PERENNIAL GROWTH MANAGEMENT

Perennial Socially Responsive Shares Trust

Monthly Report
28 February 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	4.5	1.7	18.6	12.8	17.1	8.2	15.1
S&P/ASX 300 Accumulation Index	4.9	2.6	16.0	10.2	16.6	8.2	14.9
Value Added (Detracted)	**-0.4**	**-0.9**	**2.6**	**2.6**	**0.5**	**0.0**	**0.2**
Net Performance	4.4	1.5	17.9	11.8	16.0	7.2	14.0

* 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 28 February 2014):
AUD48.3 million

Income distribution frequency:
Half yearly

Team FUM (as at 28 February 2014):
AUD2.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **Australian equities finished up for the month, with all sectors posting positive returns.**
- **Mayne Pharma (up 25.6%) was the Trust's top performer in February.**
- **Reporting season was a key focus for the month, with aggregate earnings levels broadly in-line with consensus expectations.**

Trust performance overview

The Perennial Socially Responsive Shares Trust (the Trust) marginally underperformed the S&P/ASX300 Accumulation Index (the Index) by 0.4% in February, finishing up 4.5%, with the Index up 4.9% for the month.

The top performer during the month was Mayne Pharma (up 25.6%). The company provided its interim financial results during the month which showed NPAT for 1H14 to be $8.4m, which came in ahead of market expectations. The company also announced the acquisition of the ESGIC and LORCET brands from Forest Laboratories during the month, with the company forecasting the acquisition to be single digit EPS accretive within its first full financial year. Management have continued to execute on their plan of turning Mayne Pharma into a diversified global pharmaceutical company and they have a number of products which will help them to continue to grow.

Telstra (held underweight, up 1.1%) also contributed positively to performance. Telstra reported its interim financial result during the month, with a strong result from the company's mobile division and a smaller than expected decline from the traditional fixed line business the highlights. Telstra continued to add new mobile customers during the last quarter of 2013 but at a noticeably lower rate than earlier in the year. Vodafone had consistently lost customers for over two years to Telstra, but in the month of December, finally began to regain some ground. While only small, it is an important development in a market that looks like becoming more competitive in 2014. Comments from management that mobile profit margins are toward the upper end of what is sustainable were also significant. The company also faces potentially uncertain political issues as it renegotiates critical contracts with the NBN over coming months. While we do not believe there will be major profit implications from these outcomes with both NBN and the ACCC, there will be concerns. We still consider Telstra overvalued and maintain an underweight position in the Trust.

AMP (up 13.1%) also performed strongly during the month. The company reported its FY13 full year result which saw NPAT come in at $672 million, which slightly exceeded market expectations by around 2%. The market had been particularly cautious of AMP's Wealth Protection business going into the result, and with no further negative news announced on this division the stock saw a material re-rating.

Macquarie Atlas Group (up 11.7%) also contributed positively during the month after reporting a better than expected distribution profile, and a surprise reduction in management fees payable to Macquarie Group. The company guided to a 1H 2014 distribution of 5.0c (versus 2.4c in the previous corresponding period) and 2H cash flow that will support a significantly higher final distribution, possibly up to 10 cents. The lower management fee will add 0.5 to 1.0 cents to annual distribution. We retain our positive view based on strong growth in distributions as expensive holding company debt is retired and debt amortisation schedule is reduced.

The Trust's biggest detractor to performance was Infigen Energy (down 14.9%). The political uncertainty around a number of areas of environmental legislation remains high, and we see heightened risks to changes being made to existing renewable energy targets by the Coalition government. Any changes have the potential to adversely impact Infigen Energy's revenues as it currently benefits from selling renewable energy certificates to companies to cover their own renewable targets. This uncertainty has weighed on Infigen Energy's share price and the stock underperformed the market during the month.

Also detracting from performance was Resmed (down 2.1%). The stock underperformed due to further concerns about the impact of Medicare competitive bidding on its US business. Late in the month the Centre for Medicare and Medicaid Services (CMS) called for public comment on "bundling" across durable medical equipment (DME), apparently in an attempt to reduce the use of consumable items, i.e. masks. While masks are a highly profitable product line for Resmed, the earliest likely date for implementation is estimated to be January 2017, if at all. We believe that risks around US public funding are overplayed in Resmed's share price as they represent only about 10% of group revenues.

Sims Metal Management (down 6.0%) underperformed despite an interim profit result that was better than the company had indicated at its AGM. However, management made cautious comments about the outlook for the rest of the financial year, citing the severe North American weather as hindering activity in key markets, plus an economic slowdown in Turkey, one of the company's larger scrap metal markets. Despite this, most of the company's key markets are now growing and that should ultimately help profits recover. Margins in scrap and recycled materials are extremely slim at the moment, and therefore a small improvement makes a very large difference to its returns.

Market overview

The strength in the domestic equity market was broad based, with all sectors finishing in positive territory. Cyclical sectors generally outperformed, with consumer discretionary (up 6.7%), information technology (up 6.3%) and energy (up 5.7%) offering the best returns. Defensive sectors made up the laggards, with telecommunications (up 1.4%), healthcare (up 2.9%) and industrials (up 3.9%) posting the lowest returns.

