

# Perennial Socially Responsive Shares Trust

Monthly Report as at 31 December 2013

	Month %	3 Months %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Socially Responsive Shares Trust*	0.3	2.3	17.0	23.0	21.2	8.3	13.4
S&P/ASX 300 Accumulation Index	0.8	3.4	14.0	19.7	19.7	8.5	12.3
Value Added (Detracted)	<b>-0.5</b>	<b>-1.1</b>	<b>3.0</b>	<b>3.3</b>	<b>1.5</b>	<b>-0.2</b>	<b>1.1</b>
Net Performance	0.2	2.1	16.4	22.0	20.1	7.3	12.3

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

- After months of intense speculation, markets reacted positively to the US Federal Reserve's decision to finally start tapering its quantitative easing program.
  - Amcor, Telecom Corporation of New Zealand, QRXpharma and Sims Metal made positive contributions to the Trust this month.
- Telecommunications, energy and materials were the better performing sectors in December.

## Trust Performance Overview

The Perennial Socially Responsive Shares Trust (the Trust) closed up 0.3% in December, underperforming the S&P/ASX300 Accumulation Index (the Index) return by 0.5% for the month.

After months of intense speculation, the US Federal Reserve has finally started to taper its quantitative easing program. Equity markets reacted positively to this, focusing upon the fact that the reason for the withdrawal of this stimulus is attributable to the US economy demonstrating considerable improvement. Even with quantitative easing being pared back, global monetary policy remains accommodative and communications from a range of central banks indicate that a long period of easy policy settings remains in store. Consequently, we forecast higher global interest rates and a stronger USD and we believe that companies offering growth and effectively deploying their capital base will be recognised by the market and outperform over the medium term. Perennial Growth's portfolio has been constructed to be a beneficiary of these themes.

The strongest contributor to the Trust's performance for the month was Amcor (up 6.4%). The company demerged its Australian packaging distribution business Orora during the month, with the company's share price performing strongly in the lead up to this occurring. We had previously increased the Trust's weighting to Amcor in November because we viewed the investment proposition of Amcor to be enhanced by the transaction due to increased ROIC, increased exposure to segments with positive industry structure (Flexibles and Rigid Plastics) and increased exposure to higher-growth emerging markets.

Telecom Corporation of New Zealand (up 7.4%) was another strong contributor. The company announced the sale of its Australian AAPT telecommunication infrastructure business during the month for a cash payment of AUD450 million. The company previously

## 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.

**Trust Manager:**  
Lee Mickelborough

**Risk Profile:**  
High

**Trust FUM  
(as at 31/12/13):**  
AUD47.8 million

**Income Distribution  
Frequency:**  
Half yearly

**Team FUM  
(as at 31/12/13):**  
AUD2.4 billion

**Minimum Initial  
Investment:**  
\$25,000

**Trust Inception date:**  
December 2001

**APIR code:**  
IOF0117AU

outlined a strategy of focusing on the core New Zealand business and will utilise the proceeds of the sale to pay down some debt. Additionally, Telecom New Zealand was also a beneficiary of the appreciating New Zealand Dollar.

Qrxpharma (up 26.3%) also contributed positively during the month. The specialty pharmaceutical company is focused on the development and commercialisation of new treatments for pain management and central nervous system (CNS) disorders. In mid-December the company announced that the US Food & Drug Administration ("FDA") would be reviewing the company's New Drug Application for its MOXDUO product by 25 May 2014 and if approved the company will launch the drug in the US in the second half of 2014. The company also completed an \$11.6 million capital raising in December, and if the FDA review of MOXDUO proves successful, the company is well capitalised to initiate the launch of the drug.

Sims Metal Management (up 6.5%) also contributed positively during December. There was limited stock specific news flow on the stock.

The Trust's biggest detractor to performance was QBE Insurance (down 26.5%). The company provided a trading update for the market following an extended period of review on its existing business. The primary area of focus was in the US with the addition of a new CEO for this region the trigger for the process. Despite having made similar reserve adjustments throughout the year it now appears that the early updates were simply a step closer to the current conservative setting. Having met with management subsequent to this last update we are now satisfied that the current position establishes a conservative standpoint and gives sufficient flexibility for the group to begin to re-build the business. These changes reflect the influence of the new management team installed over the last 18 months with a new CEO for Europe, the US and the group. In addition, over the coming year there will be a new CFO. The market conditions continue to be supportive for the group and we are confident that the strategy objectives will create value for the shareholders over the longer term and this is not reflected in the current price. While disappointing in the short term these issues are largely timing events with the longer term attractiveness of the company still compelling.

