Perennial Socially Responsive Shares Trust

Monthly Report
30 April 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	1.3	6.7	21.1	14.1	16.6	8.9	12.2
S&P/ASX 300 Accumulation Index	1.7	6.9	18.2	10.1	16.2	8.8	12.3
Value Added (Detracted)	**-0.4**	**-0.2**	**2.9**	**4.0**	**0.4**	**0.1**	**-0.1**
Net Performance	1.2	6.4	20.2	13.1	15.6	8.0	11.2

* 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 30 April 2014):
AUD48.3 million

Income distribution frequency:
Half yearly

Team FUM (as at 30 April 2014):
AUD2.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **Top contributors during the month included Resmed (up 14.1%), WorleyParsons (up 11.0%) and Lend Lease (up 9.3%).**
- **The effects of harsh winter weather in the US was the major factor behind a significant slowing of economic growth in the first quarter.**
- **European data continued to show improvement.**

Trust performance overview

The Perennial Growth Socially Responsive Shares Trust (the Trust) finished up 1.3% in April, underperforming the S&P/ASX300 Accumulation Index (the Index) by 0.4% with the Index finishing up 1.7% for the month.

There was moderate dispersion across sectors, with Property (up 5.8%), Energy (up 3.4%) and Utilities (up 3.4%) offering the best returns. Healthcare (down 1.4%), IT (down 0.2%) and Industrials (up 0.3%) posted the lowest returns.

The top contributor during the month was Resmed (up 14.1%) as the stock rallied strongly following the release of its Q3 result, the highlights of which were accelerating revenue growth and solid EPS growth of 9%. As foreshadowed at the previous release in January, Resmed has reviewed pricing across its US product offering which resulted in market share and revenue recovery, albeit at the expense of margin. Importantly the growth outlook for FY15 and beyond is improving as there will be multiple product launches across masks, flow generators and respiratory products. We continue to believe that Resmed's high ROIC and growth profile and leading technology position are undervalued at the current share price.

WorleyParsons (up 11.0%) also contributed positively to the portfolio's performance with the stock reacting positively to the dual announcement during the month of a business reorganisation and reiteration of guidance. The business is to be reorganised into three lines (Services, Major Projects and Improve) to provide better customer focus and a more competitive cost structure. Delivery of full year guidance remains critical given a poor history of recent downgrades, and the implied improved second half profit performance (i.e. $100m first half and $160-$180m second half). We see substantial valuation upside in WorleyParsons as earnings recover from non-recurring items (problem Canadian fabrication contract and restructuring costs) and a strong 12 month period of contract wins.

Lend Lease (up 9.3%) performed strongly during the month as the dual themes of Australian infrastructure investment and residential property upswing gained strength in April. Lend Lease has substantial exposure to both cycles. In addition the company held an investor day at Barangaroo in Sydney, where the development is progressing well post the fire in March. We were impressed by the scale and design of the project and also the positive news later in the month that construction of the third office tower will commence following leasing deals with KPMG and HSBC. The investor day also highlighted Capella Capital, Lend Lease's in-house finance division that arranges complex construction and financing bids on PPP projects and has been instrumental in the company's success in this field.

The Trust's biggest detractor to performance was Qrxpharma (down 87.8%). While the Trust's holding in drug development company Qrxpharma is relatively small, the sharp fall in its share price during April was costly. The company announced that its promising pain treatment drug, Moxduo, had been knocked back by the US Food and Drug Administration (FDA). While the company still wished to pursue licencing in the US, trials are both costly and time consuming. This is a very disappointing outcome considering our recent purchase of the stock in a capital raising. Management were particularly confident of a positive ruling by the FDA advisory committee and had considerable data backing up that confidence. We continue to hold shares until we have further discussions with management about the company's longer term outlook.

Mayne Pharma (down 10.1%) also detracted from performance. After a terrific March quarter where the stock added close to 20%, Mayne Pharma retraced some of those gains in April. While there was no company specific news during the period, the biotech sector was generally weaker both domestically and offshore. With its strong pipeline of new drug releases and product development, we remain very confident about the company's growth prospects over the next few years. Mayne Pharma has a strong management team, excellent production facilities and an improving distribution network in the US. Most importantly, the company still has plenty of valuation upside.

