PERENNIAL GROWTH MANAGEMENT

Perennial Socially Responsive Shares Trust

Monthly Report
31 January 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	-2.9	-4.0	13.6	12.4	16.7	7.0	13.6
S&P/ASX 300 Accumulation Index	-3.0	-3.5	10.6	10.6	15.0	7.3	12.7
Value Added (Detracted)	**0.1**	**-0.5**	**3.0**	**1.8**	**1.7**	**-0.3**	**0.9**
Net Performance	-3.0	-4.2	12.9	11.4	15.6	6.0	12.6

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

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.

Portfolio manager:
Lee Mickelburough

Risk profile:
High

Trust FUM (as at 31/01/2014):
AUD46.3 million

Income distribution frequency:
Half yearly

Team FUM (as at 31/01/2014):
AUD2.3 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The Australian equity market fell in January as did most regional equity markets.**
- **Defensive higher yielding sectors outperformed such as utilities, property and healthcare.**
- **Key contributors to Trust performance included Macquarie Atlas Road Group, CSL and Orora.**

Trust performance overview

The Perennial Socially Responsive Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 0.1% in January, returning -2.9%, with the Index returning -3.0% for the month.

With market volumes subdued throughout the month and liquidity scarce, it was the defensive higher yielding sectors which outperformed with utilities (up 0.7%), property (up 0.4%) and healthcare (up 0.3%) all showing positive returns. Cyclical sectors made up the laggards, with consumer discretionary (down 4.5%), financials (down 3.9%) and energy (down 3.8%) the weakest performers.

The top performer during the month was Macquarie Atlas Roads Group (up 2.5%) after reporting encouraging traffic figures and also reaching a satisfactory agreement with the French Government on a new management contract covering Autoroutes Paris Rhin Rhon (APRR) tolls between 2014 and 2018. December quarter traffic on the key APRR toll road investment grew by 2.3% (light vehicles 2.1% and heavy vehicles 3.3%) which is the highest growth since the June quarter of 2010 when traffic was recovering post-GFC. Under the new management agreement, APRR can increase tolls by 85% of CPI + 0.4% in exchange for €500 million of expansion capex on the road network. Our long-term investment thesis is predicated on our expectation of very strong growth in distributions as expensive holding company debt is retired and debt amortisation schedule is reduced.

CSL (up 1.9%) also contributed positively during the month on limited company specific news. The main industry news related to key competitor Baxter which reported its full year result. Baxter commented that it expects to grow Intravenous Immunoglobulin (IVIG) volumes in line with the market when its manufacturing problems are fixed. This is arguably a better than expected outcome for CSL, as it implies that Baxter does not expect to recover market share ceded to CSL and others during the past two years.

Orora (up 10.3%) also contributed positively to the Trust's performance. During the period of low market liquidity in early January, investors exiting their residual positions in Orora had a magnified impact on the price. We took advantage of this weakness and added to the Trust's small position received from the demerger with Amcor. Orora is a collection of mature but well-capitalised packaging businesses, based mainly in Australia. The key attraction of the company is the significant cost-out opportunities from past investments and rationalisation made by Amcor which ceteris paribus would add 60% to FY13 earnings. During the course of the month the stock price recovered solidly and is now approaching our valuation.

The Trust's biggest detractor from performance was Karoon Gas (down 26.0%). Uncertainty around oil prices together with delays encountered while drilling the Grace well saw Karoon underperform the market during the month. We continue to believe that there is significant value not being recognised in the Brazilian assets and that the market is not assigning any probability to Karoon being able to complete a farm out at the current share price.

Also detracting from performance was Infigen Energy (down 9.6%). Despite encouraging capacity and revenue results from the company's Australian wind farms, the Infigen share price was weaker over the month. One possible reason is the political uncertainty on all aspects of environmental legislation. Infigen gains income from renewable energy certificates (RECs) that it sells to energy companies to cover their own renewable targets. This system has been in place for many years and has had the support of both sides of politics. However, recent lobbying by Origin Energy CEO, Grant King to reduce the target (20% of energy from renewables by 2020) and less than supportive comments from some members of the Coalition Government may have led to reduced confidence in the REC scheme. While we believe the company does have extremely valuable assets under the current system (and even one that is diluted somewhat), if there was to be the unlikely scenario of scrapping of the system altogether, Infigen's revenues would certainly come under pressure.

