

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	3.9	5.3	3.9	18.8	21.8	14.0	10.2
S&P/ASX 300 Accumulation Index	4.4	3.6	4.1	16.3	19.7	13.0	10.3
Value Added (Detracted)	-0.5	1.7	-0.5	2.5	2.1	1.0	-0.1
Net Performance	3.9	5.0	3.9	17.7	20.7	13.0	9.2

* Gross Performance. Past performance is not a reliable indicator of future performance.

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio manager:

Lee Mickelborough

Risk profile:

High

Trust FUM (as at 31 July 2014):

AUD50.9 million

Income distribution frequency:

Half yearly

Team FUM (as at 31 July 2014):

AUD2.5 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2001

APIR code:

IOF0117AU

- ▶ **The Australian market performed strongly in July rising 4.4%.**
- ▶ **Materials (up 7.7%) was the standout sector as mining stocks rallied on solid Chinese economic data.**
- ▶ **The best performers for the month within the Trust were Sims Metal Management (up 20.8%), Karoon Gas (up 14.0%), and Sundance Energy (up 15.2%).**

Trust performance overview

The Perennial Socially Responsive Shares Trust (the Trust) underperformed the S&P/ASX300 Accumulation Index (the Index) by 0.5% in July, closing up 3.9% against the Index which finished up 4.4% for the month.

In the month of July, Materials (up 7.7%) was the standout sector as mining stocks rallied on solid Chinese economic data. Interestingly defensive sectors such as REITS (up 5.0%), and Telcos (up 5.2%) also beat the Index. Sectors which failed to keep up with the rampaging market were the Banks (up 3.6%), Energy (up 2.2%) and Healthcare (up 2.7%).

The best performer for the month was Sims Metal Management (up 20.8%). Sims performed very strongly over the month, driven by the new management team outlining a changed strategic approach and significant cost cutting. Led by CEO Galdino Claro, the business will focus more on customer requirements, logistics and internal efficiencies rather than the former reliance on driving scrap metal volumes through the business at the expense of margin. With the US recycling and scrap markets beginning to show some signs of improvement, it would seem timely that a greater emphasis is placed on streamlining such a large network of collection, processing and shipping of scrap materials. The company's earnings are extremely sensitive to small moves in margin so any expansion will make a significant difference. The new strategic objective of increasing profits three-fold by 2018 would seem credible and attainable. Despite the sharp jump in share price, we consider the stock is still undervalued by more than 20%.

Karoon Gas (up 14.0%) performed strongly over the month as the market began to recognise that the company's funding position has improved significantly since the announced sale of Poseidon to Origin Energy. The pre-emption rights held by Conoco Phillips and PetroChina passed without either of them exercising, thereby passing one of the milestones necessary for Karoon to receive the cash. We believe that once the company receives the cash from Origin for the sale they will announce a share buyback. At current levels we view Karoon as undervalued with a fully funded exploration and evaluation activity phase about to commence in Brazil. In the case of success, this will result in significant upgrades to our assessment of value.

Sundance Energy (up 15.2%) reported a strong June quarter with production growing 23% and more impressively EBITDA growing 46% on the back of better pricing and substantial cost reductions. Well performance in the Eagle Ford basin continues to improve as the company implements operational changes setting the stage for substantial further growth into this year and next. We believe that Sundance is one of the best growth stories in the energy space at present and is supported by strong valuation upside.

The worst performer was GI Dynamics (down -31.0%). The company produces a medical device called The EndoBarrier which is used for the treatment of type 2 diabetes and obesity. The company is in the early stages of commercialising this device. The market was disappointed in the company's 2Q14 revenues which declined largely due to one-off factors. We expect these to normalise going forward. The company also announced the resignation of its Chief Operating Officer which we see as a natural progression as the company moves from a research and development focus to a sales and marketing driven company. GI Dynamics is a longer term investment that should see significant sales growth upon receiving reimbursement for its device in key markets. The company is well progressed in markets such as Germany and Australia in this regard. We remain comfortable with the medium and long term prospects for this company.

