

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	1.1	0.0	15.9	14.2	20.9	13.1	8.5
S&P/ASX 300 Accumulation Index	0.4	-1.3	11.5	9.9	17.0	10.1	6.5
Value Added (Detracted)	0.7	1.3	4.4	4.3	3.9	3.0	2.0
Capital Growth	1.1	-1.1	10.6	8.8	14.6	7.2	2.4
Income Distribution	0.0	0.8	4.4	4.5	5.3	5.0	5.3
Net Performance ^{^^}	1.1	-0.3	15.0	13.3	19.9	12.2	7.7

*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 31 May 2015):

AUD77.7 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 May 2015):

AUD8.6 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ **The Australian equity market rallied to finish the month up 0.4%.**
- ▶ **The better performing sectors during the month were Industrials (up 5.4%), REITs (up 2.7%), Healthcare (up 2.6%), Materials (up 2.3%), Consumer Discretionary (up 1.8%) and Utilities.**
- ▶ **The market's strength over recent times highlights the continued relative attractiveness of equities in the current low interest rate environment.**

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 demonstrate superior dividend yield characteristics to the overall stock market.

Portfolio Activity

During the month, the Trust received shares in South 32 following its spin-off from BHP. South 32 comprises a suite of assets, principally located in Australia and South Africa, which were deemed to be non-core by BHP. These assets include silver, lead, zinc, manganese, alumina, aluminium and coal. The business is attractive as many of these commodities are likely to currently be close to the bottom of their cycles with limited new supply coming onto the market. In addition, the company has a debt-free balance sheet which will give it flexibility to make acquisitions or undertake capital management. At the month-end price of \$2.19, the stock is offering a forecast FY16 gross dividend yield of 5.2%, with the potential for this to increase materially over time.

In other corporate activity, National Australia Bank (NAB) undertook a \$5.5 billion capital raising by way of a rights issue during the month. The capital raised was used firstly to fund contingent liabilities in the UK, thereby allowing an IPO of the business later in the calendar year, and secondly to lift NAB's overall capital levels to the highest in the sector. We view these developments positively as securing a final exit from the UK is an important step for NAB in returning its focus to its core Australian operations. In addition, it is likely that the banks will be required to hold incrementally higher capital levels going forward and NAB is now ahead of the game in this respect. The rights issue was done at \$28.50 and was well-received by the market, with the stock finishing the month at \$34.32.

During the month, we reduced our holdings in Aristocrat Leisure. This stock has been a very strong performer over the past 12 months, having delivered a total return of 51.4%. Proceeds were used to increase our holdings in a number of stocks including Macquarie Group, AGL Energy and Orica.

At month end, stock numbers were 29 and cash was 5.4%.

Stock and Portfolio Performance

After falling early in the month, the Australian equity market rallied to finish the month up 0.4%. The Trust was up 1.1%, outperforming the S&P/ASX300 Accumulation Index (the Index) by 0.7%. On a financial year-to-date basis, the Trust continues to perform strongly (up 15.9%), some 4.4% ahead of the Index return of 11.5%.

Globally, conditions in the emerging world continued to be soft with trade flows, particularly from Asia, unexpectedly weak in response to muted growth in developed market demand in the first quarter. In fact, the US economy looks likely to have

contracted in the first quarter, as it did at the same time last year. China announced more stimulus measures during the month, aimed at lifting growth back up towards the official target. Anxiety about Greece remained a key source of uncertainty, with some important payments to the IMF looming in early June. Despite this, global indices were generally positive with the Nikkei 225 (up 5.3%), Shanghai Composite (up 3.8%) and S&P 500 (up 1.0%) all stronger, while the FTSE closed flat, and the Hang Seng Index (down 2.5%) fell after a strong prior month.

In Australia, the month of May included some important policy developments, with the Reserve Bank of Australia (RBA) trimming the cash rate again and Treasurer Joe Hockey releasing his second budget. In contrast to last year, the reaction to the budget was broadly positive. The RBA's rate cut and the unthreatening budget helped lift consumer confidence, but business confidence held steady at depressed levels. Most of the other data released during May was on the softer side, with employment falling and the jobless rate rising marginally, and firms reducing their investment intentions. Activity in housing remained strong, with auction clearance rates in Sydney staying close to 90%, boosted by the RBA's latest rate cut. The Australian dollar (AUD) closed the month at US dollar (USD) 0.76 (down 3.8%).

The better performing sectors during the month were Industrials (up 5.4%), REITs (up 2.7%), Healthcare (up 2.6%), Materials (up 2.3%), Consumer Discretionary (up 1.8%) and Utilities (up 1.7%). Consumer Staples (down 2.1%) and Financials (down 1.7%) underperformed.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
National Aust. Bank	9.0	6.0
ANZ Banking Grp Ltd	8.4	6.1
Westpac Banking Corp	8.3	7.0
BHP Billiton Limited	7.3	6.3
Telstra Corporation.	6.9	5.1
Commonwealth Bank.	5.3	9.2
Woodside Petroleum	5.1	1.7
Macquarie Group Ltd	4.5	1.8
AMP Limited	4.4	1.3
QBE Insurance Group	3.1	1.3

The best performing stock in the Trust for the month was Downer (up 16.3%) following a strategy day which highlighted the progress of its infrastructure division. Other strong performers included retailers JB Hi-Fi (up 11.5%) and Flight Centre (up 7.2%) following a more positive budget, Orica (up 10.3%) and Macquarie Group (up 7.4%) which delivered results which pleased the market, QBE Insurance (up 6.9%) following an upgrade to its credit rating and AGL Energy (up 6.8%) whose two-day strategy update was well-received by the market.

The main detractors from performance were the major bank stocks, down an average of 3.0% for the month and down 6.5% for the quarter. The banks sold off during the month on the likelihood that the regulator will force them to hold higher capital levels. While this will prove a near-term headwind, we are confident that the banks will have an ability to re-price their lending and deposit rates to maintain returns and dividends. At current prices, the sector looks reasonably attractive and is offering an average FY16 gross dividend yield of 8.4%.

Other stocks which underperformed included Aristocrat Leisure (down 5.4%), Stockland (down 2.3%), Boral (down 1.1%) and Telstra (down 0.2%).

Market Outlook

The market's strength over recent times highlights the continued relative attractiveness of equities in the current low interest rate environment.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.7	5.1
Materials	14.2	15.3
Industrials	3.0	7.4
Consumer Discretionary	9.1	4.6
Consumer Staples	1.9	6.7
Health Care	0.0	6.1
Financials-x-Real Estate	45.4	38.1
Real Estate	5.0	7.9
Information Technology	0.0	1.0
Telecommunication Services	6.9	5.6
Utilities	2.4	2.1
Other	5.4	-

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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