

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	4.4	1.6	14.0	10.6	12.9	17.7	7.7
S&P/ASX 300 Accumulation Index	4.9	2.6	16.0	10.2	8.2	14.9	6.0
Value Added (Detracted)	-0.5	-1.0	-2.0	0.4	4.7	2.8	1.7
Capital Growth	4.3	0.5	10.9	5.4	6.8	11.8	1.4
Income Distribution	0.0	0.9	2.5	4.3	5.3	5.0	5.4
Net Performance ^{^^}	4.3	1.4	13.4	9.7	12.1	16.8	6.8

*Gross Performance. [^]Since inception: December 2005. ^{^^}This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:

Stephen Bruce

Risk profile:

High

Trust FUM (as at 28 February 2014):

AUD73.7 million

Income distribution frequency:

Quarterly

Team FUM (as at 28 February 2014):

AUD8.4 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ **The best performing stock in the Trust for February was Boral (up 18.7%).**
- ▶ **Many companies remained focused on returning cash to shareholders via increased dividends during the February reporting season.**
- ▶ **Following strong performance in February, the 2014 financial year to date sees the Index up 14.0%.**

Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Portfolio Activity

February was a busy month in terms of portfolio activity. We sold out of our holdings in Fletcher Building and Tabcorp as, following strong performances, these stocks no longer represented attractive value or yield. We also sold out of WorleyParsons as we became less confident around the near term outlook for capital expenditure in the oil and gas sector. We also reduced our holdings in a number of stocks which had delivered strong total returns over the past 12 months, including Macquarie Group (+58.1%) and Amcor (+27.2%).

Proceeds were used to reintroduce AMP to the portfolio. We had previously sold out of AMP in June 2013, due to concerns over the outlook for the life insurance business. The stock subsequently underperformed the market by 9% until we bought back in. However, we now believe that steps have been taken to address the issues and the company stands to benefit as flows pick up into its wealth management business. At our entry price of \$4.85, AMP is offering an FY14 gross yield of 7.1%, increasing to 8.2% in FY15. We also added to our holdings high-yielding names such as Suncorp (FY14 gross yield 9.4%), Telstra (8.2%), Woodside Petroleum (8.1%), Amalgamated Holdings (7.5%), CBA (7.3%) and ASX (6.5%).

At month end, stock numbers were 30 and cash was 6.3%.

Stock and Portfolio Performance

The Australian market rallied strongly in February, with the S&P/ASX300 Accumulation Index returning 4.9%. The Trust also rose strongly, returning 4.4% and has now delivered at total return for the financial year to date of 14.0%. Both industrials (5.2%) and resources (5.3%) rallied during the month. All sectors delivered positive returns, however the cyclical sectors tended to perform better, in particular consumer discretionary (7.0%), IT (6.4%), energy (6.2%) and financials (6.0%). Defensive sectors such as telecommunications (2.5%), healthcare (2.9%) and REITs (4.4%) lagged.

Global markets were distorted this month with severe weather conditions in North America and the Lunar New Year celebrations in Asia. The S&P500 (4.3%) and the Shanghai composite (1.1%) both rose. The FTSE rose 4.7% as Europe showed continued signs of a slowly improving economy with 4Q13 Eurozone GDP rising 0.5% year on year, the highest reading since 4Q11. The Nikkei 225 finished down 0.5%.

Domestically, data was mixed with the NAB business confidence survey rising in January and retail sales in December rising 0.5% month on month. These positive data points were offset by the unemployment rate reaching 6% in January. The RBA kept rates steady and the AUD/USD finished the month up 1.7c at 89.3c.

Reporting season was the focus of the month, with the majority of companies reporting either their FY14 half-year or FY13 full-year results. In contrast to the past few years, most results met expectations and were received positively by the market. Importantly, the trends evident in the results and outlook statements given did not cause future expectations to be revised downwards. While overall, revenue growth was muted and cost reductions were a major driver of earnings, many companies, particularly those exposed to the domestic residential market, are seeing improved operating conditions. Companies accounting for 73% of the Trust reported and, of this subset, 72% by weight increased their EPS, while only 28% reported lower EPS. Pleasingly, many companies remained focused on returning cash to shareholders via increased dividends and this was reflected in our Trust holdings. Of the stocks that reported, 69% (by weight) increased their dividend, 22% held their dividend flat and only 9% reduced their dividend. Some notable dividend increases included Woodside Petroleum (DPS 92%) and Suncorp (DPS 40%) which are distributing surplus capital due to their strong balance sheets. Boral (DPS 40%) and Harvey Norman (DPS 33%) also declared higher dividends, with improving earnings also underpinned by strong balance sheets. CBA (DPS 12%) lifted its dividend in line with earnings and Telstra increased its dividend modestly by 4% for the first time since 2007 and stated its intention to grow the dividend over time.

The best performing stock in the portfolio was Boral (18.7%) which rallied after delivering a solid interim result showing improved performance across all divisions. The company benefited from both an improvement in the residential construction markets in Australia and the US as well as its internal restructuring efforts. This leverage to "self-help initiatives" in addition to an improvement in external conditions is a key theme in a number of our Trust holdings. Other strong performers included QBE (11.6%) following the strengthening of reserves and new management stabilising the US operations. Henderson Group (10.7%) continued its very strong performance (now up 103.6% over the last 12 months) after delivering a full-year result which showed strong net inflows into its funds.

The worst performing stock in the portfolio was Amcor (-3.8%) which declined despite delivering a half-year result in line with market expectations. Despite the fall, the stock has delivered a total return of 27.2% over the past 12 months. Other stocks which lagged the market included Asciano (-3.1%), Telstra (1.1%), Suncorp (2.5%) and Orica (2.7%).

Market Outlook

Despite the volatility over recent months, the 2014 financial year to date sees the S&P/ASX300 Accumulation Index up 16.0%. While a level of macroeconomic uncertainty remains, and ongoing volatility is likely, there are positive economic signals in many markets. Longer term, as economic growth resumes, company profits will grow and dividends paid to shareholders will increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Telstra Corporation.	9.4	4.6
Woodside Petroleum	5.9	1.7
ASX Limited	4.0	0.5
Woolworths Limited	0.0	3.3
Amalgamated Holdings	3.0	0.0
Suncorp Group Ltd	3.9	1.2
CSL Limited	0.0	2.6
CASH	2.4	0.0
Rio Tinto Limited	0.0	2.2
AMP Limited	3.0	1.0

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.4	5.9
Materials	14.8	18.2
Industrials	3.3	6.7
Consumer Discretionary	9.9	4.9
Consumer Staples	2.0	8.1
Health Care	0.0	4.8
Financials-x-Real Estate	45.3	37.1
Real Estate	5.4	6.6
Information Technology	0.0	0.9
Telecommunication Services	9.4	5.1
Utilities	0.0	1.7
Other	2.5	0.0

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:



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