Perennial Value Shares Wholesale Trust

Monthly Report
31 December 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	2.0	2.7	3.1	6.7	15.8	6.1	9.9
S&P/ASX 300 Accumulation Index	2.0	2.9	2.4	5.3	14.7	6.5	7.7
Value Added (Detracted)	**0.0**	**-0.2**	**0.7**	**1.4**	**1.1**	**-0.4**	**2.2**
Capital Growth	0.0	0.5	0.7	2.2	10.4	1.3	1.4
Income Distribution	2.0	2.0	2.0	3.7	4.5	3.9	7.8
Net Performance	2.0	2.5	2.7	5.9	14.9	5.2	9.2

*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Perennial Value Shares Wholesale 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 31 December 2014):
AUD1.4 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 December 2014):
AUD7.4 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The Australian equities market recovered from early losses to rally strongly into month end.**
- **The best performing stock in the portfolio for the month was Fairfax (up +18.2%).**
- **Stocks with significant offshore earnings rallied on the lower AUD.**

The Australian equities market recovered from early losses to rally strongly into month end, with the benchmark S&P/ASX300 Accumulation Index finishing up 2.0%. The Perennial Value Shares Wholesale Trust (the Trust) also delivered a return of 2.0%, in line with the market.

For the 2014 calendar year, the S&P/ASX300 Accumulation Index delivered a total return of 5.3%. The Trust delivered a return of 6.7%, outperforming the index by 1.4%. In a relative sense, we believe this to be a reasonable outcome, as our value style has faced significant headwinds over the past year. Over this period, the Australian stock market has been driven by a small number of interest rate sensitive and perceived defensive stocks and sectors, predominantly REITs (up 26.8%) and Healthcare (up 23.0%). This continued in December. This narrowing of investor focus towards a very limited universe of perceived defensive large caps has been a global phenomenon over the past 12 months. However, we have remained true to style and have not invested in these very expensive stocks.

December brought further slides in commodity prices, including the price of oil, which has had a significant impact on the prices of energy stocks. For example, Santos, a Top-50 stock (which the portfolio does not hold) has fallen 46% from its peak. Global markets were softer, with the S&P500 (down 0.4%), FTSE (down 2.3%), Euro Stoxx 50 (down 3.2%) and Nikkei 225 (down 0.1%) all weaker. However, there was further evidence that global growth is improving. In particular, the data for the US was positive, with the revised Q3 GDP data showing the firmest rate of growth since 2003 and nonfarm payrolls growing 321,000, well above expectations. In other regions, key German data improved, there were positive signs that Japan's economy is emerging from recession in the current quarter and China's data was consistent with growth at close to 7% in Q4, although a key manufacturing PMI dropped below 50. Global inflation continued to fall, suggesting a prolonged period of low interest rates.

In Australia, GDP growth was unexpectedly weak in the September quarter, with real disposable income falling again, however, the partial data for the fourth quarter pointed to improvement. Retail sales for October were soft, albeit better than expected and home building approvals boomed, as did employment for November. The jobless rate, however, rose to a new 12-year high of 6.3%, and business and consumer sentiment fell, with the mid-year economic update revealing further deterioration in the budget deficit, largely due to lower commodity prices. The RBA left interest rates unchanged at 2.5% and the AUD continued to fall, reaching a four-year low of 81 US cents.

Defensive sectors outperformed during the month, with Healthcare (up 5.6%), Telcos and REITs (both up 4.5%). Collectively, this represented the portfolio's biggest headwind for the month. Industrials (up 5.8%) also outperformed. The worst performing sectors were Metals and Mining (down 3.0%), followed by Consumer Discretionary (down 2.2%) and Energy (down 1.7%).

The best performing stock in the portfolio for the month was Fairfax (up 18.2%) which announced the merger of its radio business with Macquarie Radio Network and the sale of its Perth station to APN. The transaction sees Fairfax gain a majority stake in the merged entity as well as receiving $96m cash which will further strengthen its already debt-free balance sheet.

Stocks with significant offshore earnings rallied on the lower AUD, such as Sims Metal (up 13.3%), Bluescope Steel (up 13.3%), Amcor (up 11.7%), Resmed (up 11.0%) and Ansell (up 8.0%). Other stocks which performed well included Downer (up 9.8%) after announcing a major new mining services contract win, Orora (up 8.6%), Boral (up 8.4%) after announcing the sale of their landfill business to TPI, Orica (up 7.2%) and Lend Lease (up 7.0%). Woodside (up 6.3%) rallied after announcing the acquisition of a number of assets from Apache and Telstra (up 4.9%) rose after signing the revised NBN deal.

Stocks which detracted from performance tended to be resource related names, with Iluka Resources (down 13.1%), BHP (down 5.0%), Origin Energy (down 4.7%) and Rio Tinto (down 1.9%). Crown Resorts (down 11.8%) also underperformed on weakness in the Macau gaming market.

In terms of portfolio activity, we reduced exposures in a limited number of holdings including ANZ, Harvey Norman and Resmed. Having increased the Harvey Norman position during August at an average share price of $3.14, the company has subsequently performed strongly despite the overall recent poor performance of consumer discretionary stocks. Profits were taken at an average share price of $3.45. Harvey Norman remains the portfolio's highest conviction consumer discretionary holding, with exposure to the strength of the residential property market via its furnishings and appliances sales. Resmed has performed very strongly in recent months. Readers may recall that the company was introduced into the portfolio in the June 2014 quarter following considerable share price weakness. The average entry share price was below $5.00 and profits were taken during this month at $7.00, some 40% above the entry price.

Proceeds were predominantly reinvested into AWE (a mid-cap diversified oil and gas producer) and Coca Cola Amatil. Having taken good profits in mid-calendar 2014 at $1.80, the AWE share price has been mercilessly treated during the recent energy sector sell off. In the three months to mid-December, the share price had fallen some 40% to a level which we believe offered significant value. Shares were subsequently purchased at an average $1.13 during the month and our internal research indicates that the medium-term value of the company's asset base is in excess of $2.00. We continued to add to Coca Cola Amatil at the sub-$9 level.

At month end, stock numbers were 44 and cash was 3.0%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.4	7.5
BHP Billiton Limited	8.1	6.9
National Aust. Bank	7.7	5.9
Telstra Corporation.	6.9	5.3
Commonwealth Bank	6.3	10.1
ANZ Banking Grp Ltd	6.2	6.4
Woodside Petroleum	3.4	2.0
Rio Tinto Limited	3.1	1.8
Macquarie Group Ltd	2.8	1.4
AMP Limited	2.7	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.7	5.1
Materials	22.8	15.0
Industrials	2.9	7.4
Consumer Discretionary	8.3	4.1
Consumer Staples	2.3	7.4
Health Care	2.9	5.9
Financials-x-Real Estate	38.4	38.6
Real Estate	5.1	7.7
Information Technology	0.0	1.0
Telecommunication Services	6.9	5.8
Utilities	1.7	1.9
Other	3.0	-

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