Perennial Value Shares for Income Trust

Monthly Report
30 September 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-4.2	-8.3	-8.3	0.2	11.8	8.8	6.7
S&P/ASX 300 Accumulation Index	-2.9	-6.5	-6.5	-0.7	9.1	6.3	5.0
Value Added (Detracted)	**-1.3**	**-1.8**	**-1.8**	**0.9**	**2.7**	**2.5**	**1.7**
Capital Growth	-6.3	-10.4	-10.4	-6.1	5.9	2.8	0.5
Income Distribution	2.0	1.9	1.9	5.4	4.9	5.1	5.4
Net Performance^^	-4.3	-8.5	-8.5	-0.7	10.8	7.9	5.9

*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 September 2015):
AUD 66 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 September 2015):
AUD 7.3 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **September proved to be a difficult month for both investors generally and the Trust, with the S&P/ASX 300 Accumulation Index (the Index) finishing the month down 2.9%.**
- **The sell-off, in our view, has been very much led by global macro funds taking a very bearish view on the outlook for China and therefore Australia**
- **Strong Trust performers included Amalgamated Holdings (up 3.8%) with its leverage to improving domestic tourism on the back of a lower AUD**

Trust Characteristics

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

Portfolio Activity

During the month, we sold out of our holding in Origin Energy at an average price of $7.09, due to concerns over the sustainability of the dividend given the current low oil prices. This was a good decision as, on the last day of the month, the company announced a highly-dilutive $2.5 billion capital raising at $4.00 per share and a 60% cut to the dividend. We also exited the remainder of our holding in Asciano. This has been a very good investment, outperforming the market by around 40% since we purchased the stock in April 2015. Proceeds were used to increase our holdings in Flight Centre and BHP. At month end, stock numbers were 26 and cash was 4.1%.

Stock and Portfolio Performance

September proved to be a difficult month for both investors generally and the Trust, with the S&P/ASX 300 Accumulation Index (the Index) finishing the month down 2.9%. The Trust underperformed the index by 1.3%. The sell-off, in our view, has been very much led by global macro funds taking a very bearish view on the outlook for China and therefore Australia. The Trust's underperformance was primarily due to the sell-off in housing and resource stocks. This is discussed in more detail below. The resultant downward move in share prices has also been magnified by unusually low stock turnover levels during the month. Investors should note that while the market has fallen 13.9% from its peak in April, it has delivered a largely flat return of down 0.7% for the last 12 months.

Globally, the month was dominated by extreme gloominess about the prospects for growth in China. Key data disappointed, including the latest monthly production and investment prints, alongside the manufacturing PMI and many investors seem to be losing faith that China can maintain growth of close to the 7.0% target. This is despite even more stimulus being announced and further exchange rate depreciation. The weakness in China is reverberating through the region, with Taiwan, Singapore and now Japan in technical recession. Outside Asia, however, the news was better, with European growth seemingly tracking close to 2.0%, although inflation across the region has dropped back close to zero. Similarly, the US economy is doing well, although employment growth was unexpectedly weak early in the month. The Federal Reserve (the Fed), however, baulked at raising interest rates, citing offshore "wobbles" as a key reason for caution. Equity markets had a very tough month, with most indexes losing further ground, as many investors reassessed the prospects of a world without the same momentum in China's growth engine.

In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years. There has been no significant policy change yet, but consumer and business confidence likely will lift on hopes of a fresh start, particularly around economic reform. The domestic data was a mixed bag. Retail sales growth was weak and consumer and business confidence fell, but the August employment report was much better than expected and the jobless rate fell slightly to 6.2%. The Q2 Gross Domestic Product (GDP) report was also underwhelming, showing that growth was barely positive, albeit after a decent Q1. The Australian Dollar (AUD) weakened further over the month, in line with Reserve Bank of Australia (RBA) expectations, dropping below 70 US cents, and the RBA left the cash rate steady, as was widely expected.

In this risk-off environment with concerns over Chinese growth, the industrials segment of the market (down 2.0%) significantly outperformed the resources sector (down 8.1%), with metals & mining (down 6.4%) and energy (down 12.0%). Within the industrials, the domestic cyclicals tended to underperform as investors worried about the broader impacts of the slowing resources sector and a potential peaking in the housing market. This also impacted the major banks, which fell an average of 3.6%.

Strong Trust performers included Amalgamated Holdings (up 3.8%) with its leverage to improving domestic tourism on the back of a lower AUD, Scentre Group (up 2.4%), Aristocrat Leisure (up 2.0%) whose new product portfolio continues to gain market share and Macquarie Group (up 1.0%) which has now delivered a total return of 38.8% over the last 12 months.

In terms of stocks which detracted from performance, the sell-off in housing-related companies held in the Trust has been significant and, we believe, often indiscriminate, including Boral (down 23% off August highs), Harvey Norman and Lend Lease (each down 20%) and Stockland (down 11%). Perennial Value does not subscribe to this sudden and negative change in sentiment, which appears to be driven by an overheated apartment building sector. Each of the building-related companies has diversified earnings streams. Boral's domestic housing exposure represents 21% of total profits, Lend Lease around 10% and Stockland 30% to 35%. Stocks held also generally have a far greater reliance on detached housing and renovations, where the cyclical upturn to date has been more muted. These companies have their largest presence in the eastern seaboard, especially New South Wales where the detached housing cycle most likely has at least two years to run. Queensland is only starting to improve while Victoria is likely to slow from a high level. Further, this group of companies offers significant value at current levels. Harvey Norman, for example, is currently trading on a prospective FY16 gross yield of 8.0%, Lend Lease on a FY16 P/E of 11.2x and Stockland on a FY16 price to NTA of 1.0x. Thus, we continue to retain these stocks in the Trust.

With regards to our materials and resources exposure, the Trust has held a range of companies providing select, diversified industry exposure. Notwithstanding, this sector took the brunt of the global macro sell-off, with Iluka Resources (down 16.4%), Woodside Petroleum (down 10.3%), South32 (down 10.2%), BHP (down 8.3%) and Rio Tinto (down 3.4%).

Market Outlook

While there has been a heightened level of volatility in markets recently, the economic fundamentals of major economies overall seem to be improving slowly and this should drive economic and earnings growth. Further, the current very low interest rates highlight the relative attractiveness of equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.9%	9.3%
Telstra Corporation	8.1%	5.2%
Westpac Banking Corp	8.0%	7.1%
National Aust. Bank	8.0%	5.9%
BHP Billiton Limited	7.4%	5.4%
ANZ Banking Grp Ltd	6.9%	5.9%
AGL Energy Limited	4.9%	0.8%
AMP Limited	4.9%	1.2%
Woodside Petroleum	4.7%	1.6%
Macquarie Group Ltd	4.2%	1.9%

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.7%	4.0%
Materials	14.7%	13.9%
Industrials	0.8%	8.0%
Consumer Discretionary	8.9%	4.7%
Consumer Staples	2.0%	7.1%
Health Care	0.0%	6.4%
Financials-x-Real Estate	46.7%	38.4%
Real Estate	5.2%	8.4%
Information Technology	0.0%	1.1%
Telecommunication Services	8.1%	5.7%
Utilities	5.0%	2.3%
Cash & Other	4.1%	-

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