PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Monthly Report
31 July 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	5.6	3.3	5.6	-4.3	7.2	12.0	6.9
S&P/ASX 300 Accumulation Index	6.4	7.0	6.4	2.9	8.1	9.4	5.9
Value Added (Detracted)	**-0.8**	**-3.7**	**-0.8**	**-7.2**	**-0.9**	**2.6**	**1.0**
Capital Growth	5.5	-0.7	5.5	8.4	0.1	5.0	0.5
Income Distribution	0.0	3.8	0.0	-13.5	6.2	6.1	5.6
Net Performance^^	5.5	3.1	5.5	-5.1	6.3	11.1	6.1

*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 July 2016):	AUD $39 million
Income distribution frequency:	Quarterly
Team FUM (as at 31 July 2016):	AUD $9.4 billion
Minimum initial investment:	$25,000
Trust inception date:	December 2005
APIR code:	IOF0078AU

*Gross dividend yield.

- **Over the 12 months to July 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.9%.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.7% per annum.**
- **Markets rallied strongly in July, with the S&P/ASX300 Accumulation Index (the Index) up 6.4%.**

Trust characteristics

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

Trust Performance

The Index rallied strongly in July, finishing the month up 6.4%. The Trust also delivered a strong positive return of 5.6%, although lagged the Index by 0.8%.

The markets recovered from June's post-Brexit sell-off, to finish July strongly, with the S&P500 up 3.6%, FTSE100 up 3.4%, Nikkei 225 up 6.4% and the Shanghai Composite up 5.3%. Metal prices remained firm with nickel up 13.0%, iron ore up 6.6% and gold up 2.5% on the month while oil fell 12.9% as gasoline inventories swelled and the US rig count increased. The Federal Reserve left rates unchanged as did the Reserve Bank of Australia (RBA) and the Australian Dollar (AUD) finished up 2.0% for the month at 0.76 US Cents.

The Australian market was strong across the board, with all sectors delivering positive returns for the month. Metals and mining (up 9.1%) was the best performing sector on the back of higher metal prices. Consumer discretionary (up 8.9%) was also strong, while consumer staples (up 8.5%) rallied, largely on Woolworth's restructuring plans. Materials (up 7.8%), industrials (up 7.2%), utilities and healthcare (both up 7.0%) also delivered strong results. The energy sector (up 0.2%) was the worst performer on weaker oil prices.

The strongest Trust performers over the month included financials AMP (up 12.6%), Macquarie Group (up 8.0%) and ANZ (up 7.1%) which all rallied as Brexit concerns abated. Resource-related holdings also performed strongly on continued commodity price strength, with Rio Tinto (up 8.9%) and Iluka Resources (up 8.2%) while mining services companies Orica (up 14.8%) and Downer (up 9.7%) also rose. Other strong performers included Boral (up 10.5%), Suncorp (up 10.3%), Scentre Group (up 7.7%), Wesfarmers (up 7.1%) and Stockland (up 7.0%).

Stocks which detracted from performance included Woodside Petroleum (down 1.2%) on the lower oil price and the announcement of a small exploration acquisition in Senegal. We are very comfortable with our holding in Woodside, with its strong balance sheet as well as viewing management as having very strong capital discipline. Event Hospitality & Entertainment (up 15.0%), Telstra (up 3.8%), Harvey Norman (up 5.0%) and QBE Insurance (up 5.2%) all delivered positive returns, albeit underperformed the Index.

Trust Activity

During the month we exited our holding in Bank of Queensland. This continues our reduction in holdings of the banks over the past few months on the basis that, while they are fundamentally strong businesses, they face a number of near-term headwinds which, cumulatively, will depress earnings growth. These include interest margin pressure from a combination of lower interest rates and strong mortgage competition, modestly increasing bad debt charges and a likely increase in capital requirements later in the year. Proceeds were used to increase our position in Flight Centre. We had substantially exited this position in May at prices averaging $38.24 as, while we have a positive medium-term view on the outlook for this stock, we were concerned about the near-term subdued outlook for outbound travel growth. The stock subsequently had an earnings downgrade and we have bought back in at an average price of $31.85. At the month-end price of $32.19, the stock is offering a FY17 gross yield of 6.5%, underpinned by a debt-free balance sheet. At month end, stock numbers were 24 and cash was 3.2%.

Outlook

The Trust remains exposed to the theme of ongoing transition to the east coast economy through overweight positions in consumer discretionary, building and construction-related stocks. The Trust remains overweight in the large-cap, low-cost, financially-sound resources companies. We remain underweight the “expensive defensive” sectors of the market such as healthcare, infrastructure and REITs. These sectors have become a crowded trade and valuations remain stretched as a result of historically low interest rates. The portfolio continues to exhibit Perennial Value’s true to label value characteristics, offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank.	9.7	8.9
Westpac Banking Corp	9.0	6.9
Telstra Corporation.	8.9	4.7
ANZ Banking Grp Ltd	6.9	5.0
National Aust. Bank	6.4	4.7
Wesfarmers Limited	5.8	3.2
BHP Billiton Limited	5.1	4.2
Event Hospitality	4.6	0.0
Woodside Petroleum	3.9	1.3
Stockland	3.9	0.8

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	3.9	3.9
Materials	13.1	14.3
Industrials	1.0	8.1
Consumer Discretionary	9.1	5.4
Consumer Staples	5.8	6.9
Health Care	0.0	7.3
Financials-x-Real Estate	44.7	35.3
Real Estate	7.8	9.5
Information Technology	0.0	1.2
Telecommunication Services	8.9	5.5
Utilities	2.4	2.7
Cash & Other	3.2	-

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