PERENNIAL GROWTH MANAGEMENT

Perennial Socially Responsive Shares Trust

Monthly Report
31 January 2015

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	2.7	0.6	2.3	10.6	11.5	14.6	7.4
S&P/ASX 300 Accumulation Index	3.2	1.9	5.7	12.1	11.3	14.0	8.5
Value Added (Detracted)	**-0.5**	**-1.3**	**-3.4**	**-1.5**	**0.2**	**0.6**	**-1.1**
Net Performance	2.6	0.4	1.8	9.5	10.4	13.5	6.4

* 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 January 2015):
AUD50.0 million

Income distribution frequency:
Half yearly

Team FUM (as at 31 January 2015):
AUD2.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The market rallied strongly over the month as lower bond yields and currency combined helped drive returns.**
- **Companies which possess strong fundamentals for growth will continue to outperform.**
- **European Quantitative Easing (QE) is increasing, driving down the value of the Euro (EUR) against the USD and lowering bond yields.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) underperformed the S&P/ASX300 Accumulation Index (the Index) in January, finishing 2.7% against the Index which returned 3.2% for the month.

The market rallied strongly over the month as lower bond yields and currency combined helped drive returns. High yield sectors led the way with telecommunications (up 8.3%), REITs (up 7.7%) and utilities (up 6.1%). Consumer discretionary (up 6.2%) and banks (up 4.2%) also outperformed. Following on from recent months, both energy (down 6.5%) and materials (up 0.8%) continued to struggle.

Investment Themes and Stock Performance

Companies which possess strong fundamentals for growth will continue to outperform.

In January, we added three new positions in **Macquarie Group Limited** (up 6.6%), **AMP Limited** (Up 4.9%) and **Incitec Pivot** (up 13.2%) owing to our estimation of their strong growth prospects and management teams.

Supported by a strong management team, we feel that that **Macquarie Group** is well positioned for growth as it benefits from its leverage to foreign exchange translation, higher market volatility supporting trading volumes and rising asset prices as bond yields continue to decline. Supporting this thesis, the group upgraded guidance for profit growth for this financial year during the month. The group now expects that profit growth will be between 10% to 20%. The change in forecasts is driven by continuing levels of activity particularly in the commodities trading segment of the business with the falling oil price seeing oil and gas customers participate more actively in hedging programs. The results for the year ending March 2015 are also likely to include some material performance fees as one particular fund is nearing maturity.

We see two main avenues for growth in the business of **AMP**. In the first instance, record low interest rates combined with low business confidence in Australia are encouraging retirees to explore different options when generating income for retirement. In the second instance, the decline in the Australian dollar (AUD) is helping encourage (albeit slowly) local retirees to invest offshore. Concerns about AMP's life insurance division have abated in recent months following continued favourable experience against assumptions and the division continues to receive solid business inflows.

We re-established a position in **Asciano Limited** (down 0.3%) in December and continued building this through January. We see management's focus on reducing the company's cost base and improving operational efficiencies as a positive in the face of lacklustre conditions in the ports and rail businesses. We believe that Asciano will be well positioned to leverage increased economic activity when it eventually returns to the economy. Further, we see the potential for corporate activity in the ports business as a potential source of upside.

As part of the decision to re-establish the Asicano position, we exited our position in **Aurizon** (up 7.1%) to manage our exposure to the coal haulage sector. In our view, Aurizon has a higher degree of leverage to underlying demand for Australia's weakening bulk commodity resources of coal and iron ore and as such we prefer the diversification in Asciano's business mix. With increased efficiencies and productivity improvements already largely factored in by the market in our view, we also see Aurizon close to valuation and greater valuation upside in Asciano.

We exited our position in **Lend Lease Group** (up 1.7%) during the month. The stock has enjoyed a period of very strong performance and has been a significant positive contributor to the returns of our portfolio over the period that we have held it. It is now all but certain that the East West Link in Melbourne will not be built and we see this as a significant negative as it represented a material part of Lend Lease's construction order book and 1H15 profits (finance structuring fees). The Consortium is currently negotiating with the Victorian government regarding compensation, and we believe Lend Lease's share price does not reflect the possibility of an unfavourable outcome. While we otherwise remain positive on the short term outlook, this is increasingly looking like peak of cycle earnings for the company and we expect earnings growth to slow.

