Perennial Value Shares Wholesale Trust

Monthly Report
31 January 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-5.8	-3.5	-7.7	-5.6	6.8	5.8	9.0
S&P/ASX 300 Accumulation Index	-5.4	-3.5	-5.8	-5.8	5.3	5.5	6.9
Value Added (Detracted)	-0.4	0.0	-1.9	0.2	1.5	0.3	2.1
Capital Growth	-6.0	-5.9	-10.2	-10.4	2.0	0.8	0.8
Income Distribution	0.0	2.1	2.0	4.0	3.9	4.2	7.5
Net Performance	-6.0	-3.8	-8.2	-6.4	5.9	5.0	8.3

*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 31January 2016):
AUD 1.3 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 January 2016):
AUD 6.3 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The S&P/ASX300 Accumulation Index declined 5.4% in January 2016.**
- **Globally, markets sold off on concerns over the growth outlook.**
- **Australian economic outlook remains reasonable.**

Trust performance

January was a difficult month for markets, with the S/P&ASX300 Accumulation Index (the Index) finishing the month down 5.4%. The Perennial Value Australian Shares Trust (the Trust) fell 5.8%, underperforming the market by 0.4%.

Globally, markets were dominated by concerns around growth, particularly the slowing Chinese economy and the falling oil price. This led to a broad based sell-off with the S&P500 down 5.1%, FTSE 100 down 2.5%, Nikkei 225 down 8.0% and the Shanghai Composite down 22.6%. In Australia, there was another decent job number, with the unemployment rate steady at 5.8% in December 2015. This provides further evidence of the economy successfully transitioning post the resources boom. The cash rate remained at 2% (the Reserve Bank of Australia (RBA) does not meet in January) and the Australian dollar (AUD) fell 2 cents to close at 70.9 US cents.

Better performing sectors over the month tended to be the defensives, with REITs (up 0.9%), utilities (up 0.7%), telecommunications (up 0.7%), consumer staples (down 0.2%) and healthcare (down 2.6%). Cyclicals underperformed, with metals and mining (down 10.2%), materials (down 9.1%) and energy (down 6.5%). Financials (down 8.9%) also underperformed.

Two of the better performing stocks in the Trust were Metcash (up 8.4%) and Harvey Norman (up 6.2%). Both these stocks stand to benefit from improving industry dynamics, with Metcash's Mitre 10 business to benefit from Woolworths' announced exit from the hardware business and Harvey Norman to benefit from the demise of Dick Smith. Other strong performers included AWE (up 3.0%) following the sale of its US shale operations for a very good price, AGL Energy (up 2.9%) and Wesfarmers (up 1.3%).

Stocks which detracted from performance included resource holdings which fell on the back of lower commodity prices, with BHP (down 14.1%), and Rio Tinto (down 12.5%). Financials also detracted with the major banks down an average of 9.5% on negative macro sentiment towards the Australian economy – a view we do not agree with. At current prices, the sector is offering very good value, trading on an average FY16 P/E (Price to Earnings) of 11.3x and gross yield of 9.6%.

Trust Activity

In terms of Trust activity, we continued to take profits and reduce our holdings in a number of stocks which had performed strongly in recent times including Orora (up 90.6% since listing in December 2013), Henderson Group, Aristocrat Leisure and AGL Energy (all up between 20% and 50% over the past 12 months). Proceeds were used to increase our holdings in BHP and Rio Tinto. Following the recent sell-off, we see long-term value emerging in the large-cap, low-cost, financially sound miners who will ultimately benefit as weaker competitors fail and high-cost capacity is removed. We also added to our position in Lend Lease, with its exposure to increasing infrastructure investment. At month end, stock numbers were 44 and cash was 2.0%

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Trust is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

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	9.6	10.0
Westpac Banking Corp.	9.2	7.7
National Aust. Bank	7.2	5.5
Telstra Corporation	6.5	5.2
ANZ Banking Grp Ltd.	6.2	5.3
BHP Billiton Limited	4.8	3.7
Wesfarmers Limited	4.3	3.5
Woolworths Limited	3.4	2.3
AGL Energy Limited	2.6	0.9
Woodside Petroleum	2.5	1.5

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	3.1	3.9
Materials	13.5	11.6
Industrials	1.6	8.1
Consumer Discretionary	11.7	5.1
Consumer Staples	9.6	7.6
Health Care	0.0	7.0
Financials-x-Real Estate	41.6	38.5
Real Estate	5.7	8.8
Information Technology	0.0	1.2
Telecommunication Services	7.4	5.8
Utilities	2.6	2.5
Cash & Other	3.4	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
or visit www.perennial.net.au.