Concerns around the stability of a number of emerging market economies eased during the month, resulting in most regional equity markets finishing the month in positive territory with the UK's FTSE100 (up 4.6%), the US S&P500 (up 4.3%), Hong Kong's Hang Seng (up 3.6%) and China's Shanghai Composite (up 1.1%) all reversing some of the prior month's losses to finish up in February. Japan's Nikkei was the exception (down 0.5%), being the only major market to finish lower.

US data released during the month was generally softer than expectations, although given the severity of recent winter weather and the disruption it has had on activity, this must be taken into account prior to drawing conclusions around a slowing of economic momentum in the region. Nonfarm payrolls for January came in at a lower than forecast 113,000 and the January unemployment rate fell marginally to 6.6%. The Institute for Supply Management Purchasing Manager's Index (PMI) for January fell sharply to 51.3, its lowest level since May 2013, while retail sales for January fell 0.4% month on month. Within the housing market both starts and building permits for January fell, and the National Association of Homebuilders fell sharply to 46 (a reading below 50 indicates contraction). Measures of consumer confidence also dropped.

Within China, the HSBC/Markit Flash Manufacturing PMI measure fell short of expectations, coming in at 48.3, indicating economic contraction. Trade data for January showed exports growing at 10.6% year on year and imports growing at 10.0%. Property prices in China's 70 major cities to the end of January showed an average annual increase of 9.6% (from 9.9% in December), the first time the annual price increase has fallen month to month since November 2012. The Chinese renminbi also saw its biggest monthly fall against the US dollar since being de-pegged, with some commentators believing this to be a People's Bank of China attempt to discourage speculative currency positioning. Inflation data for January remained unchanged at an annualised rate of 2.5%.

Within Europe, Q4 2013 economic growth came in at a slightly better than expected 0.3%, making it the third consecutive quarter of positive growth, with the annual growth rate now running at 0.5%. The manufacturing and services PMIs for February fell slightly short of market expectations, coming in at 53.0 and 51.7, respectively, although both remain in expansionary territory. The unemployment rate for January remained unchanged at 12.0%. Retail sales for December fell 1.6% month on month. The European Central Bank elected to keep interest rates at 0.25%, although inflation remains benign, with annual CPI to January coming in at 0.8%. Throughout the month, tensions within the Ukraine escalated with violent public protests leading to the overthrowing of the pro-Russian President Viktor Yanukovych. At month end, the situation was fragile with Russian military intervention a significant risk. Significant infrastructure used to transport energy between Russia and Europe lies within the Ukraine and the situation has significant implications for global energy supply.

Domestically, corporate news flow was dominated by the reporting season. At an aggregate earnings level, the market came in broadly in-line with consensus expectations. Around 25% of companies exceeded market expectations for earnings versus 20% falling short. Top line revenue growth remains challenging, with companies maintaining a keen focus on careful cost management. Within the domestic economy, there was a 3,700 reduction in the number of jobs, resulting in the unemployment rate ticking up to 6.0%, the highest level since 2003. Private capital expenditure for Q4 2013 fell 5.2% quarter on quarter, the biggest quarterly decrease since 2009. The Reserve Bank of Australia (RBA) elected to keep rates steady at 2.5% and in their statement indicated a more neutral stance to policy than in recent months.

With the RBA indicating that further interest rates cuts are unlikely, the Australian dollar found some support resulting in it appreciating against the US dollar, rising 1.9% over the month to finish at $0.88. In the face of some concerns around the economic outlook for China, commodity markets were mixed with iron ore (down 3.7%) falling for the third consecutive month, and copper (down 0.8%) also falling. Other base metals fared better, with nickel (up 5.3%) and aluminium (up 2.8%) both rising. Oil prices were firmer with WTI crude (up 5.2%) and Brent crude (up 2.5%) both rising. The gold spot price enjoyed a strong month (up 6.6%) to finish at $1,326 an ounce.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
ANZ Banking Grp Ltd	8.2	6.5
Commonwealth Bank.	7.3	8.9
Westpac Banking Corp	7.0	7.7
National Aust. Bank	6.8	6.0
CSL Limited	4.9	2.6
Lend Lease Group	3.3	0.4
QBE Insurance Group	3.2	1.2
Westfield Group	3.2	1.5
WorleyParsons Ltd	2.9	0.3
AMP Limited	2.9	1.1

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	10.1	5.8
Materials	10.2	18.1
Industrials	9.6	6.5
Consumer Discretionary	0.7	4.8
Consumer Staples	0.0	8.1
Healthcare	10.8	4.8
Financials-x-Real Estate	40.4	37.6
Real Estate	8.8	6.6
Information Technology	0.0	0.8
Telecommunication Services	2.6	5.1
Utilities	2.6	1.7
SPI Futures	0.0	-
Cash	5.1	-

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:

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