European Quantitative Easing (QE) is increasing, driving down the value of the Euro (EUR) against the USD and lowering bond yields.

On the 22 January President of the ECB, Mario Draghi announced a 1.1 trillion EUR asset-purchase program. The purpose of the program is to stimulate the economy through driving EUR bond yields lower, inflating asset prices and reducing the value of the EUR cross rates. This theme is one that we are watching closely as, in particular, change in the EUR/USD cross rate has the capacity to influence the reported earnings of companies in the Australian market.

Newcrest (up 24.5%) was a detractor to performance as the gold price rose over the month in response of the gold market to the Swiss National Bank removing the minimum exchange rate. In spite of this, we continue to believe that as the US recovery continues and bond yields start to rise that the opportunity of cost for holding gold will rise resulting in negative investment demand resulting in the gold price and gold equities underperforming broader markets.

The economic recovery in the US continues as evidenced by generally supportive economic data.

This remains a central theme in our portfolio construction. We are seeing the gradual normalisation of US monetary policy, ongoing recovery in the USD and general upward pressure on US interest rates. We have chosen to play this central theme through tilting the portfolio towards those companies that have operations whose fundamentals that will be supported in this environment.

Owing to the continuation of the fall in US Bond Yields, we moved to exit our holding in **QBE Insurance Group** (down 5.4%). We believe that the continuation of the fall in US bond yields will impact their investment earnings and that is not reflected in the current share price and we will continue to monitor the progress of the company.

Westfield Corporation (up 9.3%) continues to perform well. Westfield is a global leader in the property sector with an outstanding management team and a world class global redevelopment pipeline with key flagship assets including the World Trade Centre retail precinct in New York and Westfield London. Being highly leveraged to the US recovery and possessing strong fundamentals; we remain attracted to the company's offshore earnings and the positive building development, retail sales and leasing environment in the countries in which it operates.

Chinese economic data has remained underwhelming.

The Chinese leadership face the reality of balancing long term reforms on corruption, the environment and market liberalisation with maintaining economic growth. Despite the weaker growth, we have not observed any change of government policy. This is consistent with our view that the leaders are maintaining a long term view of China's growth trajectory.

Oil has entered a period of structural supply demand imbalance in favour of supply.

This will create economic imbalances between countries leveraged to production and those leveraged to consumption.

Oil prices continued to fall during January as US crude oil inventories continued to build hitting record levels at the end of January. **Woodside Petroleum Limited** (not held, down 9.8%) was a positive contributor given our underweight position. However, once again, this was offset by our overweight position in **Karoon Gas Australia Limited** (down 13.1%).

Market Overview

The Australian market returned a solid 3.2% on an accumulated basis, although a weak AUD, down 5.3%, once again weakened the result when measured on a global basis. The S&P 500 fell 3.1% as the market began to feel the effect of the rising USD, while in contrast the Euro Stoxx 50 soared 6.5% on the announcement of QE. The FTSE 100 climbed 2.8% while the Nikkei 225 rose 1.3%. The Shanghai Composite Index fell 0.75% while the Hang Seng was the worst of the major markets falling 3.8%.

US economic data was once again generally positive while the FOMC indicated that they would be "patient" before raising interest rates. The data was led by fourth Quarter GDP which came at 2.6% annual rate, slightly behind the 3.0% expected, while consumer spending came in with a very strong reading of 4.3%. The ISM manufacturing PMI slipped to 55.5 in December from 58.7 in November and behind of the 57.5 expected. The ISM non-manufacturing PMI arrived at 56.2, also behind the 57.5 expected and the prior month reading of 59.3. The Thomson Reuters/University of Michigan consumer confidence index increased 4.5 points to 98.1, well ahead of the 94.1 reading expected. Non-farm payrolls registered a reading of 252,000, slightly ahead of 240,000 expected. The participation rate slipped to 62.7% from the prior month reading of 62.8%, while the unemployment rate slipped to at 5.6% better than the 5.7% expected. Housing starts rose 4.4% for the month of December, with volatility in the series remains high. Existing home sales rose 2.4% well behind the estimated 3.0% rise predicted. CPI for November fell 0.4% in line with expectations.