Newcrest (not held, up 23.7%) also detracted from performance. Gold prices rallied during January which together with a better than expected operational update in terms of both reported cash costs and production levels saw Newcrest outperform the market. While we believe Newcrest management are doing a good job controlling cash expenditure we believe that the current strategy is ultimately unsustainable as mined grades are above reported reserve grades at a number of operations, financial YTD they have been underspending on sustaining capex and activity levels have temporarily been reduced through the decision to treat stockpiles rather than mine ore predominantly at Lihir.

Market overview

With macroeconomic concerns coming to the fore during the month nervousness amongst investors saw most regional equity markets fall. Consequently Japan's Nikkei (down 8.5%), Hong Kong's Hang Seng (down 5.5%), China's Shanghai Composite (down 3.9%), the US S&P500 (down 3.6%) and the UK's FTSE100 (down 3.5%) all finished the month in negative territory.

The most significant macroeconomic concern to emerge during the month centred on emerging market economies, with several emerging currencies (notably Argentina, Turkey and South Africa) depreciating sharply in the face of concerns around the withdrawal of liquidity resulting from the US tapering its quantitative easing program and the impact on economic growth.

Towards the end of the month the US Federal Reserve announced that it would further reduce its monthly quantitative easing program by $10 billion to $65 billion per month. This tapering is set against a backdrop of ongoing strength in the US economy, with data released during the month showing fourth quarter GDP coming it an annualised rate of 3.2%, and the official December unemployment rate falling to 6.7% (the lowest reading since October 2008), although this latter data point was principally driven by a further fall in the participation rate to the lowest level since the series was first published in 2003. December non-farm payrolls increased by a lower than forecast 74,000, although this figure was significantly impacted by some of the harshest North American winter weather in 40 years which caused widespread disruption. Ongoing strength in US house prices and improving activity in this segment of the economy continue to drive high levels of consumer confidence, and a benign inflation backdrop is conducive to keeping interest rates at historically low levels.

Within China the economic data released during the month showed some softening in the economy with fourth quarter GDP falling marginally to 7.7% (from 7.8% in Q3) and the January HSBC/Markit Manufacturing Purchasing Manager's Index ("PMI") falling into contractionary territory with a reading of 49.5 (from 50.5). Inflation data for December decreased slightly to an annualised rate of 2.5%.

January was a more upbeat month for European data, with both manufacturing and services PMI's for January coming in ahead of expectations at 53.9 and 51.9 respectively. The unemployment rate for December fell marginally to 12.0% and after increasing from a low of 7.3% in mid-2008 it now appears to have stabilised. Retail sales for November showed an increase of 1.4% month on month. The European Central Bank elected to keep interest rates at 0.25%, although no inflationary pressure exists, with annual CPI to December coming in at 0.7%.

Within the domestic economy inflationary pressures are more apparent than most other developed nations with fourth quarter CPI coming in ahead of expectations at a year on year rate of 2.7%. The unemployment rate for December remained flat at 5.8% although the total number employed fell by 22,600 and the static unemployment rate was driven primarily by a fall in the participation rate. Retail sales for November increased 0.7% month on month. The Reserve Bank of Australia elected to keep rates steady at 2.5%, although if rising inflation persists the possibility of rate increases will become heightened.

The close correlation of the Australian dollar to emerging market currencies resulted in it depreciating against the US Dollar, falling 1.9% over the month to finish at $0.8756. Most commodity markets traded softer with iron ore (down 8.6%), aluminium (down 5.2%) and copper (down 4.0%) falling. Oil prices also fell with Brent crude (down 4.0%) and WTI crude (down 0.9%) both finishing the month lower. The gold spot price rose for the first time in five months (up 3.2%) to finish at $1,244 an ounce.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
National Aust. Bank	8.4	6.0
ANZ Banking Grp Ltd	8.0	6.4
Commonwealth Bank.	7.6	9.2
Westpac Banking Corp	6.8	7.4
CSL Limited	4.9	2.6
Westfield Group	3.3	1.5
Lend Lease Group	3.2	0.4
ResMed Inc.	3.1	0.3
QBE Insurance Group	3.0	1.1
WorleyParsons Ltd	3.0	0.3

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	9.1	5.9
Materials	11.1	18.1
Industrials	9.7	6.7
Consumer Discretionary	0.6	4.8
Consumer Staples	0.0	8.2
Health Care	10.5	4.9
Financials-x-Real Estate	41.9	36.8
Real Estate	8.8	6.8
Information Technology	0.0	0.9
Telecommunication Services	2.8	5.4
Utilities	3.2	1.7
SPI Futures	0.0	0.0
Cash	2.4	0.0

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032 or visit www.perennial.net.au.

Signatory of:

PRI Principles for Responsible Investment