PERENNIAL VALUE MANAGEMENT

Perennial Value Australian Shares Trust

Monthly Report
28 February 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	5.3	3.0	18.9	13.3	8.3	16.2	11.8
S&P/ASX 300 Accumulation Index	4.9	2.6	16.0	10.2	8.2	14.9	8.4
Value Added (Detracted)	**0.4**	**0.4**	**2.9**	**3.1**	**0.1**	**1.3**	**3.4**
Net Performance	5.2	2.8	18.2	12.3	7.3	15.2	11.0

*Gross Performance. ^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Perennial Value Australian Shares Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Trust manager:
John Murray

Risk profile:
High

Trust FUM (as at 28 February 2014):
AUD1.9 billion

Income distribution frequency:
Half yearly

Team FUM (as at 28 February 2014):
AUD8.4 billion

Minimum initial investment:
$25,000

Trust inception date:
March 2000

APIR code:
IOF0200AU

- **The market viewed the February 2014 reporting season favourably.**
- **70% of the holdings in the Trust reported, with the majority of these companies reporting earnings upgrades.**
- **Fairfax (up 44%) delivered a strong result, recording its first increase in operating profit since 2010.**

The Perennial Value Australian Shares Trust (the Trust) delivered a very strong return for the month of 5.3%, resulting in outperformance of 0.4% over the benchmark S&P/ASX300 Accumulation Index (the Index) return of 4.9%. The month was dominated by reporting season, which was clearly viewed favourably by the market.

Global markets were distorted this month with severe weather conditions in North America and the Lunar New Year celebrations in Asia. The S&P500 (up 4.3%) and the Shanghai composite (up 1.1%) both rose. The FTSE rose 4.7%, as Europe showed continued signs of a slowly improving economy with 4Q13 Eurozone GDP rising 0.5% year on year, the highest reading since 4Q11. The Nikkei 225 finished down 0.5%. Domestically, data was mixed with the NAB business confidence survey rising in January and retail sales in December up 0.5% month on month. These positive data points were offset by the unemployment rate reaching 6% in January. The Reserve Bank of Australia kept rates steady and the AUD/USD finished the month up 1.7c at 89.3c.

Overall, reporting season could be characterised as solid with ‘cost out’ remaining a strong theme. From a Trust perspective, 70% of the Trust reported their results in February. Within this subgroup, 80% reported earnings upgrades, 67% increased their dividends and 25% held dividends flat for the interim period. There were also a number of encouraging comments from companies exposed to housing and construction. BlueScope Steel, for example, noted a “broad based pick up in domestic activity levels”; Lend Lease referred to their “largest ever construction backlog and strong future pipeline of economic infrastructure” and Westfield Group stated that the “last four months were the best for specialty retail stores in the last four years.” Importantly, company results and outlook statements did not cause future expectations to be revised down.

The Trust remains overweight both BHP and Rio Tinto and both companies announced strong profit results. Rio Tinto’s full year earnings rose 10% to $10.2 billion, capex decreased by 26% to reinforce the company’s focus on sweating the current asset base harder and the dividend increased by 15%.

The better performing sectors during February were consumer discretionary (up 6.7%), information technology (up 6.3%) and energy (up 5.7%) while the worst performing sectors were telecommunications (up 1.4%), healthcare (up 2.9%) and REITs (up 4.3%). The Trust has notable underweights in the latter two sectors.

A number of holdings performed strongly for the month, in most cases due to better than expected profit results. Fairfax (up 44.0%) delivered a strong result with the first increase in operating profit since 2010. Cost out was the key feature with $260 million of cost savings delivered within a targeted $283 million by end of FY14. The balance sheet was also strong, with a net cash position of $80 million bolstered by the sale of Stayz (leisure accommodation website) in the half for $220 million. There are signs that the bold actions that management has taken are starting to bear fruit.

Other strong performers included Boral (up 18.7%) which rallied after delivering a solid interim result showing improved performance across all divisions. The company benefited from both an improvement in the residential construction markets in Australia and the US as well as its internal restructuring efforts. This leverage to "self-help initiatives" in addition to an improvement in external conditions is a key theme in a number of our Trust holdings.

A number of holdings rose in the range of 10% to 15% including AMP, AWE, BlueScope Steel, Henderson Group and QBE.

From a Top 20 perspective, the Trust also benefitted from being underweight in Commonwealth Bank (up 3.0%), Santos (up 3.4%) and nil holdings in CSL (up 2.8%) and Suncorp (up 2.5%). Woolworths is the Trust's largest Index non-holding and the 5.9% rise worked against the Trust.

Stocks which detracted from performance during the month included Sims Metal (down 6.0%), Amcor (down 3.8%) and Asciano (down 3.1%).

The Trust sold out of Aurora Oil and Gas, Fletcher Building and WorleyParsons. The Trust also reduced holdings in stocks including Amcor and Brambles, largely on valuation considerations. Reducing Brambles (sold on a prospective FY15 P/E of 17.9x and gross yield of 4.1%) and reinvesting into Asciano (bought at 11.7x and 6.1% respectively) is a good example of our value investing style at work. Proceeds were used to increase exposure to a number of existing holdings, including AMP, Asciano, Boral, Macquarie Group, NAB, Westfield Group and Westpac. The buying in AMP has been particularly pleasing. The Trust bought additional stock over the January/February period at around $4.40 per share, the subsequent profit result was well received by the market, and the share price closed the month stronger at $4.80.

At month end, stock numbers were reduced to 42 and cash was 2.2%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	10.1	9.1
Westpac Banking Corp	8.1	7.7
ANZ Banking Group Ltd	7.3	6.5
National Aust. Bank	7.2	6.0
Commonwealth Bank.	6.9	8.9
Telstra Corporation.	5.7	4.6
Macquarie Group Ltd	3.3	1.3
Rio Tinto Limited	3.0	2.2
Woodside Petroleum	2.8	1.7
QBE Insurance Group	2.7	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.9	5.9
Materials	25.0	18.2
Industrials	4.2	6.7
Consumer Discretionary	7.2	4.9
Consumer Staples	1.7	8.1
Health Care	0.1	4.8
Financials-x-Real Estate	40.6	37.1
Real Estate	7.0	6.6
Information Technology	0.0	0.9
Telecommunication Services	5.7	5.1
Utilities	0.7	1.7
Other	1.9	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