Chinese economic data was a mixed bag in December. The recently released HSBC Manufacturing PMI was ticked up to 49.8, ahead of the 49.5 expected. Fourth Quarter GDP rose 7.3% year on year and annual growth for 204 narrowly missed the stated growth target by 0.1% points. M2 money supply growth eased to 12.2% year on year just below the 12.5% expected. New loan creation came in at 697.3 billion Yuan for December well behind the 880 billion Yuan expected. The Chinese housing market remained under pressure with 66 cities of the 70 city house price index recording month on month declines.

There was no RBA board meeting in January, as scheduled. NAB business confidence increased 1 point to 2 points, while the NAB business conditions fell to 1 point to a reading of 4. The Westpac MI consumer confidence index rose 2.4% to 93.2 following a 5.7% slump in the month prior. The economy added 37,000 jobs in December (well ahead of the 5,000 increase forecast), while the participation rate remained flat at 64.75%. The jobless rate fell to 6.1%. Retail sales increased 0.1% in November, just shy of the 0.2% rise expected. Building approvals soared once again rising 7.5% in November, well ahead of the 3% decline expected.

The AUD fell 5.3% against the USD over the month. The trend of a stronger USD has continued in recent months as the currency markets continue to transition to a more normal US monetary policy. The AUD rose 2.1% against the EUR after the European Central Bank announced an open-ended sovereign QE program at a pace of 60 billion EUR per month, starting in March 2015 and continuing until at least September 2016.

Spot Brent crude oil continued to plunge, finishing the month down 8.9%. Iron Ore also resumed its decline, falling 12.7%. Base metals were a mixed bag over the month with copper down 13% and zinc down 2.2%, while lead up 0.1%% and nickel up 0.2% and aluminium up 1.6%. Spot gold surged 8.3% as the World Bank downgraded global growth expectations and the Swiss National Bank decided to remove the EUR/CHF peg.

Best/Worst Performers			
(Best) company	Month Return	**(Worst) company**	Month Return
Woodside Petroleum Ltd (not held)	-9.8%	Sims Metal Management Limited	-9.6%
BHP Billiton Limited (not held)	-0.4%	Karoon Gas Australia Ltd	-13.1%
Henderson Group PLC	13.8%	Macquarie Atlas Roads Group	-7.8%
Westfield Corporation	9.3%	Transfield Services Limited	-13.4%
Amcor Ltd (not held)	-5.9%	Challenger Limited	-3.4%

New/Increased positions	
AMP Limited	New
Macquarie Group Limited	New
Incitec Pivot Limited	New
Asciano Limited	Increased
Wesfarmers Limited	Increased

Exited/Decreased positions	
QBE Insurance Group	Exited
Lend Lease Group	Exited
Aurizon Holdings Ltd	Exited
Stockland	Reduced
Westfield Corp	Reduced

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
National Aust. Bank	8.8	6.1
Commonwealth Bank.	8.5	10.2
ANZ Banking Grp Ltd	8.2	6.4
Telstra Corporation.	7.6	5.6
Westpac Banking Corp	6.9	7.6
CSL Limited	5.6	2.9
Westfield Corp	3.1	1.3
AMP Limited	3.0	1.2
James Hardie Indust	2.6	0.4
Goodman Group	2.6	0.7

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	2.0	4.6
Materials	11.9	14.7
Industrials	11.7	7.3
Consumer Discretionary	2.0	4.2
Consumer Staples	0.5	7.4
Healthcare	9.9	5.9
Financials-x-Real Estate	41.6	39.0
Real Estate	8.2	8.0
Information Technology	0.5	0.9
Telecommunication Services	7.6	6.1
Utilities	2.4	2.0
Cash	1.6	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
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Signatory of:

PRI | Principles for Responsible Investment