Perennial Value Shares Wholesale Trust

Monthly Report
31 July 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	4.4	3.2	4.4	19.6	14.0	9.6	10.4
S&P/ASX 300 Accumulation Index	4.4	3.6	4.4	16.3	13.0	10.3	8.1
Value Added (Detracted)	**0.0**	**-0.4**	**0.0**	**3.3**	**1.0**	**-0.7**	**2.3**
Capital Growth	4.3	1.3	4.3	14.5	8.4	4.7	1.7
Income Distribution	0.0	1.6	0.0	4.1	4.6	4.0	7.9
Net Performance	4.3	2.9	4.3	18.6	13.0	8.7	9.6

*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 July 2014):
AUD1.6 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 July 2014):
AUD8.2 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The Trust performed in line with the market in July, returning 4.4%.**
- **A range of stocks in the portfolio rose between 10%-25% including Sims Metal (up 23.2%), Bluescope (up 15.9%), Orica (up 12.9%) and Super Retail (up 11.6%).**
- **The better performing sectors during the month were Materials (up 7.7%), IT (up 5.7%), Telecommunications (up 5.1%) and REITs (up 5.0%).**

The Australian equities market started the financial year very strongly, with the benchmark S&P/ASX300 Accumulation Index (the Index) up 4.4%. The Perennial Value Shares Wholesale Trust (the Trust) performed in line with the market, up 4.4%.

Global markets were mixed in July, with the Shanghai Composite (up 7.5%) and the Nikkei 225 (up 3.0%) rising during the month, while the S&P 500 (down 1.5%) and FTSE (down 0.2%) fell. Geopolitical tensions in the Ukraine and Middle East and further sanctions imposed on Russia overshadowed strong US economic data with 2Q GDP up 4% and company guidance broadly positive following 2Q US earnings results. The US Federal Reserve continued to taper its asset purchasing program as the economy improves. In Europe, the ECB left rates on hold after cutting last month. Domestically the data was mixed, with business confidence resilient, offsetting soft consumer sentiment and a rise in unemployment to 6.0%. The RBA left the cash rate unchanged at 2.5%. The AUD/USD fell by 1.3c to end the month at 93.0c.

The better performing sectors during the month were Materials (up 7.7%), IT (up 5.7%), Telecommunications (up 5.1%) and REITs (up 5.0%). Utilities (up 0.9%) was the worst performing sector, followed by Energy (up 2.2%) and Healthcare (up 2.9%).

A range of stocks in the portfolio rose between 10%-25% including Sims Metal (up 23.2%), Bluescope (up 15.9%), Orica (up 12.9%) and Super Retail (up 11.6%). Sims Metal released its long awaited strategy review which outlined a sensible plan to improve profitability across all the operations, regardless of the external macro market. The market approved of the honesty and commitment of the restructured senior management team and the tough but manageable target committing to EBIT growth of 350% in the next 5 years, to $300million.

The large diversified miners, Rio Tinto (up 11.9%) and BHP (up 7.7%) also performed strongly with sentiment towards the outlook for China improving in recent months. The portfolio has therefore benefitted from an overweight position in the Materials sector. China's quarterly GDP increased slightly from 7.4% year on year in 1Q14 to 7.5% year on year in 2Q14. Despite the continued crackdown on corruption, the Government has increased spending on railway and social housing projects and recently reaffirmed their growth target of 7.5% for 2014.

Other strong performers included Aristocrat Leisure (up 8.4%), National Australia Bank (up 7.7%) and Asciano (up 7.5%). Aristocrat positively surprised the market with its acquisition of US-based private company VGT, which has a big position in Class II (lottery type) games in US tribal casinos. VGT is a good fit for Aristocrat, increasing reliable participation revenue with low tax jurisdiction advantages, in a sound niche market in which Aristocrat had no previous exposure. The company undertook a $435million share placement to partly fund the acquisition at $5.26 per share. The portfolio participated in this raising at greater than the proportional entitlement and this has delivered a positive outcome with the month-end share price closing at $5.70.

