Perennial Socially Responsive Shares Trust

Monthly Report
31 March 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	0.8	2.2	19.6	15.1	16.3	8.5	13.4
S&P/ASX 300 Accumulation Index	0.2	2.0	16.3	13.0	16.0	8.1	13.2
Value Added (Detracted)	**0.6**	**0.2**	**3.3**	**2.1**	**0.3**	**0.4**	**0.2**
Net Performance	0.7	2.0	18.7	14.1	15.3	7.5	12.3

* 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 March 2014):
AUD47.7 million

Income distribution frequency:
Half yearly

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

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **Lend Lease (up 7.0%) outperformed after the company announced it had secured a $580 million contract with NSW Roads and Maritime Services.**
- **Domestic economic data surprised on the upside.**
- **Commodity markets were general weak off the back of growing concerns about the economic outlook for China.**

Trust performance overview

The Perennial Socially Responsive Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 0.6% in March, finishing up 0.8%, with the Index up 0.2% for the month.

The biggest contributor during the month was BHP Billiton (not held, down 3.3%). Growing concerns around the economic outlook in China weighed on commodity prices and the listed resource sector during the month, with BHP Billiton underperforming the broader market.

Lend Lease (up 7.0%) outperformed after the company announced it had secured a $580 million contract with NSW Roads and Maritime Services for the Pacific Highway upgrade project as well as being appointed the preferred tenderer for the $2.65 billion NorthConnex Motorway in Sydney. We remain attracted to Lend Lease's differentiated integrated development model which spans development, construction, equity investment and funding solutions where they have leading positions in a range of sectors with an excellent track record. We continue to see valuation upside with the market yet to fully value the improving ROIC and robust medium term growth outlook.

Wesfarmers (not held, down 4.1%) also contributed positively to the Trust's performance. Investor concern around the outlook for metallurgical coal weighed on the share price. Additionally, the ACCC announced during the month that it was not opposed to the company's proposed sale of its insurance underwriting business to Insurance Australia Group, with the NZCC expected to provide a decision at the end of April.

The Trust's biggest detractor to performance was WorleyParsons (down 7.9%). Concerns around reduced capex plans by the world's oil majors have weighed on the share price, with Exxon the latest to announce a reduction to its investment spending during the month. WorleyParsons released a solid first half result in February which delivered a very strong cash flow outcome as well as providing increased disclosure around the issues previously faced by the company in its Canadian fabrication business in a contract which is now complete. The company continues to enjoy considerable momentum in winning new contracts, particularly within its Canadian oil sands business and we believe it offers significant valuation upside.

Karoon (down 17.9%) also detracted from performance as a lack of news flow due to delays in achieving farm outs for their key assets in Brazil and Australia resulted in the stock underperforming the market. The delays in achieving a farm out reflects the current market conditions for energy exploration where shareholder demands to return cash flows have resulted in a distinct lack of activity in this space. We remain confident that the Karoon management team can secure the necessary farm downs which in turn will under line our assessment of the quality of these assets. We believe that Karoon is significantly undervalued and see over 200% valuation upside.

Macquarie Atlas Road Group (down 4.4%) also underperformed. There was little in the way of company specific news flow, but with most of the company's earnings coming from Europe we would attribute the underperformance predominantly to the strength of the Australian dollar which appreciated by 3.9% against the Euro during the month.

Market overview

There was moderate dispersion across sectors in the Australian equities market, with financials (up 2.4%), industrials (up 0.9%) and telecommunications (up 0.8%) offering the best returns. Materials (down 3.2%), consumer staples (down 2.1%) and utilities (down 2.1%) posted the lowest returns.

Growing concern around Russia's intervention in Ukraine weighed on markets early in the month, while increasing evidence of a softer economic backdrop in China also impacted sentiment. Most regional equity markets finished in negative territory, with the US S&P500 (up 0.7%) the exception. The UK's FTSE 100 (down 3.1%), Hong Kong's Hang Seng (down 3.0%), China's Shanghai Composite (down 1.1%) and Japan's Nikkei (down 0.1%) all finished the month weaker.

