Perennial Value Shares Wholesale Trust

Monthly Report
30 November 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-3.0	-4.1	1.0	5.3	14.6	6.3	9.9
S&P/ASX 300 Accumulation Index	-3.2	-4.5	0.3	4.0	13.4	6.8	7.6
Value Added (Detracted)	**0.2**	**0.4**	**0.7**	**1.3**	**1.2**	**-0.5**	**2.3**
Capital Growth	-3.1	-4.3	0.7	0.9	9.1	1.6	1.4
Income Distribution	0.0	0.0	0.0	3.6	4.6	3.9	7.7
Net Performance	-3.1	-4.3	0.7	4.5	13.7	5.5	9.1

*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Perennial Value Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Trust manager:
John Murray

Risk profile:
High

Trust FUM (as at 30 November 2014):
AUD1.4 billion

Income distribution frequency:
Half yearly

Team FUM (as at 30 November 2014):
AUD7.4 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The Australian equities market gave back most of October's gains, predominantly driven by lower iron ore and oil prices.**
- **The best performing stocks in the portfolio were Amalgamated Holdings, Newcrest Mining and Resmed.**
- **The portfolio benefitted from being underweight the consumer staples sector.**

The Australian equities market gave back most of October's gains, predominantly driven by lower iron ore and oil prices. The benchmark S&P/ASX300 Accumulation Index was down 3.2% while the Perennial Value Shares Wholesale Trust was down 3.0%, providing outperformance of 0.2%.

In contrast, global equity markets responded positively to generally better data in the US and renewed stimulus efforts from the European Central Bank and The People's Bank of China. ECB Chief Mario Draghi strengthened his stimulus pledge for the Eurozone, stating that he "will do what [he] must to raise inflation and inflation expectations as fast as possible". The S&P500 was up 2.4%, the FTSE was up 2.6%, the Euro Stoxx 50 up 4.4% and the Nikkei finished up 6.4%. The Shanghai Composite was up 10.9% assisted by both stimulus and the opening of a new trading link between Hong Kong and the Shanghai Stock Exchange.

Domestically, economic data was mixed with the NAB business confidence index slipping to a 14 month low at the same time as the NAB business conditions index recorded the largest one month improvement ever. The consumer confidence index increased and retail sales were stronger than expected. The unemployment rate remained at 6.2%. The Brent crude oil price fell 18.6%, posting the biggest monthly drop since December 2008. The price fell sharply after OPEC announced late in the month that it would be maintaining current production levels. The benchmark iron ore price also fell 10.4% as demand from China remained weak. While both these developments will impact producers, the lower oil price should provide a boost to consumer finances globally if prices remain at these levels. The RBA left the cash rate unchanged at 2.5% and the AUD ended the month down 3 cents at US85.0c.

The better performing sectors during the month were the defensively related telecommunications (up 1.2%), healthcare (up 1.2%) and REITs (0.0%). Energy (down 13.1%) was the worst performing sector, followed by consumer staples (down 8.1%) and materials (down 5.6%).

The best performing stock in the portfolio for the month was Amalgamated Holdings (up 13.6%) which provided a positive update at the AGM with both the Thredbo operation and the hotel division having a good start to the year. Newcrest Mining (up 10.9%) benefitted from the relative stability of the gold price. Resmed (up 6.0%) reported encouraging first quarter sales following the recent launch of a next generation of sleep apnea products. Other strong performers included Henderson Group (up 8.5%) which will benefit from improved global equity markets, Ansell (up 4.8%), Orora (up 3.5%) and Aristocrat Leisure (up 2.8%).

In terms of company news, Harvey Norman (down 1.5%) finally embarked on a capital management initiative by announcing a 14c special dividend. This will be largely funded via a deeply (36%) discounted 1 for 22 renounceable entitlement issue which reduces their $659m franking balance by 10%. Whilst we would have preferred this special dividend to be 100% funded from cash/debt, the Board's preference is to retain a strong balance sheet. Harvey Norman also held their AGM and confirmed that the positive sales momentum has continued in this current financial year. The housing cycle remains a positive trend, particularly in NSW which is the company's largest exposure.

The portfolio benefitted from being underweight the consumer staples sector with Woolworths falling 13.6% in response to lacklustre first quarter sales and Wesfarmers down 5.5%.

The energy sector was generally weaker due to the declining oil price. While the portfolio benefitted from not holding Santos (down 21.7%), it was held back by Origin Energy (down 14.2%) and Woodside (down 10.9%). The latter remains our highest conviction holding of the two and we have a preference for Woodside over Santos given Woodside's stronger balance sheet and superior dividend yield.

Myer (down 16.5%) underperformed as it announced first quarter sales that were weaker than expected, albeit it noted that momentum had improved over the quarter as it heads into the all-important Christmas trading period. Orica (down 11.7%) was impacted by sentiment towards commodity-exposed stocks despite delivering an in-line result and announcing the sale of its Chemicals business.

In terms of portfolio activity, we reduced holdings in companies including Lend Lease, Orora, Resmed and Westfield Group, largely on valuation grounds due to recent outperformance.

Proceeds were reinvested into existing holdings, including the banks (NAB and Westpac), AGL Energy, Crown Resorts, Henderson Group and Telstra. We chose not to participate in the Medibank Private IPO, largely on the basis of overvaluation. Having undertaken a detailed evaluation of the business, we could not justify paying the final price of $2.15 per share with the company floating on a prospective FY '15 P/E of 23.3x and a paltry gross yield of 3.2%. As a value investor, we felt it far more sensible to increase the portfolio's holdings in the likes of Henderson, with a prospective FY'15 P/E of 13.0x and gross yield of 4.6% and NAB with a FY'15 P/E of 11.7x and a gross yield of 9.1%. Indeed, our most prominent buying was in NAB, both on the basis of strong valuation grounds and the long-awaited sharper focus and accountability which we believe the recently appointed CEO, Andrew Thorburn, is bringing to the group.

At month end, stock numbers were 45 and cash was 1.9%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	8.8	7.4
Westpac Banking Corp	8.4	7.5
National Aust. Bank	7.7	5.7
Telstra Corporation.	6.6	5.3
ANZ Banking Grp Ltd	6.4	6.5
Commonwealth Bank.	6.2	9.7
Rio Tinto Limited	3.2	1.9
Woodside Petroleum	3.2	1.9
Macquarie Group Ltd	2.8	1.4
AMP Limited	2.8	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.4	5.3
Materials	23.6	15.4
Industrials	2.9	7.2
Consumer Discretionary	8.7	4.3
Consumer Staples	2.1	7.6
Health Care	3.1	5.7
Financials-x-Real Estate	38.6	38.3
Real Estate	5.2	7.7
Information Technology	0.0	1.0
Telecommunication Services	6.6	5.8
Utilities	1.7	1.8
Other	1.9	-

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