

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-1.6	-1.2	4.7	5.9	4.7	9.6	9.3
S&P/ASX 300 Accumulation Index	-2.2	-3.2	3.0	6.3	3.9	9.0	7.3
Value Added (Detracted)	0.6	2.0	1.7	-0.4	0.8	0.6	2.0
Capital Growth	-1.6	-1.4	4.3	1.2	0.0	4.3	1.2
Income Distribution	0.0	0.0	0.0	3.8	3.8	4.4	7.3
Net Performance	-1.6	-1.4	4.3	5.0	3.8	8.7	8.5

*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 31 October 2016):

AUD \$1.1 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 October 2016):

AUD \$8.5 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **The market fell in October, with the S&P/ASX300 Accumulation Index down 2.2%.**
- ▶ **Resources outperformed, rising 1.2%, while defensive sectors underperformed.**
- ▶ **The Trust fell 1.6%, outperforming the Index by 0.6%.**

Trust Performance

The Perennial Value Shares Wholesale Trust (the Trust) fell 1.6% for October, outperforming the S&P/ASX300 Accumulation Index (the Index) by 0.6%.

The international markets were mixed with the S&P500 down 1.9%, while the Nikkei 225 (up 5.9%), Shanghai Composite (up 3.2%) and the FTSE 100 (up 0.8%) all rallied. The month saw strong rallies in iron ore prices, (up 5.6%) and coal, with thermal coal up 33.0% and hard coking coal up 20.0%, while oil eased (down 1.5%) and gold declined 3.8%. The Federal Reserve left rates unchanged, as did the Reserve Bank of Australia (RBA), with the cash rate remaining steady at 1.5%, while the Australian Dollar finished the month down one cent at 76 US cents.

During October, the better performing sectors included metals and mining (up 2.2%), materials (up 1.2%) and financials (up 0.7%), while healthcare (down 8.1%), REITs (down 7.7%), consumer discretionary (down 6.1%) and telecommunications (down 4.4%) underperformed.

Stocks which performed strongly included miners Rio Tinto (up 5.0%) and BHP (up 3.1%), as well as Downer (up 8.2%) and Orica (up 7.2%) with their mining services exposure. We have been increasing our resources exposure over the last few quarters, seeing good medium-term value in the large-cap end of the resources market, with significant upside should the current strength in commodity prices continue. Gateway Lifestyle (up 8.4%), QBE Insurance (up 7.5%) and Graincorp (up 7.0%) also performed strongly. Woolworths (up 1.6%) rose on evidence that sales performance was improving over the September quarter. This contrasts with Wesfarmers (down 7.0%) in which the Trust holds an underweight position, which fell after reporting lower than expected sales growth. The Trust also benefited from not holding expensive defensives such as Sydney Airport (down 10.2%), Transurban (down 8.6%) and Ramsay Healthcare (down 7.3%) which all fell as bond yields rose.

Stocks which detracted from performance included Crown Resorts (down 16.9%) which fell sharply following the arrest of a number of its employees in China. While the situation is currently unclear, it is likely that the longer-term impact on the business will be limited, with directly-sourced Chinese VIPs only representing a small proportion of total earnings. AMP (down 13.4%), also fell after announcing further deterioration in their wealth protection business. While this was disappointing, the division now accounts for less than 10.0% of group earnings and will likely be less of an issue going forward. We remain comfortable with the outlook for each of these stocks.

Trust Activity

During the month we took profits and reduced our holdings in Wesfarmers and Harvey Norman and exited Boral and Sims Metal. Each of which have delivered strong performances in recent times. We also further reduced our position in Telstra, where we see increasing competitive pressure building. Proceeds were used to increase our holdings in a number of stocks including Vocus Communications, Newcrest, Resmed and Graincorp. At month end, stock numbers were 45 and cash was 3.9%.

Outlook

The Trust is overweight in the large-cap, low-cost, financially-sound resources companies as well as in a range of quality industrial and financial companies where we see attractive valuations. We have reduced our overweight positions in the domestic building and construction-related stocks and moved to a moderate underweight in the banking sector. The Trust remains underweight expensive defensive sectors such as healthcare and REITs and heavily underweight infrastructure given that sector's high leverage at a time of historically low interest rates.

The Trust continues to exhibit Perennial Value's true to label value characteristics, with the portfolio offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.2	8.8
BHP Billiton Limited	6.8	5.2
Westpac Banking Corporation	6.0	7.1
ANZ Banking Group Limited	5.3	5.7
National Australia Bank	4.9	5.2
Macquarie Group Limited	4.0	1.9
Woolworths Limited	3.7	2.1
Rio Tinto Limited	3.1	1.6
Telstra Corporation	3.0	4.2
Woodside Petroleum	3.0	1.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.8	4.0
Materials	16.5	16.1
Industrials	1.2	7.1
Consumer Discretionary	8.7	5.3
Consumer Staples	7.6	7.1
Health Care	3.2	6.7
Financials-x-Real Estate	36.9	36.4
Real Estate	7.8	8.6
Information Technology	0.0	1.4
Telecommunication Services	4.8	4.8
Utilities	2.4	2.4
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:



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