The US Federal Open Market Committee (FOMC) elected to further reduce its monthly asset purchases by $10 billion to $55 billion per month and increased its forecasts for the Federal Reserve target rate by 25 basis points for both 2015 (to 1.0%) and 2016 (to 2.0%). US data released during the month was mixed, with fourth quarter GDP coming in at an annualised rate of 2.6% and nonfarm payrolls for February coming in at a slightly higher than forecast 175,000, although unemployment increased marginally to 6.7% as a result of population growth exceeding job creation. The extreme weather experienced in recent months appears to have done little to dull consumer sentiment, with confidence hitting a six year high. The Institute for Supply Management Purchasing Manager's Index (PMI) for February rebounded to 53.3, while retail sales for February increased 0.3% month on month. Within the housing market building permits for February rose strongly month on month, with housing starts also increasing.

Much attention was focused on China as its leadership continues to try to steer the country through a number of reforms while maintaining economic growth. During the month, the country witnessed its first onshore bond default (Shanghai Chaori Solar), there were reports of a run on a rural bank (Jiangsu Sheyang Rural Commercial Bank), while a Chinese property developer (Zhejiang Xingrun Real Estate Co.) was alleged to have collapsed, highlighting the problem of property oversupply in a number of lower tier Chinese cities. The HSBC China Manufacturing PMI measure for March fell short of expectations, coming in at 48.1, indicating economic contraction. Fixed assets investment for February YTD year on year fell to 17.9%, the lowest level since 2002. The People's Bank of China increased the daily range at which the Chinese Renminbi can trade to versus the USD to +/-2%.

Within Europe, the manufacturing and services PMIs for March were broadly inline with market expectations, coming in at 53.0 and 52.4, respectively although both remain in expansionary territory. Retail sales for January increased 1.3% month on month. The European Central Bank elected to keep interest rates at 0.25%, although very little inflationary pressure exists, with annual CPI to February coming in at 0.7%. Tensions in Ukraine remain high following Crimea voting to join Russia in a referendum deemed illegal by Ukraine and the West, with Moscow moving to annex Crimea and Ukraine refusing to accept the move.

Domestically, economic data surprised on the upside with fourth quarter GDP coming in at 2.8% p.a, and the total number employed to the end of February increasing by 47,300 (although the unemployment rate remained static at 6.0% due to an increase in the participation rate). Retail sales for January rose 1.2% month on month. The Reserve Bank of Australia elected to keep rates steady at 2.5%. The market expects no further rate cuts and has brought forward expectations for the timing of tightening.

Against a backdrop of better economic data, the Australian dollar strengthened strongly against most currencies, appreciating against the US dollar by 3.9% over the month to finish at $0.9271. With concerns around the economic outlook for China growing, commodity markets were generally weak with copper (down 5.2%), WTI crude (down 1.2%), iron ore (down 1.1%) and Brent crude (down 1.0%) all falling. Nickel (up 8.0%) rose strongly with investors concerned about possible disruption to Russian supply and an ongoing Indonesian export ban, while aluminium (up 1.8%) also rose following a UK court ruling which forced the London Metal Exchange to put on hold a new rule to tackle long warehouse queues for the metal. The gold spot price weakened (down 3.2%) to finish at $1,284 an ounce.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
ANZ Banking Grp Ltd	8.4	6.7
Commonwealth Bank.	7.4	9.2
Westpac Banking Corp	7.1	7.9
National Aust. Bank	7.0	6.1
CSL Limited	4.7	2.5
Westfield Group	3.2	1.5
Lend Lease Group	3.2	0.5
QBE Insurance Group	3.0	1.2
AMP Limited	2.8	1.1
ResMed Inc.	2.8	0.3

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	10.0	5.8
Materials	10.4	17.4
Industrials	11.3	6.8
Consumer Discretionary	0.7	4.8
Consumer Staples	0.0	7.9
Healthcare	10.3	4.7
Financials-x-Real Estate	42.1	38.2
Real Estate	8.7	6.7
Information Technology	0.0	0.8
Telecommunication Services	2.4	5.1
Utilities	2.0	1.6
SPI Futures	0.0	-
Cash	2.1	-

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