PERENNIAL GROWTH MANAGEMENT

# Perennial Socially Responsive Shares Trust

Monthly Report
30 November 2014

| | Month | Quarter | FYTD | 1 year | 2 years | 3 years | 5 years |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Socially Responsive Shares Trust* | -3.3 | -6.0 | -1.6 | 3.5 | 14.1 | 14.1 | 6.6 |
| S&P/ASX 300 Accumulation Index | -3.2 | -4.5 | 0.3 | 4.0 | 13.0 | 13.4 | 6.8 |
| **Value Added (Detracted)** | **-0.1** | **-1.5** | **-1.9** | **-0.5** | **1.1** | **0.7** | **-0.2** |
| Net Performance | -3.4 | -6.2 | -2.0 | 2.4 | 13.1 | 13.0 | 5.6 |

* 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 November 2014):
AUD48.1 million

Income distribution frequency:
Half yearly

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

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The Australian market was one of the weaker global markets in November.**
- **The only two sectors yielding positive returns for the month were healthcare (up 1.4%) and telecommunications (up 1.4%).**
- **Domestically the Reserve Bank of Australia (RBA) kept the cash rate on hold for a 14th consecutive meeting.**

## Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) underperformed the S&P/ASX300 Accumulation Index (the Index) by 0.1% in November, finishing down 3.3% against the Index which fell 3.2% for the month.

The Australian market was one of the weaker global markets in November as falling oil and iron ore prices dragged the materials sector (down 5.5%) and energy sector (down 13.2%) lower.  Technology (down 4.6%), banks (down 2.1%) and consumer discretionary (down 2.0%) also made key negative contributions.  The only two sectors yielding positive returns for the month were healthcare (up 1.4%) and telecommunications (up 1.4%).

Woolworths (not held, down 13.6%) underperformed the market in November thereby contributing positively to the performance. Woolworths declined following the release of a disappointing Q1 sales number in which the key Australian food and liquor business reported comparable store sales of 2.1% which was well below expectations. This weak growth would indicate that Woolworths is losing market share as competition escalates between the growing pool of competitors, namely Aldi, IGA, Coles and Costco.  Other Woolworths businesses also performed poorly with general merchandise (Big W), petrol, New Zealand supermarkets and hotels reporting negative comparable sales in the same period. We remain concerned about the ongoing poor execution in Home Improvement and its prospects of profitability over the medium term. Based on our research estimates we see the company as fully valued and remain comfortable not holding Woolworths in the Trust.

Henderson Group (up 8.5%) was stronger as the market became increasingly comfortable with the profile of costs in the business and concerns with respect to regulatory changes abated.  The Interim Management Statement, detailing asset flows to date, showed continued strong flows which were also of benefit. The UK regulator has expressed concerns over the way broker research is paid for, suggesting a complete unbundling of this service in favour of an explicit cost for the wealth manager. It now appears that support for this proposal is limited to the UK with little support from the European regulators. More modest changes are likely however we expected these to be more manageable for Henderson.

Woodside (not held, down 10.9%) underperformed the market thereby contributing positively to the performance of the Trust.  Woodside had held up well in recent months due to investor focus on its dividend and balance sheet strength; however the continued slide in the price of oil finally cracked the markets confidence.  We believe that the limited long term growth prospects in Woodside’s asset suite will likely keep the pressure on the company and its management team.

Sundance (down 39.9%) finally succumbed to the downturn in energy after significantly outperforming many other oil stocks over the last two months. Sundance's current drilling program levels will need to be reduced to align the company's operating cash flows with its capital expenditure and thereby preserve the company's strong balance sheet. While this impacts production growth we believe that it is the most sensible course of action for the company to take at this point in the cycle. The decision in itself gives us confidence that CEO Eric McCrady can navigate the turbulent waters ahead and ensure the company emerges from this period of volatility in good shape.

Santos (down 21.7%) fell in line with the continuation of the slide in the price of oil. At their Investor Day held during the month, Santos provided FY15 guidance for production and capital expenditure which was disappointing relative to market expectations. They also provided key positive news namely their operating cost expectations were lower given the ramp up of Papua New Guinea LNG and the increased oil volumes expected from the Cooper Basin. A further positive takeaway was confirmation that the Gladstone LNG project will deliver first LNG in 2H15 and remains on budget. We forecast that this project should be a significant generator of the cash flow growth projected over the next two years.

Vocation (down 45.4%) continued to fall following the October announcement of a settlement with the Department of Education and Early Childhood Development (DEECD) and the completion of the Victorian review. This month, the Chairman stood down and was replaced by a current non-executive director, Doug Halley. The outgoing Chairman will be retained as a consultant and the board plans to add two new non-executive directors. We believe that the company continues to work its way through the issues at hand and there is a material gap between our assessed fundamental view on the stock and the share price.