A major negative contribution to the Trust was not holding BHP Billiton (up 8.6%, not held - restricted). Mining stocks and in particular iron ore producers performed well over the month on the back of a stable iron ore prices and improving sentiment towards Chinese economic growth. The Chinese government has shown signs of continuing their roll out of targeted stimulus packages as well as a number of cities relaxing their home purchase restrictions.

Also detracting from performance was Rio Tinto (up 11.4%, not held - restricted). As per our comment on BHP Billiton, mining stocks and in particular iron ore producers performed well over the month on the back of a stable iron ore prices and improving sentiment towards Chinese economic growth.

Market overview

The Australian market performed strongly in July rising 4.4%. Having underperformed global markets in June this trend was reversed in July. The major US and European markets were weaker over the month, with the US S&P500 (down 1.5%), the UK's FTSE100 (down 0.2%) and the European markets considerably weaker with the Euro Stoxx 50 down 3.5%. Most other regional equity markets achieved positive returns during the month with Hong Kong's Hang Seng (up 6.8%), Japan's Nikkei (up 3.0%) and China's Shanghai Composite (up 7.5%) all rising.

Within the US, second quarter GDP rebounded strongly from the weather impacted first quarter with growth at 4.0%. The unemployment rate fell to 6.1%. Housing data was weaker with starts falling 9.3% in June and housing permits declined 4.2%. Overall the economic data from the US suggests the gradual economic recovery remains on track.

Chinese economic data showed further signs of improvement, with the HSBC Manufacturing PMI coming in at 52.0 and Chinese M2 Money Supply for June solid at an annual growth rate of 14.7% year on year.

Domestically, economic data was mixed in July with the Westpac Consumer Confidence Index rising 1.9%, June building approvals fell 5.5%, and retail sales fell 0.5% which was again below expectations. On a more positive note private sector credit jumped by 0.7% in June, the strongest monthly gain since September 2008. Labour market conditions remain subdued with the unemployment rate for June lifting to 6% and employment gains limited to part time jobs. Encouragingly, business conditions and confidence lifted in the June NAB Survey.

The Australian Dollar (AUD) eased against the USD falling 1.1% to 0.9296. The USD was stronger against most major currencies. The currency markets continue their transition to a more normal US monetary policy. This should continue to result in upward bias in the US dollar.

Continued concerns over the supply in bulk commodity markets and the sustainability of Chinese demand in recent months has impacted prices, however in July the price of iron ore rose 1.9%. Elsewhere in commodity markets, the price of Oil (Brent down 5.64% / WTI down 6.8%) fell as tensions in Iraq eased. Base metals were stronger in July with zinc (up 6.45%), Aluminium (up 5.13%) and copper (up 1.43%) all higher. Despite ongoing unrest in Gaza and the Ukraine, the gold price eased in July to close at US\$1282.55/oz.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
ANZ Banking Grp Ltd	8.1	6.6
Commonwealth Bank.	7.5	9.6
Westpac Banking Corp	6.7	7.6
National Aust. Bank	6.6	5.9
CSL Limited	4.5	2.3
Lend Lease Group	3.4	0.5
ResMed Inc.	3.1	0.3
QBE Insurance Group	2.9	1.0
Santos Ltd	2.7	1.0
WorleyParsons Ltd	2.7	0.3

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	11.0	6.2
Materials	8.6	17.4
Industrials	9.7	6.9
Consumer Discretionary	2.7	4.1
Consumer Staples	0.7	7.9
Healthcare	11.0	4.6
Financials-x-Real Estate	41.5	37.9
Real Estate	5.8	7.1
Information Technology	0.7	0.8
Telecommunication Services	2.8	5.3
Utilities	2.4	1.7
Cash	3.1	-

Rounding accounts for small +/- from 100%.

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