PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Monthly Report
30 June 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-1.5	0.8	16.5	16.5	15.0	13.5	7.6
S&P/ASX 300 Accumulation Index	-1.5	0.8	17.2	17.2	10.0	11.0	5.9
Value Added (Detracted)	**0.0**	**0.0**	**-0.7**	**-0.7**	**5.0**	**2.5**	**1.7**
Capital Growth	-1.7	0.5	11.5	11.5	8.9	7.8	1.4
Income Distribution	0.2	0.1	4.1	4.1	5.2	4.8	5.3
Net Performance^^	-1.5	0.6	15.6	15.6	14.1	12.6	6.7

*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 30 June 2014):
AUD71.9 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 June 2014):
AUD8.2 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **For the financial year to date, the Trust has delivered a total return of 16.5%.**
- **The best performing stock in the portfolio for the month was Westfield Corporation (up 6.5% adjusted for the demerger).**
- **Lend Lease announced the sale of its stake in the Bluewater shopping centre in the UK for $1.2bn, a very attractive price.**

Trust Characteristics

In line with the objective, 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

During the month, we sold out of our holding in ASX. Recent market volumes have been poor, particularly SFE derivatives volumes. This represents a much larger component of revenue than cash equities and has been the company's growth engine in recent years. Proceeds were used to increase our holdings in Woodside, where we participated in the Shell sell-down, discussed below. We continue to be attracted to Woodside's strong gross dividend yield, which we currently forecast to be 9.9% in FY15 and are impressed with management's capital discipline and returns focus. We also increased our holding in Stockland for its exposure to residential development which we expect to remain robust in the medium term.

At month end, stock numbers were 25 and cash was 2.8%.

Stock and Portfolio Performance

In June, the Perennial Value Shares for Income Trust (the Trust) finished down 1.5%, in-line with the S&P/ASX300 Accumulation Index return. For the financial year, the Trust has delivered a total return of 16.5%.

Global markets were strong in June, with the Nikkei 225 (up 3.6%), the S&P500 (up 1.9%) and the Shanghai Composite (up 0.5%) rising during the month, while the FTSE fell (down 1.5%). The US Federal Reserve remained upbeat on the outlook, noting that economic activity has rebounded in recent months and indicated that short term interest rates may rise in 2015/16. In Europe, the ECB cut interest rates by 10 basis points and announced a series of credit easing measures in response to low levels of inflation. China continued to show slight improvements, with the HSBC manufacturing PMI in May expanding to 50.8 and Industrial Production increased 8.8% year on year.

Domestically the data was mixed, with a number of retailers announcing earnings downgrades during the month on the back of unseasonably warm winter and a decline in consumer confidence post the Federal Budget. GDP expanded 1.1% quarter on quarter in 1Q 2014 with the annual rate of economic growth accelerating to 3.5% year on year. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5%, retaining its neutral bias. The AUD/USD rose by 1.2c to end the month at 94.3c.

The better performing sectors during June were REITs (up 3.3%), boosted by the Westfield restructuring and utilities (up 1.1%), assisted by lower bond yields. Financials (down 1.1%) and energy (down 1.2%) also outperformed. Consumer staples (down 4.5%) was the worst performing sector, followed by healthcare (down 3.2%) and telecommunications (down 2.7%).

The best performing stock in the portfolio for the month was Westfield Corporation (up 6.5% adjusted for the demerger), which commenced trading post the restructure of Westfield Group (WDC) and Westfield Retail (WRT). Under the transaction, the Australian and New Zealand business formed a new entity known as Scentre Group and the international business became Westfield Corporation. Westfield Corporation holds a number of high quality assets and offers earnings exposure to the US and UK. Other stocks which outperformed included Stockland (up 2.6%), Suncorp (up 1.4%), Aristocrat Leisure (up 0.6%) and AMP (up 0.2%).

During the month, several of our holdings undertook positive transactions. Woodside Petroleum (down 2.6%) announced a combined on-market sell down and selective buy back of the majority of Shell's stake in the company. The transaction is expected to be around 6% EPS accretive while preserving the company's ability to maintain its very attractive gross dividend yield into the medium term. Lend Lease (down 2.2%) announced the sale of its stake in the Bluewater shopping centre in the UK for $1.2bn. This asset was sold at a very attractive price, taking advantage of the strong demand for top tier retail property in the UK and generating an after-tax profit of $480 million. The proceeds will be used to fund the company's very strong development pipeline.

The worst performing stock in the portfolio was Iluka Resources (down 6.6%) which declined after announcing that it has been in preliminary discussions to acquire a smaller rival, Kenmare Resources, a London listed company which operates mineral sands mines in Mozambique. Other stocks which detracted from performance included QBE (down 4.5%), Brambles (down 4.5%), Wesfarmers (down 3.5%) and Harvey Norman (down 3.1%).

Market Outlook

The 2014 financial year has seen the S&P/ASX300 Accumulation Index up a healthy 17.3%. 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 %
ANZ Banking Group Ltd	9.6	6.7
Westpac Banking Corp	9.5	7.8
Telstra Corporation.	9.3	4.8
National Aust. Bank	7.8	5.7
BHP Billiton Limited	7.7	8.5
Woodside Petroleum	7.2	2.1
Commonwealth Bank.	5.8	9.7
Stockland	4.9	0.7
Suncorp Group Ltd	4.4	1.3
Amalgamated Holdings	3.4	0.0

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.8	6.3
Materials	12.5	16.9
Industrials	2.0	6.9
Consumer Discretionary	7.8	4.2
Consumer Staples	2.0	7.9
Health Care	0.0	4.6
Financials-x-Real Estate	45.7	38.2
Real Estate	9.1	7.1
Information Technology	0.0	0.8
Telecommunication Services	9.3	5.2
Utilities	0.0	1.8
Other	2.8	-

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

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