## Market overview

The volatility that has characterised the behaviour of the Australian market in recent months continued in November as the market turned down 3.2% on an accumulated basis. On a global scale, Australia was one of the worst performing of the major markets, increasingly so when accounting for the 3.3% decline in the Australian Dollar (AUD) against the US Dollar (USD). By contrast, major global markets generally yielded positive results; both the Dow Jones and S&P 500 Index rose 2.5% as lower energy prices supported higher growth expectations, the Nikkei 225 increased 6.4% after fiscal and monetary stimulus intervention, the Euro Stoxx surged 4.6% and the FTSE 100 rose 2.7%. The Hang Seng was flat for the month.

US economic data was once again generally positive led by GDP which was revised upward for the third quarter from 3.5% to an annual rate of 3.9%. The ISM manufacturing PMI for October came in strongly at 59 well ahead of the 56.1 expected, while the ISM non-manufacturing PMI arrived at 57.1, just below the 58 expected. Non-farm payrolls registered an increase of 214,000 just below the 235,000 expected and subsequently the unemployment rate declined 0.1% to an October reading of 5.8%. Housing starts fell 2.8% for the month of October, missing the 0.8% growth expected, and volatility in the series remains high. Existing home sales rose 2.4%, well ahead of the estimated 1% growth predicted. CPI for October was unchanged.

The People's Bank of China (PBOC) surprised the market announcing a cut to benchmark interest rates effective from 22 November. The one year benchmark deposit rate is now at 2.75% and the one year benchmark lending rate 5.6%. Industrial production was strong rising 7.7% year on year while CPI was in line with expectations at 1.6%. The recently released HSBC Manufacturing PMI was weaker at 50, just below the 50.2 expected, while non-manufacturing came in at 53.8, still slightly down on the October reading. M2 money supply growth ticked up to 12.6% year on year just below the 12.9% expected. New loan creation came in at 662.7b Yuan for October missing the expectation by more than 200b Yuan. The Chinese housing market remained under pressure with the greater majority of housing experiencing declines in most cities.

Domestically the Reserve Bank of Australia (RBA) kept the cash rate on hold for a 14th consecutive meeting. The RBA minutes were consistent with previous months and reinforced their outlook of a period of interest rate stability. NAB business confidence decreased 1 point to 4 points, a 14 month low, while the NAB business conditions made an extraordinary gain of 12 points, the largest gain in the series on record. The Westpac MI consumer confidence index gained 1.9%. The economy added 24,000 jobs in September well ahead of the 20,000 increase forecast, while the participation rate ticked up to 64.6%. The jobless rate remained at 6.2%. Retail sales increase 1.2% in September, while building approvals slumped 11% in September against an expectation of a 1% decline.

The AUD fell 3.3% against the USD over the month. The trend of a stronger USD has continued in recent months as the currency markets continue to transition to a more normal US monetary policy.

A meeting of the Organization of the Petroleum Exporting Countries (OPEC) on 28 November triggered a sharp fall in oil prices as members retained the existing 30m barrels a day target. Spot Brent crude oil plunged, finishing the month down 18.6%. The iron ore sell-off recommenced, falling 10.4% due to strong supply and diminished demand. Base metals were broadly weaker over the month while spot gold continued its downward spiral falling 0.5%.

| Top 10 Holdings | | |
|---|---|---|
| **Stock name** | Trust weight % | Index weight % |
| National Aust. Bank | 8.1 | 5.7 |
| Commonwealth Bank | 8.0 | 9.7 |
| ANZ Banking Grp Ltd | 7.4 | 6.5 |
| Westpac Banking Corp | 6.8 | 7.5 |
| CSL Limited | 5.5 | 2.9 |
| QBE Insurance Group | 3.8 | 1.1 |
| Westfield Corp | 3.2 | 1.2 |
| Lend Lease Group | 2.6 | 0.6 |
| Goodman Group | 2.6 | 0.6 |
| James Hardie Indust | 2.5 | 0.4 |

| Asset Allocation | | |
|---|---|---|
| **Sector** | Trust weight % | Index weight % |
| Energy | 6.1 | 5.3 |
| Materials | 10.1 | 15.4 |
| Industrials | 12.5 | 7.2 |
| Consumer Discretionary | 2.3 | 4.3 |
| Consumer Staples | 1.8 | 7.6 |
| Healthcare | 9.7 | 5.7 |
| Financials-x-Real Estate | 40.1 | 38.4 |
| Real Estate | 8.3 | 7.7 |
| Information Technology | 0.5 | 1.0 |
| Telecommunication Services | 2.2 | 5.8 |
| Utilities | 2.8 | 1.8 |
| Cash | 3.7 | - |

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