Telstra Corporation (held underweight, up 3.8%) also detracted from performance. The company announced the sale of its Hong Kong mobile business CSL for USD2.425 billion, valuing Telstra's 76.4% stake at approximately AUD2 billion. The initial public offering of the Chinese online automobile company Autohome also took place during the month, with Telstra's 66.2% stake valued at approximately AUD2.8 billion as at month end.

BHP Billiton (not held, up 1.6%) also detracted from performance. The resource sector outperformed the broader market during the month in the face of stronger base metal prices and ongoing evidence of economic improvement in a number of regions.

### Market Overview

Within the domestic equity market there was moderate dispersion of sector returns, with telecommunications (up 4.2%), energy (up 3.3%) and materials (up 2.3%) the better performing. The weakest performing sectors were property (down 3.1%), financials (down 1.3%) and utilities (flat).

Dispersion across regional equity market returns was once again high. Japan's Nikkei (up 4.0%), the US S&P500 (up 2.4%) and the UK's FTSE100 (up 1.5%) all rallied, while China's Shanghai Composite (down 4.7%) and Hong Kong's Hang Seng (down 2.4%) both fell.

After months of market speculation the Federal Reserve elected to begin tapering the size of its quantitative easing program, reducing monthly purchases of Treasury Bonds and Mortgage Backed Securities by \$10 billion to \$75 billion per month. The decision was taken in the face of a strong set of monthly economic data. US third quarter GDP was revised up to an annualised rate of 4.1%, while non-farm payrolls increased by a higher than expected 203,000 in November, with the unemployment rate falling to 7.0%, its lowest level in five years. The Institute for Supply Management ("ISM") manufacturing purchasing

manager's index for November rose to 57.3, November industrial production increased 1.1% month on month and retail sales for November rose 0.7% month on month. Housing starts for November were over one million, the first time this level has been exceeded since mid-2008.

Within China, the December manufacturing Purchasing Manager's Index ("PMI") decreased slightly from the prior month to 51.0 and annual industrial production to the end of November decreased to 10.0%. Inflation data for November decreased slightly to an annualised rate of 3.0%.

Economic data for Europe showed the measure of PMI manufacturing increasing to 52.7 in December, while retail sales for October decreased 0.2% month on month. The European Central Bank elected to keep interest rates at 0.25%, although this historically low interest rate is not feeding through to inflation, with annual CPI to November coming in at a benign 0.9%.

Domestically the economy grew at 0.6% in the third quarter, for an annual growth rate of 2.3%, which is below trend. The unemployment rate for November increased marginally to 5.8%, with an increase of those unemployed of 21,000 being more than offset by population growth. Retail sales for October increased 0.5% month on month. The Reserve bank of Australia (RBA) elected to keep rates steady at 2.5%. A feature of the domestic equity market was the significant number of initial public offerings that came to market during the month, including Pact Group, Nine Entertainment, Dick Smith, Veda and Vocation.

The Australian Dollar depreciated against the US Dollar, falling 2.0% over the month to finish at \$0.89. Within commodity markets base metals traded stronger with copper (up 4.3%), nickel (up 2.8%) and aluminium (up 2.6%) all rising. Oil prices increased, with WTI crude (up 6.1%) and Brent crude (up 1.0%) both rising. Iron ore eased slightly (down 1.6%), while the gold spot price fell for the fourth consecutive month (down 3.8%) to finish at \$1,206 an ounce.

**Top 10 Holdings** as at 31 December 2013

Stock Name	Trust Weight %	Index Weight %
National Aust. Bank	8.5	6.1
ANZ Banking Grp Ltd	8.3	6.6
Commonwealth Bank.	7.7	9.4
Westpac Banking Corp	6.9	7.5
CSL Limited	4.6	2.5
Lend Lease Group	3.3	0.4
ResMed Inc.	3.1	0.3
WorleyParsons Ltd	3.0	0.3
Challenger Limited	3.0	0.2
QBE Insurance Group	3.0	1.0

**Asset Allocation** as at 31 December 2013

Sector	Trust Weight %	Index Weight %
Energy	9.5	5.9
Materials	11.3	17.9
Industrials	9.3	6.7
Consumer Discretionary	0.5	4.8
Consumer Staples	0.0	8.2
Health Care	10.1	4.7
Financials-x-Real Estate	42.6	37.5
Real Estate	7.5	6.6
Information Technology	0.0	0.9
Telecommunication Services	3.0	5.3
Utilities	3.3	1.6
SPI Futures	0.0	0.0
Cash	2.9	0.0

Rounding accounts for small +/- from 100%.

Signatory of:



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