Perennial Socially Responsive Shares Trust

Monthly Report
31 October 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	2.3	-2.1	1.7	5.5	16.4	13.9	7.5
S&P/ASX 300 Accumulation Index	4.3	-0.7	3.7	6.1	15.1	13.3	7.9
Value Added (Detracted)	**-2.0**	**-1.4**	**-2.0**	**-0.6**	**1.3**	**0.6**	**-0.4**
Net Performance	2.2	-2.4	1.4	4.5	15.3	12.8	6.5

* 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 31 October 2014):
AUD49.8 million

Income distribution frequency:
Half yearly

Team FUM (as at 31 October 2014):
AUD2.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The sharp market rally provided stark contrast to the previous month's experience.**
- **Economic data was once again generally positive led by GDP which increased in the third quarter.**
- **The trend of a stronger US dollar has continued in recent months as the currency markets continue to transition to a more normal US monetary policy.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) underperformed the S&P/ASX300 Accumulation Index (the Index) by 2.0% in October, finishing up 2.3% against the Index which rose 4.3% for the month.

The sharp market rally provided stark contrast to the previous month's experience as the banking sector surged 7.6%. Healthcare (up 6.4%), real estate investment trusts (up 6.6%) and telecommunications (up 6.2%) all contributed strongly to the rally, while materials (down 0.3%) and Energy (down 3.7%) provided the greatest drag on the Index.

Transfield Services (up 27.9%) announced that it had received an indicative, non-binding bid from Spanish firm Ferrovial to acquire 100% of the group for $1.95 per share. Transfield's board considered the bid as undervaluing the company. However they will continue to engage Ferrovial in the interests of shareholders to determine whether a better proposal may be put forward. We value Transfield at $2.30 which is still greater than 17% more than the initial bid price, and do not believe the bid price fully encapsulates the significant amount of progress the company has made in the last two years. Transfield's business mix change has been material with more stable infrastructure management and government services contracts making up a far greater proportion of profits, while the management team have performed well exiting unprofitable contracts, reducing the company's cost base and improving Transfield's balance sheet.

BHP (not held, up0.3%), Woodside Petroleum (not held, down 1.2%), Origin (not held, down 4.7%), Newcrest (not held, down 11.7%) were all underperformers for the month of October and due to their exclusion from the portfolio, returned a positive contribution against the benchmark.

Vocation (down 61.9%) announced (on 27 October) to the exchange a settlement with the Department of Education and Early Childhood Development (DEECD) and the completion of the Victorian review. The company had advised that this review, which was first mentioned on 25 August, was not anticipated to be material for Vocation. The cost of this settlement was an implied earnings impact of between $7m and $9m in EBITDA for FY15 (equivalent to a 10% to 15% downgrade in earnings expectations). The review focussed on three courses run by the group and involved non-compliance with certain standards set by the regulator. We have had meetings with the company's Chairman and a Non-Executive director where they described the sequence of events leading up to this announcement and their process of seeking informed advice in regards to potential outcomes. Despite a detailed approach, they confirmed that the scale of the outcome was completely unexpected. The company has since closed these Registered Training Organisation (RTO) involved to new enrolments and shifted the enrolments to other RTO's run by the company. The significant underperformance appears to be somewhat of an overreaction as new guidance has been issued for the current financial year. We are confident that the company will achieve guidance and regard the stock as being materially undervalued.

Karoon (down 15.5%) underperformed in line with the decline in oil prices over October. Also contributing to the share price volatility, Karoon experienced a boardroom shake up at the AGM which resulted in shareholders unsuccessfully proposing three new directors. Further, in Brazilian elections the incumbent Dilma Rousseff was re-elected against the business friendly Aecio Neves, resulting in increased uncertainty around the financial logistics of company's Brazilian based operations. On the positive side Karoon continued to progress their upcoming drilling program by taking possession of the 'Olinda Star', a semi-submersible drilling rig. Drilling is expected to commence within the first half of November and from this we expect some significant news flow by early December as the target zone is reached. Karoon's capital management program remains on track and they announced that as at 31 October they had bought back 8.5 million shares at an average price of $3.30. The company remains well capitalised with a cash balance of $699.1m. We continue to see significant valuation upside in Karoon even with lower long term oil price assumptions.

WorleyParsons (down 11.6%) fell in line with the oil price and the energy sector in general. About 70% of the company's revenue is derived from capital expenditure in the oil and gas sector and so in the medium term the outlook for oil prices is a major driver of activity and profit. In the short term WorleyParsons is insulated by the fact that a significant amount of work is undertaken by major International and National oil companies whose capital expenditure tends to be less volatile. In addition, WorleyParsons' Improve Division is focused on optimising the performance of existing brownfields assets which may prove to be countercyclical when new project investment is soft. This was borne out by the trading update at the AGM during October which pointed to first quarter trading that was in line with expectations and benefited from the substantial cost reduction program initiated during 2014. We continue to believe that the stock is significantly undervalued, but recognise that capital expenditure trends in the oil and gas sector need to be carefully monitored.

Market overview

October marked a dramatic turnaround for the Australian share market as it extended September's slump before rebounding strongly to finish up 4.4% for the month. The rally was enough to drag the year to date return of the market into positive territory with the Index now registering a 7% return to the end of October. Major global markets yielded mixed results; the Dow Jones rose 2%, the S&P 500 rose 2.3%, the Nikkei 225 increased 1.5% and the Hang Seng surged 4.6% while the FTSE 100 fell 1.2% and the Euro Stoxx finished down 3.5%.

In the US, the Federal Reserve adhered to their planned exit of quantitative easing and called an end to QE3 in October. Economic data was once again generally positive led by GDP which increased in the third quarter at an annual rate of 3.5%, down on the prior reading of 4.6% but still well ahead of the 3.0% forecast. The ISM manufacturing PMI for September came in at 56.6, below the 59.0 recorded in August and the 58.5 expected however the ISM non-manufacturing PMI came in at 58.6, in line with forecast and remains at an elevated level. Non-farm payrolls registered an increase of 248,000, well ahead of the 215,000 expected and subsequently the unemployment rate declined 0.2% to a September reading of 5.9%. Housing starts rose 6.3% for the month of September with the series remaining volatile as evidenced by August's revised 12.8% fall. Existing home sales rose 2.4% well ahead of the estimated 1% growth predicted. CPI for September registered a 0.1% increase compared to an expected flat reading.

Chinese economic data remained tepid with third quarter GDP rising 7.3%, marginally ahead of the 7.2% expected. While industrial production was strong rising 8.0% year on year while CPI came in lower than expected at 1.6%. The recently released HSBC Manufacturing PMI was unchanged at 50.4 while Non-manufacturing came in at 53.8, still slightly down on the September reading. M2 money supply growth ticked up to 12.9% year on year. New loan creation continued its rebound from July's 385.2b Yuan low, arriving at 857.2b Yuan for October - the series remains highly volatile. The Chinese housing market remained under pressure and on average, house prices posted declines in the October reading.

Domestically the Reserve Bank of Australia (RBA) kept the cash rate on hold for a 13th consecutive meeting. The RBA minutes reinforced their outlook of a period of interest rate stability and they reissued their warning that the exchange rate remains above "most estimates of fundamental value". NAB business confidence decreased 3 points to 5 points, while the NAB Business Conditions Index also slipped 3 points to 1 point. The Westpac MI Consumer Confidence Index gained 0.9% having slumped 4.6% in September. The economy lost 29,700 jobs in September well below the 15,500 increase forecast, while the participation rate continued to decline to 64.5%. Retail sales increase 0.1% in August, while building approvals slumped 11% in September.

The Australian dollar rose 0.89% against the US dollar over the month after registering a 6.63% fall in September. The trend of a stronger US dollar has continued in recent months as the currency markets continue to transition to a more normal US monetary policy.

Spot Brent crude oil plunged, finishing the month down 9% following an 8% fall in September. Oil now sits 26.3% off its high for the year. Iron ore stabilised, and remained little changed for the month. Base metals were collectively stronger over the month while spot gold continued its downward spiral falling 2.9%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
National Aust. Bank	8.4	5.9
Commonwealth Bank.	7.7	9.3
ANZ Banking Grp Ltd	7.5	6.6
Westpac Banking Corp	7.0	7.7
CSL Limited	5.2	2.7
QBE Insurance Group	3.5	1.1
Westfield Corp	2.9	1.1
Santos Ltd	2.6	0.9
Aurizon Holdings Ltd	2.6	0.7
Lend Lease Group	2.5	0.6

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.8	5.9
Materials	10.3	15.7
Industrials	10.3	7.1
Consumer Discretionary	2.5	4.2
Consumer Staples	0.8	8.0
Healthcare	12.1	5.2
Financials-x-Real Estate	41.1	38.3
Real Estate	8.0	7.4
Information Technology	0.8	1.0
Telecommunication Services	2.1	5.5
Utilities	2.6	1.7
Cash	2.6	-

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

Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Perennial Growth Management Pty Limited ABN 41 099 336 384 is a Subsidiary and Authorised Representative of Perennial. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.