PERENNIAL VALUE MANAGEMENT

Perennial Value Australian Shares Trust

Quarterly Report
31 December 2014

	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	2.7	3.1	6.7	15.8	6.1	11.4
S&P/ASX 300 Accumulation Index	2.9	2.4	5.3	14.7	6.5	8.1
Value Added (Detracted)	**-0.2**	**0.7**	**1.4**	**1.1**	**-0.4**	**3.3**
Net Performance	2.5	2.6	5.8	14.8	5.1	10.6

*Gross Performance. ^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Perennial Value Australian Shares 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 31 December 2014):	AUD1.6 billion
Income distribution frequency:	Half yearly
Team FUM (as at 31 December 2014):	AUD7.4 billion
Minimum initial investment:	$25,000
Trust inception date:	March 2000
APIR code:	IOF0200AU

- **The better performing sectors over the quarter tended to be the defensives representing the portfolio's biggest headwind for the quarter.**
- **The best performing stock in the portfolio over the quarter was Resmed (up 22.7%).**
- **Stocks with significant offshore earnings tended to outperform, rallying on the lower AUD.**

The benchmark S&P/ASX 300 Accumulation Index (the Index) finished a volatile quarter up 2.9%. The Perennial Value Australian Shares Trust (the Trust) finished the quarter up 2.7%, underperforming the benchmark by 0.2%.

For the 2014 calendar year, the S&P/ASX300 Accumulation Index delivered a total return of 5.3%. The Trust delivered a return of 6.7%, outperforming the Index by 1.4%. In a relative sense, we believe this to be a reasonable outcome, as our value style has faced significant headwinds over the past year. Over this period, the Australian stock market has been driven by a small number of interest rate sensitive and perceived defensive stocks and sectors, predominantly REITs (up 26.8%) and Healthcare (up 23.0%). This continued in December. This narrowing of investor focus towards a very limited universe of perceived defensive large caps has been a global phenomenon over the past 12 months. However, we have remained true to style and have not invested in these very expensive stocks.

Global markets finished a volatile December quarter mixed, with the S&P500 (up 4.4%) and Nikkei 225 (up 7.9%) up, while the FTSE 100 (down 0.9%) and Euro Stoxx 50 (down 2.5%) declined. The major event during the quarter was the sharp decline in oil prices, which undermined confidence in the global economy as well as impacting the share prices of energy producers. However, there was further evidence that global growth is improving. In particular, the data for the US was positive, with the revised Q3 GDP data showing the firmest rate of growth since 2003 and non-farm payrolls growing 321,000, well above expectations. In other regions, key German data improved, there were positive signs that Japan's economy is emerging from recession in the current quarter and China's data was consistent with a growth rate close to 7% in Q4, although a key manufacturing PMI dropped below 50. Global inflation continued to fall, suggesting a prolonged period of low interest rates.

In Australia, GDP growth was unexpectedly weak in the September quarter, with real disposable income falling again, however, the partial data for the fourth quarter pointed to improvement. Retail sales for October were soft, albeit better than expected and home building approvals boomed, as did employment for November. The jobless rate, however, rose to a new 12-year high of 6.3%, and business and consumer sentiment fell, with the mid-year economic update revealing further deterioration in the budget deficit, largely due to lower commodity prices. The RBA left interest rates unchanged at 2.5% and the AUD continued to fall, reaching a four-year low of 81 US cents.

The better performing sectors over the quarter tended to be the defensives, with Healthcare (up 13.3%), Telcos (up 12.3%) and REITs (up 11.3%). Collectively, this represented the portfolio's biggest headwind for the quarter. Industrials (up 7.6%) and Financials (up 7.2%) also outperformed, while the cyclical sectors lagged, with Energy (down 17.7%) the worst performing sector, followed by Metals and Mining (down 10.9%) and Materials (down 6.1%).

The best performing stock in the portfolio over the quarter was Resmed (up 22.7%). Resmed is the global leader in the treatment of sleep apnea and is benefiting from successful new product launches. Readers may recall that the company was introduced into the portfolio in the June 2014 quarter following considerable share price weakness. The average entry share price was below $5.00 and profits were taken during the quarter at $7.00, some 40% above the entry price.

Stocks with significant offshore earnings tended to outperform, rallying on the lower AUD. These included Amcor (up 19.9%), Orora (up 18.9%), Lend Lease (up 14.6%) and Ansell (up 15.8%). Aristocrat Leisure (up 13.7%), another beneficiary of a weaker AUD, also delivered a strong full year result which demonstrated significant market share gains in its key US and Australian markets. As a major hotel operator, Amalgamated Holdings (up 12.3%) also stands to benefit from a lower AUD as this should both generate more inbound tourism and encourage more Australians to holiday domestically.

Other stocks which performed well included Fairfax (up 12.9%) which announced the merger of its radio business with Macquarie Radio Networks, Telstra (up 12.6%) which rallied after signing the revised NBN deal and Stockland (up 7.3%) which is benefiting from the strong residential property market.

Stocks which detracted from performance tended to be resource names, with Iluka Resources (down 24.3%), Origin Energy (down 22.0%), BHP (down 13.3%) and Rio Tinto (down 2.7%). Crown Resorts (down 8.0%) also underperformed on weakness in the Macau gaming market.

In terms of portfolio activity, during the quarter we took profits and sold down a number of stocks which have outperformed significantly, including Aristocrat, Asciano, Brambles, Harvey Norman, Lend Lease, Macquarie Group, Orora, Resmed and Westfield Corp. Proceeds were reinvested into a handful of very good quality existing holdings where share prices had recently been quite weak. Examples include AWE, AGL Energy, Coca-Cola Amatil, Crown Resorts, Fairfax, Henderson Group and Newcrest. We also increased our holdings in the major banks following a period of share price weakness.

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. During the quarter, Orica reported that their greenhouse gas abatement program has seen a 50% reduction in nitrous oxide emissions from their manufacturing plants since 2010. This is the equivalent of taking over 300,000 cars off the road. In a separate initiative, Orica is a 40% stakeholder in Mineral Carbonation International. This is a collaboration between Orica, the NSW and Commonwealth Governments and the University of Newcastle to develop a new carbon capture and storage technology to be retrofitted to power stations. The technology is proven at laboratory scale and a pilot plant is to be constructed in early 2015. If successful, this has the potential to significantly reduce CO2 emissions.

At month end, stock numbers were 44 and cash was 3.0%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.4	7.5
BHP Billiton Limited	8.1	6.9
National Aust. Bank	7.7	5.9
Telstra Corporation.	6.9	5.3
Commonwealth Bank	6.3	10.1
ANZ Banking Grp Ltd	6.2	6.4
Woodside Petroleum	3.4	2.0
Rio Tinto Limited	3.1	1.8
Macquarie Group Ltd	2.8	1.4
AMP Limited	2.7	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.7	5.1
Materials	22.8	15.0
Industrials	2.9	7.4
Consumer Discretionary	8.3	4.1
Consumer Staples	2.3	7.4
Health Care	2.9	5.9
Financials-x-Real Estate	38.4	38.6
Real Estate	5.1	7.7
Information Technology	0.0	1.0
Telecommunication Services	6.9	5.8
Utilities	1.7	1.9
Other	3.0	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment