Perennial Value Shares Wholesale Trust

Monthly Report
28 February 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	1.5	5.4	13.0	22.4	6.5	10.8	9.6
S&P/ASX 300 Accumulation Index	2.2	5.8	12.0	22.0	6.4	10.4	7.7
Value Added (Detracted)	**-0.7**	**-0.4**	**1.0**	**0.4**	**0.1**	**0.4**	**1.9**
Capital Growth	1.4	2.7	9.8	16.9	1.6	5.6	1.5
Income Distribution	0.0	2.4	2.5	4.5	4.0	4.3	7.3
Net Performance	1.4	5.1	12.3	21.4	5.6	9.9	8.8

*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:
AUD $1.1 billion

Income distribution frequency:
Half yearly

Team FUM:
AUD $7.1 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The market rallied in February, with the S&P/ASX300 Accumulation Index (the Index) up 2.2%.**
- **Industrials advanced 3.3%, while resources declined 3.4%.**
- **Reporting season saw the market deliver positive earnings growth and record dividends.**

Trust Performance

The Perennial Value Shares Wholesale Shares Trust (the Trust) delivered a return of 1.5% for February, underperforming the Index by 0.7%.

Global markets were strong, with the S&P500 up 3.7%, FTSE100 up 2.3%, Shanghai Composite up 2.2% and Nikkei 225 up 0.3%. Commodity prices were generally firm with iron ore up 10.0%, gold up 4.0%, thermal coal up 2.0%, copper and oil flat while coking coal declined 5.0%. The Reserve Bank of Australia left the cash rate steady at 1.5%, while the Australian Dollar finished the month up one cent at 77 US cents.

During February, the better performing sectors included consumer staples (up 6.0%), financials (up 4.1%), REITs (up 4.1%), healthcare (up 3.9%) and industrials (up 3.4%), while metals & mining (down 3.8%), materials (down 3.2%), telecommunications (down 3.1%) and energy (down 2.1%) all lagged.

Reporting season was the highlight of the month. While the results were generally subdued there was improvement from previous periods, with overall market delivering positive earnings growth. This was largely driven by a strong recovery in resource stock earnings, on the back of sharply higher commodity prices combined with lower operating costs. While many companies have faced significant headwinds in recent years, there was evidence that some of these may be abating. In addition, we were pleased to see that many companies are actively improving their businesses and will be very well positioned as conditions improve. Market dividends also set a new record level as companies continued to focus on returning cash to shareholders rather than investing in growth projects.

Trust holdings which performed strongly included Crown Resorts (up 11.1%), as the market welcomed the focus on cost reduction under the new Executive Chairman and the announcement of a large special dividend. We believe that the return to focusing on and maximising the returns from the Australian operations is a positive development, significantly de-risking the business. AGL Energy (up 8.7%) rallied after delivering a result which showed the early benefits of the rising electricity prices and Vocus (up 8.4%) continued to recover from its last year's sell-off, after maintaining full-year earnings guidance. Lendlease (up 8.1%) performed well after reporting a strong result which highlighted its extensive pipeline of development projects both in Australia and offshore and allayed concerns around apartment settlement risks. Woolworths (up 4.7%) rose after its result showed improved sales in its key supermarkets division. While margins declined and overall earnings fell, improving sales momentum is critical to turning the business around. The major banks also performed well (up an average of 5.1%), with CBA delivering a sound result showing good cost control within a benign credit quality environment.

The Trust also benefitted from not holding Brambles (down 10.6%) which fell after the new management team withdrew the company's long-term return targets.

Stocks which detracted from performance included Event Hospitality & Leisure (down 14.9%) after a disappointing performance from its cinema division and Clydesdale Bank (down 10.2%) which has sold off on renewed Brexit concerns. Other stocks which detracted from performance included Ansell (down 9.4%) which fell on concerns over rising raw material costs, despite delivering a reasonable result which showed positive operational improvements. BHP (down 6.2%) and Rio Tinto (down 4.6%) declined despite delivering strong results as resources stocks generally eased following very strong performances over the past twelve months (sector up 48.9% over this period). These companies are all underpinned by strong balance sheets and we remain comfortable with the outlook for each.

Trust Activity

During the month, we took profits and reduced our holdings in a number of stocks which had delivered strong gains, including AGL Energy, QBE Insurance, Orica and Woolworths. Proceeds were predominantly used to add to our positions in a number of good value stocks including Henderson Group, Vocus, Macquarie Group and Crown Resorts. At month end, stock numbers were 37 and cash was 6.7%.

Outlook

While there is a high level of ongoing uncertainty, the global growth outlook appears to be incrementally improving and markets continue to respond positively to the prospect of more pro-growth fiscal policies as opposed to ongoing monetary easing. Should this eventuate, the Trust will likely benefit from being overweight in the large-cap, low-cost, financially-sound resources companies as well as in a range of quality industrial and financial companies where we see attractive valuations. This would also see continued upwards pressure on interest rates which would benefit the portfolio through its underweight position in the expensive defensive sectors such as healthcare and REITs and infrastructure.

The Trust continues to exhibit Perennial Value's true to label value characteristics, with the Trust offering better value than the overall market on each of our four valuation characteristics: price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.3	9.2
Westpac Banking Corp	6.1	7.3
BHP Billiton Limited	5.7	5.2
ANZ Banking Grp Ltd	5.2	5.9
National Aust. Bank	4.8	5.5
Macquarie Group Ltd	3.7	1.9
Crown Resorts Ltd	3.3	0.3
Woodside Petroleum	3.2	1.5
Woolworths Limited	3.2	2.2
AMP Limited	3.0	0.9

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.4	4.2
Materials	17.7	16.2
Industrials	0.0	6.6
Consumer Discretionary	5.8	5.0
Consumer Staples	6.4	7.0
Health Care	4.3	6.7
Financials-x-Real Estate	38.2	37.8
Real Estate	7.0	8.4
Information Technology	0.0	1.3
Telecommunication Services	5.0	4.2
Utilities	2.4	2.6
Cash & Other	6.8	-

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