PERENNIAL VALUE MANAGEMENT

Perennial Value Australian Shares Trust

Quarterly Report as at 31 December 2013

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Australian Shares Trust*	4.8	24.1	8.5	13.6	11.8
S&P/ASX 300 Accumulation Index	3.3	19.7	8.5	12.3	8.3
Value Added (Detracted)	**1.5**	**4.4**	**0.0**	**1.3**	**3.5**
Net Performance	4.6	23.0	7.6	12.6	10.9

* Gross Performance. ^Since Inception: March 2000. **Past performance is not a reliable indicator of future performance.**

- For the quarter, the Trust posted its sixth consecutive month of outperformance beating the Index return by 1.5%.
- The best performing stock in the Trust was Aveo Group (formerly FKP) (up 71.3%).
- Telecommunications, healthcare and materials were the best performing sectors.

In calendar 2013, the Perennial Value Australian Shares Trust (the Trust) delivered both strong absolute and relative performance. Over the 12 months to December, the Trust generated a return of 24.1%, giving 4.4% outperformance compared to the S&P/ASX300 Accumulation Index (the Index) return of 19.7%. The Trust has also delivered very good outcomes for the quarter with the Trust generating a return or 4.9% giving 1.5% outperformance compared to the Index return of 3.4%. Pleasingly, this is the sixth consecutive quarter of outperformance for the Trust.

The main issue dominating global markets during the quarter was the decision of the US Federal Reserve to begin tapering its bond buying program, reducing purchases by USD10 billion to USD75 billion per month from January. While the anticipation of tapering caused some volatility during the quarter, markets in general took this in their stride, with the S&P500 up 9.9% over the quarter to a new record high. The FTSE (up 4.4%) and the Nikkei 225 (up 12.7%) both rose, while the Shanghai Composite was down 2.7%.

Domestically, economic data was mixed, with the unemployment rate ticking up to 5.8% and both consumer sentiment and business confidence ticking lower after a post-election spike. On the positive side, housing approvals increased and retail sales growth improved. The Reserve Bank of Australia held cash rates at a record low of 2.5%, albeit officials continued to stress that they would prefer to see a lower AUD. The Australian dollar ended the quarter at USD0.89, down 4 cents.

Telecommunications (up 5.7%), healthcare (up 5.4%) and materials (up 5.0%) were the better performing sectors, while energy (down 3.1%), REITs (down 1.4%) and utilities (down 0.6%) lagged.

Perennial Value Australian Shares Trust Facts:

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 trust 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 31/12/13): AUD1.9 billion	**Income Distribution Frequency:** Half yearly
Team FUM (as at 31/12/13): AUD8.4 billion	**Minimum Initial Investment:** $25,000
Trust Inception date: March 2000	**APIR code:** IOF0200AU

The best performing stock in the Trust was Aveo Group (formerly FKP) (up 71.3%) following a positive update on its residential portfolio, some small asset sales and a rights issue as it continues to pursue its strategy to become a pure-play retirement business. Other strong performers included Henderson Group (up 28.1%) and BlueScope Steel (up 24.4%), both of which are expected to benefit from a lower Australian dollar and Bluescope announced the acquisition of the OneSteel Sheet and Coil distribution assets for an attractive price.

Other solid performers included Orica Limited (up 21.7%) following a better than expected full year result and Fairfax Media (up 19.6%) following the sale of its Stayz online holiday rental business for $220 million. Macquarie Group (up 18.8%) rose after delivering a better than expected result and declaring an in specie distribution to shareholders of its stake in Sydney Airports. Sims Metals Management (up 14.2%) also performed well.

Poorer performing stocks in the portfolio included Newcrest Mining (down 33.3%) as the gold price fell over the quarter and reached a 3 year low. WorleyParsons (down 31.7%) fell following an earnings downgrade due to subdued market activity in some of its key regions including Australia and Canada. We remain comfortable that these issues largely relate to the timing of the ramp up of recent contract wins. QBE (down 21.5%), reduced profit guidance after a review of its US businesses resulted in a significant strengthening in insurance reserves and a reassessment of the prospects of the lenders placed insurance business. The magnitude of the downgrade was disappointing, however we believe that the company's new management has now set the company on a far more conservative and sustainable footing. While risks remain, in our view these are outweighed by the potential for significant medium-term upside from rebased earnings and market expectations.

Other weak performers included PanAust (down 14.5%) and Fletcher Building (down 8.4%).

A feature of the market has been the plethora of IPOs. They have largely been at the smaller end of the market and so have not been a consideration for the Trust. Nine Entertainment, however, was of sufficient size for the Trust consideration. After undertaking considerable analysis on the company, we decided not to participate at the share price of $2.05. This has proven to be the correct decision, with the stock closing the month at $1.97. We are mindful that investors must be very wary of IPOs, with many having a limited financial track record and many businesses being "dressed up" for sale.

In other corporate activity, three of our holdings undertook demergers. Brambles spun off Recall, its document management business, Amcor spun off its Australian packaging operations and US distribution business, renamed Orora, while Macquarie Group distributed its holding in Sydney Airport to shareholders via an in specie distribution. Demergers can often unlock value as the businesses are reinvigorated as standalone entities, with more management focus and better capital allocation. Westfield Group also proposed a restructuring, separating the domestic and international operations.

During the quarter, the Trust reduced its exposure to a number of stocks including Aristocrat, Crown and Macquarie Group (to lock in very strong 12 month returns of 53.5%, 61.4% and 63.8%, respectively), and Boral and Fletcher Building. With regards to the two building companies, while the shorter-term outlook for the companies has improved somewhat, they do not appear particularly cheap based on our FY14 forecasts and it is on this basis that we have scaled back this cyclical component of the Trust. On a longer-term view, there is little doubt that their earnings upside potential is substantial in a more favourable environment.

Proceeds were reinvested into QBE largely post the downgrade referred to above, AMP, Fairfax Media and Origin Energy.

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. In October, we were pleased to see that ANZ was voted most sustainable bank globally in the Dow Jones Sustainability Index for the fourth time in a row. This is based on an assessment of management practices including corporate governance, risk management, customer relations, brand management, human resources policies and practices, corporate community investment, climate change mitigation and environmental performance.

At quarter end, stock numbers were 48 and cash was 1.9%.

Top 10 Holdings as at 31 December 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	10.0	9.1
ANZ Banking Grp Ltd	7.4	6.6
Commonwealth Bank.	7.3	9.4
Westpac Banking Corp	7.1	7.5
National Aust. Bank	7.0	6.1
Telstra Corporation.	6.0	4.9
Rio Tinto Limited	3.1	2.2
Macquarie Group Ltd	3.0	1.3
Woodside Petroleum	2.9	1.8
QBE Insurance Group	2.6	1.0

Asset Allocation as at 31 December 2013

Asset Class	Trust Weight %	Index Weight %
Energy	6.9	5.9
Materials	25.0	17.9
Industrials	4.5	6.7
Consumer Discretionary	6.7	4.8
Consumer Staples	2.6	8.2
Health Care	0.1	4.7
Financials-x-Real Estate	38.9	37.5
Real Estate	6.3	6.6
Information Technology	0.2	0.9
Telecommunication Services	6.0	5.3
Utilities	0.3	1.6
Other	2.6	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment