Perennial Value Shares for Income Trust

Monthly Report
31 August 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-7.8	-8.9	-4.3	-0.1	14.0	10.7	7.2
S&P/ASX 300 Accumulation Index	-7.7	-8.8	-3.7	-3.2	11.0	7.9	5.3
Value Added (Detracted)	**-0.1**	**0.1**	**0.6**	**3.1**	**3.0**	**2.8**	**1.9**
Capital Growth	-7.8	-10.2	-4.4	-5.9	8.0	5.0	1.2
Income Distribution	0.0	1.1	0.0	5.0	5.0	5.0	5.2
Net Performance^^	-7.8	-9.1	-4.4	-0.9	13.0	10.0	6.4

*Gross Performance. ^Since inception: December 2005. ^^This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:
Stephen Bruce

Risk profile:
High

Trust FUM (as at 31 August 2015):
AUD 69.4 million

Income distribution frequency:
Quarterly

Team FUM (as at 31 August 2015):
AUD 8 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **Globally, August was dominated by the slowing growth in China.**
- **In general, results were in line with expectations, with industrials delivering modest Earnings Per Share ('EPS') growth while resource company earnings fell sharply due to lower commodity prices.**
- **Holdings which showed particularly pleasing earnings and dividend growth were Boral (EPS up 45%, DPS up 20%) and Amalgamated Holding (up 44%, up 26%).**

Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust ('Trust') continues to invest in a portfolio of financially sound companies which demonstrate superior dividend yield characteristics to the overall stock market.

Portfolio Activity

During the month, we increased the Trust's holdings in a number of stocks with strong balance sheets offering attractive dividend yields, including AGL Energy (FY16 gross yield 6.7%), Amalgamated Holdings (6.4%), AMP (6.9%) and Telstra (7.6%). In conjunction with its FY15 result, CBA announced a $5 billion capital raising at $71.50 per share. The Trust participated in the raising and the stock closed the month at $75.08. Following the capital raising, the bank's Tier 1 capital ratio – a key measure of financial strength – stands at a very healthy 10.4%.

Purchases were funded through the sale of the remainder of the Trusts stake in JB Hi-Fi as well and taking profits in Macquarie Group following its recent strong performance, having delivered a total return of up 35.9% over the last 12 month. We also trimmed the Trusts holdings in ANZ, NAB and Westpac, however, the Trust remains overweight in the banking sector. At current levels, the banks offer attractive valuations, with a FY16 sector average gross yield of 8.8%. At month end, stock numbers were 28 and cash was 2.6%.

Stock and Portfolio Performance

The volatility of recent months continued in August, with the ASX300 Accumulation Index finishing the month down 7.7%. This followed a rollercoaster ride which saw the index down as much as 11.7% mid-month. The Trust fell by 7.8%, underperforming the index by 0.1%.

Globally, August was dominated by the slowing growth in China and the ensuing volatility in financial markets as many investors trimmed their holdings of riskier assets. As a result, China took steps during the month to underpin growth, cutting interest rates and bank reserve requirements, lifting infrastructure spending and announcing a surprise devaluation of the Chinese Yuan ('CNY'). However, by the end of the month, the markets seemed to have calmed, partly as the economic data firmed. In particular, there was a big upwards revision to Q2 Gross Domestic Product ('GDP') growth in the US plus another decent payrolls outcome and the data for Europe remained encouraging. Greece announced fresh elections, but markets took this news in their stride. Other emerging market central banks broke Foreign Exchange ('FX') pegs with the US as the Fed neared the start of policy normalization. Fed speakers though, indicated that the Fed may be backing away from September lift off. International markets all finished the month down, with the S&P500 down 6.3%, FTSE100 down 6.7%, Nikkei 225 down 8.2% and Shanghai Composite down 12.5%.

Australian data was mixed, with the release of decent retail sales numbers for June and employment growth for July again surprising on the upside, although there was an unexpected spike in the jobless rate back to 6.3%. The latest quarterly business investment report, however, was gloomy, revealing little evidence of the much-anticipated rotation towards non-mining sources of growth. In fact, economy-wide investment will likely fall again this financial year. Consumer confidence rose strongly early in the month (helped by fading drags like concerns about Greece) and business confidence slumped, highlighting again the disparity between households and corporates. There was further strength in the housing market, with prices continuing to rise, particularly in the east coast cities. The RBA left the cash rate steady at 2.0% and the Australian Dollar (AUD) declined from 73 to 71 US cents.

The other main focus of the month was reporting season. Results were generally in line with expectations, with industrials delivering modest Earnings Per Share ('EPS') growth while resource company earnings fell sharply due to lower commodity prices. Low top-line growth was again a feature of results, with a significant proportion of earnings improvement being driven again by cost-out and internal improvement programs. Currency was also a major driver, with many companies beginning to see benefits from the lower AUD. This particularly favoured companies with significant offshore earnings. Outlook statements were again cautious given the uncertain economic environment and weak demand conditions both domestically and globally.

Of the Trust's holdings, 22 companies representing 74% of the portfolio reported. Of these, 12 companies increased their EPS and 15 companies increased their Dividends Per Share (DPS).

This ongoing increase in dividends is particularly pleasing as it reflects the generally strong financial position of corporate Australia and allows shareholders to be rewarded while they wait for stronger earnings growth. Holdings which showed particularly pleasing earnings and dividend growth were Boral (EPS up 45%, DPS up 20%), Amalgamated Holding (EPS up 44%, DPS up 26%) and Harvey Norman (EPS up 25%, DPS up 143% inclusive of a special dividend).

The better performing sectors were defensives, with utilities (down 0.4%), REITS (down 4.0%) and consumer staples (down 4.1%) while metals and mining (down 3.9%) also fared relatively well following its sharp sell over recent months. The worst performing sector was energy (down 13.8%) on the lower oil price, while financials (down 10.6%) also underperformed.

Asciano (up 4.4%) was the best performing stock in the portfolio, with Brookfield formalising its takeover offer with an implied value of $9.15 per share plus 39 cents per share in franking credits. The Trust is currently assessing the bid. Other stocks which outperformed after delivering positive results included Flight Centre (up 3.9%), AGL Energy (up 3.3%) and Amalgamated Holdings (up 0.9%).

Stocks which underperformed were typically our energy and mining services holdings, with Origin Energy (down 25.0%), Downer (down 17.8%) and Orica (down 17.4%). However, our overweight positions in Rio Tinto (down 2.1%) and BHP (down 4.8%) both outperformed the market, delivering results which showed ongoing cash flow focus and increased dividends. The major banks were also weaker, down an average of 11.8% on concerns over the economic outlook and capital requirements.

Market Outlook

While there has been a heightened level of volatility in markets recently, the economic fundamentals of major economies overall seem to be improving slowly and this should drive economic and earnings growth. Further, the current very low interest rates highlight the relative attractiveness of equities.

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

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PRI Principles for Responsible Investment

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.8%	9.4%
Westpac Banking Corporation	8.0%	7.3%
Telstra Corporation	8.0%	5.2%
National Australia Bank	8.0%	6.0%
BHP Billiton Limited	7.0%	6.0%
ANZ Banking Grp Ltd	6.8%	5.7%
AMP Limited	5.0%	1.3%
Woodside Petroleum	5.0%	1.7%
AGL Energy Limited	5.0%	0.8%
Macquarie Group Ltd	4.0%	1.9%

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.7%	4.5%
Materials	14.4%	14.4%
Industrials	1.8%	7.6%
Consumer Discretionary	8.2%	4.6%
Consumer Staples	2.0%	6.9%
Health Care	0.0%	6.5%
Financials-x-Real Estate	46.2%	38.5%
Real Estate	5.1%	8.2%
Information Technology	0.0%	1.0%
Telecommunication Services	8.0%	5.7%
Utilities	5.0%	2.3%
Other	2.6%	--

Rounding accounts for small +/- from 100%.

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