Also detracting from performance was QBE Insurance (down 9.7%) with the only relevant announcement from the company being the reaffirmation of its strategic review of the US middle market business. The new leadership in the US is proving to be unsettling for those concerned about the very short term; however, we are confident that the business and the reviews being undertaken are pursuing a more sustainable footing for the medium to longer term business. The other area of market concern to highlight is the current initial public offering of Genworth's Lender Mortgage Insurance (LMI) business in Australia. The only other material player in the Australian market is QBE and this transaction helps us understand the look through valuation we would ascribe to this business. It is also highlighting some of the current challenges inherent in the industry, including regulatory risks and the concentrated nature of the client base.

Market overview

Concerns of a slowdown in China, along with escalating political and military tension between Russia and the Ukraine were offset by continued signs of economic improvement in Europe and weather related disruption in the US easing. Regional equity market performance was mixed with the UK's FTSE100 (up 2.8%) and the US S&P500 (up 0.6%) rising, whilst Japan's Nikkei (down 3.5%), China's Shanghai Composite (down 0.3%) and Hong Kong's Hang Seng (down 0.1%) all finished the month weaker.

The US Federal Open Market Committee (FOMC) continues to reduce quantitative easing, with its monthly asset purchases proposed for April falling by $10b to $45b per month. The effects of harsh winter weather in the US was the major factor behind a significant slowing of economic growth in the first quarter of 2014, with annualised quarterly GDP coming in at only 0.1%. The unemployment rate remained at 6.7%, with an increase in nonfarm payrolls for March of 192,000 (with February also revised up from 175,000 to 197,000) offset by an increase in the participation rate. There appears some evidence of a rebound from the impact of poor weather with the Institute for Supply Management Purchasing Manager's Index (PMI) for March climbing to 53.7, retail sales for March increasing 1.1% month on month and measures of consumer confidence sitting near multi year highs.

Chinese data continued to point to slowing economic conditions in the country with Q1 2014 GDP falling to 7.4%, and Chinese M2 Money Supply growth for March falling well short of expectations at 12.1% year on year, its lowest level since the series was first published in 1996. Both imports and exports for March fell sharply year on year, although this can be partly attributed to overinflated figures for 2013. The HSBC China Manufacturing PMI measure for April came in at 48.3, whilst March industrial production came in at 8.8%, which also fell short of expectations.

European data continued to show improvement with the unemployment rate for the region falling slightly to 11.9%. Both manufacturing and services PMI's for April increased from the previous month, coming in at 53.3 and 53.1 respectively. Retail sales for February increased 0.4% month on month. The European Central Bank elected to keep interest rates at 0.25%, although inflation remains benign with annual CPI to March coming in at 0.5%. Tensions between Russia and the Ukraine escalated with conflict in a number of Eastern Ukrainian towns between pro-Russian separatists and the Ukrainian military.

Domestically, the unemployment rate fell to 5.8% due to an increase in the total number employed of 18,100, along with a fall in the participation rate. Retail sales for February rose 0.2% MoM. The RBA elected to keep interest rates at 2.5% and their commentary points to a period of stability in rates. Ahead of the budget in mid-May there was significant speculation surrounding a potential 'deficit levy' being applied in the form of higher income taxes.

The Australian Dollar remained fairly resilient against most currencies, appreciating marginally against the US Dollar by 0.1% over the month to finish at $0.9277. Commodity performance was mixed with ongoing concerns around the economic outlook for China resulting in the Iron Ore spot price falling sharply (down 9.8%). Copper was flat, whilst WTI Crude fell (down 1.8%), Brent Crude rose (up 0.3%) and Nickel (up 15.3%) rose sharply for the third consecutive month as supply concerns persisted. The Gold spot price rose slightly (up 0.6%) to finish at $1,292 an ounce.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
ANZ Banking Grp Ltd	8.7	6.8
Commonwealth Bank.	7.5	9.2
Westpac Banking Corp	7.2	7.9
National Aust. Bank	6.9	6.0
CSL Limited	4.6	2.4
Lend Lease Group	3.4	0.5
ResMed Inc.	3.2	0.3
WorleyParsons Ltd	2.9	0.3
AMP Limited	2.8	1.1
QBE Insurance Group	2.8	1.0

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	10.4	5.9
Materials	9.8	17.3
Industrials	11.6	6.7
Consumer Discretionary	1.8	4.8
Consumer Staples	0.0	8.0
Healthcare	9.8	4.6
Financials-x-Real Estate	42.2	38.0
Real Estate	7.9	7.0
Information Technology	0.0	0.8
Telecommunication Services	2.6	5.1
Utilities	1.8	1.7
Cash	2.0	-

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:

PRI Principles for Responsible Investment