revenue ramp up on a number of previously announced project awards, a problem contract at the Canadian fabrication business (now completed) and restructuring charges to reduce overheads. While clearly very disappointing, we believe that the market reaction was excessive as most of the issues identified are either timing or one-off in nature. Most importantly, projects have not been cancelled and WorleyParsons is now seeing many of these projects ramp up as expected. This points to a much better second half profit. We remain attracted to WorleyParsons' relatively modest Australian exposure (compared to other mining services companies) and its exposure to more-stable oil and gas industry project expenditure and long-term asset improvement work.

Iluka Resources (down 14.9%) also detracted from performance, as investors focused on negative news flow from the TZMI conference held in Hong Kong during the month. Pricing for products remains at lower than expected levels therefore creating significant uncertainty for Iluka's outlook. We believe that the destocking in zircon in the second half of the year should end shortly and that titanium dioxide volumes for Iluka will rebound as pigment producers' utilisation rates increase during the first half of 2014.

Macquarie Group (not held, up 8.3%) also detracted from performance. During the month, Macquarie Group reported its interim result for the current financial year, which was largely in-line with market expectations and confirmed plans to separate its largest "non-core" asset (Sydney Airport) from the group. The other driver attracting investors to the stock is the expectation of leverage to the M&A cycle. This has been the case in previous cycles; however, with growth in its "annuity style" businesses (wealth management, etc.) this leverage is less than in previous cycles. We believe that the current stock price is well ahead of our current valuation of the company and represents a very optimistic view on the company's prospects.

Also detracting from performance was Santos (down 7.7%). Santos was an underperformer for the month largely due to the market starting to price in declining oil prices from current levels. Concerns around the deliverability of gas to the Curtis Island LNG projects were again raised when Origin announced a deal to sell gas to QCLNG (BG's project) for two years. We remain confident in the deliverability of both Santos LNG projects currently under construction; and, would highlight the impact leverage that Santos has to a weaker Australian dollar both on the existing Cooper Basin business as well as on the remaining capex for the GLNG project.

### Market Overview

Within the domestic equity market all sectors fell during the month, with healthcare (down 0.3%), materials (down 0.9%) and consumer discretionary (down 1.2%) the better performing. The weakest performing sectors were energy (down 6.4%), industrials (down 3.8%) and utilities (down 3.1%).

There was significant dispersion across regional equity market returns. Asian equity markets were among the strongest performers, with Japan's Nikkei (up 9.3%), China's Shanghai Composite (up 3.7%) and Hong Kong's Hang Seng (up 2.9%) all finishing in positive territory. The US S&P500 (up 2.8%) also rose. Along with the domestic equity market, the UK's FTSE100 (down 1.2%) fell.

In spite of the recent partial government shutdown, US economic data released during the month was mostly positive. US third quarter GDP came in ahead of expectations at an annualised rate of 2.8%, while non-farm payrolls increased by a higher than expected 204,000 in October, although the unemployment rate rose slightly to 7.3% as a result in a fall in the participation rate. The Institute for Supply Management ("ISM") manufacturing purchasing manager's index for September rose to 56.4 and retail sales for October rose 0.4% month on month. Housing start data was delayed due to the government shutdown however, building permits grew 11.6% over September and October. The Federal Open Market Committee minutes showed intentions to begin tapering quantitative easing at "one of its next few meetings" although reassured investors that regardless of the timing of tapering, interest rates were likely to stay near zero for the foreseeable future.

At its 3<sup>rd</sup> Plenary Session the Chinese Communist Party announced a host of significant social and economic reforms that included efforts to liberalise financial markets along with a relaxation of the one-child policy. Economic data was mostly positive, with the October manufacturing Purchasing Manager's Index ("PMI") increasing marginally from the prior month to 51.4 and annual industrial production to the end of October increasing to 10.3%. House price data showed the average price of houses across 70 Chinese cities increased by an estimated 9.6% in the year to the end of October, with some tier one cities seeing increases of 20%. Inflation data for October increased to an annualised rate of 3.2%.

Economic data for Europe was mixed during the month, serving as a reminder of the challenges faced by the region following one of its most protracted downturns in history. Third quarter GDP came in at a barely positive 0.1%, retail sales for September fell 0.6% month on month and industrial production for September fell 0.5% month on month. On a more positive note, the October unemployment rate fell marginally to 12.1% while both the PMI manufacturing and services measures remain at expansionary levels. The European Central Bank elected to reduce interest rates by 25 basis points to 0.25%.

Domestically, the AGM season continued, with many companies continuing to point to relatively subdued trading conditions. The unemployment rate for October increased marginally to 5.7%, with a small increase of those unemployed of 1,100 being more than offset by population growth. Retail sales for September increased 0.8% month on month. The Reserve Bank of Australia (RBA) elected to keep rates steady at 2.5%, although Governor Stevens reminded the market that currency intervention was an option available to the RBA in the event of a persistently strong dollar.

The Australian Dollar depreciated against the US Dollar, falling 3.8% over the month to finish at \$0.91. Within commodity markets base metals traded softer with nickel (down 7.5%), aluminium (down 5.6%) and copper (down 2.7%) all falling. Brent Crude (up 0.8%) and iron ore (up 3.4%) both rose. The gold spot price fell (down 5.3%) to finish the month at \$1,253 an ounce.

#### Top 10 Holdings as at 30 November 2013

Stock Name	Trust Weight %	Index Weight %
ANZ Banking Grp Ltd	9.4	6.6
National Aust. Bank	8.6	6.1
Commonwealth Bank.	7.7	9.4
Westpac Banking Corp	6.9	7.7
CSL Limited	4.8	2.5
QBE Insurance Group	4.4	1.4
Amcor Limited	3.5	1.0
Caltex Australia	3.5	0.2
Challenger Limited	3.3	0.2
Lend Lease Group	3.2	0.4

#### Asset Allocation as at 30 November 2013

Sector	Trust Weight %	Index Weight %
Energy	13.9	5.8
Materials	11.3	17.6
Industrials	9.2	6.5
Consumer Discretionary	0.0	4.8
Consumer Staples	0.0	8.1
Health Care	9.7	4.7
Financials-x-Real Estate	42.6	38.2
Real Estate	4.7	6.9
Information Technology	0.0	0.8
Telecommunication Services	2.8	5.1
Utilities	3.2	1.6
SPI Futures	0.0	0.0
Cash	2.6	0.0

Rounding accounts for small +/- from 100%.

Signatory of:



Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Managers: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Perennial Fixed Interest Partners Pty Limited ABN 35 099 336 357, Perennial Growth Management Pty Limited ABN 41 099 336 384 and Perennial Real Estate Investments Pty Limited ABN 35 117 913 685 are Subsidiaries and Authorised Representatives of Perennial. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website [www.perennial.net.au](http://www.perennial.net.au).