Perennial Value Shares for Income Trust

Monthly Report
31 August 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	1.4	4.1	5.6	16.5	19.0	10.8	8.1
S&P/ASX 300 Accumulation Index	0.6	3.6	5.1	14.1	14.0	9.1	6.4
Value Added (Detracted)	**0.8**	**0.5**	**0.5**	**2.4**	**5.0**	**1.7**	**1.7**
Capital Growth	1.4	3.7	5.5	11.5	12.7	5.3	2.0
Income Distribution	0.0	0.2	0.0	4.1	5.4	4.7	5.3
Net Performance^^	1.4	3.9	5.5	15.6	18.1	10.0	7.3

*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 August 2014):
AUD74.8 million

Income distribution frequency:
Quarterly

Team FUM (as at 31 August 2014):
AUD8.1 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **The Australian equities market built on July's strong return to finish the month up 0.6%.**
- **Domestically, reporting season was the focus in August.**
- **Stocks which performed strongly included Harvey Norman (up 14.9%), Stockland (up 4.7%) and Boral (up 2.8%)**

Trust Characteristics

In line with the objective, the Trust continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Portfolio Activity

During the month, we took profits and reduced our holding in Stockland (up 4.7%) which performed well after delivering a strong result. We also further reduced our holdings in the banks, continuing to take profits after their strong run over the past few years.

Proceeds were used to increase our holdings in Suncorp and Woodside Petroleum, which offer a FY15 gross yield of 8.9% and 9.7% respectively. We also introduced Downer to the portfolio. Downer operates in the engineering and contracting market and while the near-term outlook is subdued, market expectations are low and the company has a rock-solid balance sheet, underpinning a FY15 gross yield of 7.4%.

During the month, QBE (up 6.1%) announced a capital raising. The company raised funds to retire convertible debt and also announced a number of non-core asset sales. These actions will be of clear benefit to the balance sheet. The portfolio participated in the capital raising via a share placement at $10.10 a share. The market's response has been positive with the share price closing the month at $11.52, and this could well represent a positive turning point in sentiment towards this institutionally under-owned Top 20 company.

At month end, stock numbers were 26 and cash was 1.9%.

Stock and Portfolio Performance

The Australian equities market built on July's strong return to finish the month up 0.6%. The Perennial Value Shares for Income Trust (the Trust) delivered a return of 1.4%, outperforming the market by 0.8%.

Globally, markets ended the month higher, with the S&P500 (up 3.8%) recording a strong month as the US economy reported 2QGDP of 4.2%, the ISM manufacturing PMI rose to 57.1 and the ISM non-manufacturing PMI rose to 58.7, the highest level since 2005. The FTSE and Shanghai Composite both rose 1.3% and 0.7% respectively. The exception was the Nikkei 225 which fell 1.3%. Domestically, data was mixed. The unemployment rate hit a twelve year high of 6.4%, while retail sales increased 0.6% month on month in June, underpinned by strong sales in household goods and clothing. In August, the NAB business confidence survey increased 3 points and the Westpac consumer confidence index rose 3.8% month on month. The RBA left the cash rate unchanged at 2.5% and the AUD/USD ended the month steady at 93c.

The better performing sectors during the month were Healthcare (up 6.4%), Telcos (up 4.3%), Energy (up 4.0%), Industrials (up 2.0%), Utilities (up 1.8%) and REITs (up 1.7%). Metals and Mining (down 5.0%) was the worst performing sector, followed by Materials (down 3.7%), IT (down 0.8%) and Consumer Staples (down 0.4%).

Domestically, reporting season was the focus in August, with companies reporting results for the period to 30 June 2014. By and large, the results were well received, with many companies' share prices reacting positively. Several themes emerged from reporting season. Firstly, there was a continuation of the relatively subdued revenue growth environment of the past few years. However, there were some areas showing recovery, in particular the housing related sectors, which are experiencing strong demand conditions. While consumer spending has been generally subdued following the May budget, many companies indicated that there has been a pick-up in recent months and there is some evidence that the Australian economy is in better shape than some of the negative commentary might suggest. Secondly, companies remain squarely focussed on self-help initiatives, in the form of cost reductions and efficiency gains, to maintain margins and help offset inflationary pressures. Finally, cash flows were generally strong, leading to healthy balance sheets and allowing for increased dividend payments. In terms of the outlook, management teams continued to be guarded in their statements, however, the majority of companies held in the Trust indicated that they expect earnings to grow in the coming year.

Stocks which performed strongly during the month included housing and construction names such as Harvey Norman (up 14.9%), Stockland (up 4.7%) and Boral (up 2.8%) which all delivered strong results on the back of the improving residential market. Other strong performers included Amcor (up 9.5%), which delivered a strong result, pleasing the market with improved cash flows in the wake of restructuring and acquisition costs. Origin Energy (up 10.1%) rallied after announcing that its Australia Pacific LNG project was now 75% complete and on budget. Sentiment turned positive on AMP (up 7.1%) a very much unloved Top 20 stock held by the portfolio, after the result showed that the problematic life insurance business had stabilised. Telstra (up 4.0%) also outperformed after delivering a solid financial result, lifting its dividend and announcing a $1bn off-market buy-back.

Stocks which detracted from performance included the major banks as well as resource holdings BHP (down 5.2%) and Orica (down 6.8%) on weaker data from China.

Market Outlook

The past two months have seen the 2015 financial year off to a good start, delivering a total return of 5.1%, building on the strong returns of 21.9% and 17.3% in the 2013 and 2014 financial years respectively. While there are positive economic signals in many markets, a level of macroeconomic uncertainty remains and ongoing volatility is likely. Longer-term, as economic growth resumes, company profits will grow and dividends paid to shareholders will increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Telstra Corporation.	9.5	4.9
BHP Billiton Limited	9.0	8.3
Westpac Banking Corp	8.6	7.7
ANZ Banking Grp Ltd	8.3	6.5
National Aust. Bank	8.1	5.9
Woodside Petroleum	7.7	2.1
Suncorp Group Ltd	5.6	1.3
Commonwealth Bank.	5.3	9.3
Aristocrat Leisure	3.7	0.2
AMP Limited	3.6	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	9.3	6.3
Materials	14.0	16.8
Industrials	2.0	7.1
Consumer Discretionary	8.8	4.1
Consumer Staples	2.0	7.8
Health Care	0.0	4.9
Financials-x-Real Estate	45.1	37.9
Real Estate	7.4	7.1
Information Technology	0.0	0.8
Telecommunication Services	9.5	5.4
Utilities	0.0	1.7
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