

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

- ▶ The pre-tax distribution for the financial year was 6.1 cents per unit, representing a pre-tax distribution yield of 5.9%.
- ▶ During the quarter, we added to our positions in Woodside, Stockland, ANZ, Westpac, Macquarie Group and Aristocrat Leisure.
- ▶ The Trust has delivered a strong total return of 15% p.a. over the past 3 years, outperforming the Index return by 5.0% p.a.

Trust Characteristics

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

Quarterly Distribution

The Trust paid a distribution of 0.2 cents per unit for the June quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 0.5 cents per unit. This brings the pre-tax distribution for the financial year to 6.1 cents per unit. Based on the unit price at the start of the year (\$1.03), this represents a pre-tax distribution yield for the year to 5.9%. This compares very favourably to term deposit rates on offer at the beginning of the financial year of around 3.7%.

Portfolio Activity

During the quarter, we sold out of our holding in the 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. We also sold out of retail stocks, Myer Holdings and Premier Investments. We exited these stocks as the combination of weaker consumer sentiment following the Federal budget and our view that the unseasonably warm weather may negatively impact earnings. This is in addition to the impact of increased competition from international apparel chains and the internet. We continue to hold a retail exposure via Harvey Norman, as this stock should benefit directly from the ongoing strength in the housing market. We also reduced our holding in CBA, which offers the lowest dividend yield of the major banks.

Proceeds were used to increase our holdings in a number of stocks including Woodside, where we participated in the Shell sell down. We are 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. In addition, we added to our holdings in ANZ, Westpac, Macquarie Group and Aristocrat Leisure, all of which paid dividends during the quarter.

The Trust remains well diversified, with exposures to a range of industries, with holdings across 8 sectors.

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

Stock and Portfolio Performance

The Trust returned 0.8% for the quarter, in line with the S&P/ASX 300 Accumulation Index (the Index), and has delivered a total return of 16.5% for the past 12 months, marginally below the Index return of 17.3%. Notwithstanding the income focus, it is pleasing to note that the Trust has been able to deliver a strong total return of 15% p.a. over the past 3 years, outperforming the Index return by 5.0% p.a.

Global markets recorded strong gains, with the S&P500 (up 4.7%), Nikkei 225 (up 2.3%), FTSE (up 2.2%) and Shanghai Composite (up 0.7%) finishing higher at end of the quarter. The impact of severe weather conditions in North America saw the US 1Q14 GDP contract at an annual rate of 2.9% quarter on quarter. However, 2Q14 is expected to rebound as manufacturing PMI rose to 55.4, unemployment rate fell from 6.7% in March to 6.3% in May and nonfarm payrolls grew a 499,000 combined in April and May. 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 posted better than expected 1Q14 GDP of 7.4% year on year and the improvements continued as the HSBC manufacturing PMI expanded to 50.8 in June and Industrial Production increased to 8.8% year on year.

Domestically, the Federal Budget was handed down, revealing a path to surplus over the coming years broadly at the expense of households. As a result, consumer confidence fell sharply following the Budget announcement. The Reserve Bank of Australia left the cash rate of 2.5% on hold during the quarter. The AUD/USD ended the quarter at 94.3c, up 1.6c.

This quarter saw a strong rally in bond markets which had a significant macroeconomic impact on sector performance in the domestic market as seen by the outperformance of REITs (up 9.7%) and utilities (up 7.7%). This had a negative impact on the Trust's performance given our underweight position in these sectors on valuation grounds. Other sectors which outperformed included energy (up 6.0%) and financials (up 2.9%). Sectors which lagged included materials (down 2.3%) and healthcare (down 2.0%).

The best performing stock in the Trust over the quarter was Lend Lease (up 10.4%), which announced the sale of its stake in the Bluewater shopping centre in the UK for \$1.2 billion. 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. Other strong performers included Amalgamated Holdings (up 8.4%), Stockland (up 8.1%), Suncorp (up 7.0%), AMP (up 6.9%), Woodside Petroleum (up 6.3%) and Macquarie Group (up 6.2%). Stocks which detracted from performance included Iluka Resources (down 16.3%) and Orica (down 7.8%) on concerns around the outlook for commodity prices and QBE (down 14.1%) on the stronger Australian dollar and falling bond rates.

ESG Factors during the quarter

Perennial Value remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the Trust. In June, we were pleased to see that the BHP Billiton Sustainable Communities announced that they will play a part to help document the biodiversity of The Kimberley through its support of the Bush Blitz program – a species discovery partnership between the Australian Government, BHP and Earthwatch Australia. To date, BHP Sustainable Communities has invested more than US\$4 million in the partnership which has discovered at least 700 new species since its launch in 2010.

Market Outlook

There are currently positive economic signals in many markets. However, the level of macroeconomic uncertainty remains high and ongoing volatility is likely. Our expectation is for ongoing modest economic growth, both globally and domestically. Overall, we expect modest earnings growth for the market over the coming year and our current forecasts see market dividend growth of around 6% in FY15.

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
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Signatory of:



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