NAB announced the sale of a GBP625million portfolio of non-performing UK commercial real estate loans which significantly reduced the balance of impaired loans in the UK. We view this as a positive step on the path to de-risking the bank, releasing capital and focusing on the high-returning, core Australian business. This, combined with significant senior management changes, including the recent CEO and CFO appointments, suggests relative valuation upside for NAB. The portfolio retains a higher conviction holding in NAB versus CBA, with NAB trading at an approximate 20% discount to CBA based on prospective FY'15 P/Es of 12.3x and 14.9x respectively.

Asciano (up 7.5%) rose following an article in the Wall Street Journal regarding a potential sale of 50% of the company's ports business to China Merchants for $1.1billion. Any such deal at the speculated price would provide valuation support for the group and capital management options, reinforcing our view that the company is trading at a discount to the inherent value of the assets within the business.

Offsetting the above positives was the underperformance of several portfolio stocks including QBE Insurance (up 1.2%), Harvey Norman (down 0.3%), Macquarie Group (down 1.9%), Origin Energy (down 2.0%) and Fairfax Media (down 5.0%). Readers will recall that we have progressively taken significant profits in Macquarie following its strong outperformance over the past year. QBE downgraded its earnings expectations for 2014 due to an increased number of claims from prior years in its Argentinian Workers Compensation business. The company has decisively dealt with this matter by increasing reserves significantly. It is also making positive progress in cost and debt reduction and its other global insurance operations are tracking in line with expectations. QBE earnings are sensitive to rising US interest rates (e.g. higher investment earnings) and a lower Australian dollar which is attractive at this stage of the economic cycle. Notwithstanding this most recent downgrade, the underperformance for the month has not been as significant as may have been expected. We believe that the overall business is in much better shape compared to a year ago and it remains very cheap, trading on a prospective FY'15 P/E of 9.2x. We retain this out-of-favour Top 20 stock holding.

The underweight position in REITS (up 5.0%) also worked against the portfolio, as investors continued to seek yield opportunities in the equities market. Notwithstanding this, the portfolio holds positions in Westfield, Stockland and Scentre. The portfolio was also hurt by not holding, or being underweight, several Top 20 stocks including Suncorp (up 5.5%), Wesfarmers (up 5.2%) and Woolworths (up 4.9%).

In terms of portfolio activity, profits were taken in stocks including Amcor, AWE (a mid cap oil and gas producer) and Commonwealth Bank (CBA). AWE in particular has been a strong outperformer, delivering a one year total return of 35.2%. In the case of both Amcor and CBA, we reduced our holdings for valuation reasons and indeed both holdings have been used as funding vehicles over the past year. Notwithstanding its undoubted quality, Amcor is trading on a prospective FY'15 price to free cashflow of 14.6x. Proceeds were reinvested into stocks offering better value, primarily through increasing holdings in both Ansell and Rio Tinto.

Ansell has been introduced into the portfolio in recent months, following significant share price underperformance. It is a world leader in the manufacturing and marketing of healthcare solutions and provides defensive and geographically diverse revenue streams. Further, the more cyclical industrial division should benefit from any global economic recovery, in particular in the USA and EMEA (Europe, the Middle East and Africa), where it derives 42% and 35% of its revenue respectively.

Over the last financial year, Rio Tinto had performed largely in line with the market. Trading on a prospective FY'15 price to free cashflow multiple of 7.9x and supported by a strong balance sheet, shares were purchased during the month at an average price of $62.11 and the month-end share price closed at $66.38. The portfolio remains overweight resources as mentioned above.

At month end, stock numbers were 47 and cash was 0.8%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	10.2	8.8
Westpac Banking Corp	8.3	7.6
ANZ Banking Grp Ltd	7.3	6.6
National Aust. Bank	7.2	5.9
Commonwealth Bank.	6.0	9.6
Telstra Corporation.	5.7	4.8
Woodside Petroleum	3.7	2.1
Rio Tinto Limited	3.4	2.0
Macquarie Group Ltd	3.1	1.3
AMP Limited	2.6	1.1

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.3	6.2
Materials	24.5	17.4
Industrials	3.9	6.9
Consumer Discretionary	6.6	4.1
Consumer Staples	1.7	7.9
Health Care	2.2	4.6
Financials-x-Real Estate	38.6	37.9
Real Estate	7.7	7.1
Information Technology	0.0	0.8
Telecommunication Services	5.7	5.3
Utilities	1.4	1.7
Other	1.3	-

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