

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-3.2	2.7	-3.1	-3.1	8.4	7.4	9.1
S&P/ASX 300 Accumulation Index	-2.4	4.0	0.9	0.9	7.7	7.2	7.2
Value Added (Detracted)	-0.8	-1.3	-4.0	-4.0	0.7	0.2	1.9
Capital Growth	-4.7	1.0	-7.5	-7.5	3.5	2.3	0.9
Income Distribution	1.4	1.5	3.5	3.5	4.0	4.2	7.4
Net Performance	-3.3	2.5	-4.0	-4.0	7.5	6.5	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 30 June 2016):

AUD \$1.2 billion

Income distribution frequency:

Half yearly

Team FUM (as at 30 June 2016):

AUD \$9.1 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **Markets declined in June, with the S&P/ASX300 Accumulation Index (the Index) down 2.4%.**
- ▶ **Resources stocks outperformed and industrials were lower, especially financial stocks.**
- ▶ **The Perennial Value Shares Wholesale Trust (the Trust) fell 3.2%, underperforming the Index by 0.8%.**

Trust Performance

The 2016 financial year has been very difficult for true-to-label value investors such as Perennial Value. What is clear to us however, is that value as a style is a proven performer over the long term, as is our investment process. This is reflected in our long term outperformance of 1.9% per annum above the Index over 16 years. There have been periods where we have seen value perform poorly in the past, such as at the tail end of the pre-financial crisis boom and during the 2012 flight to safety. However, on each occasion, we have remained disciplined, stayed true to our process and have been rewarded by subsequent strong outperformance. We have no reason to believe that this will not be the case going forward as relative market valuations inevitably normalise.

Market Activity

The initial turmoil in global markets following the unexpected Brexit decision subsided and there was some recovery at month end; the S&P500 up 0.1%, FTSE100 up 4.4% and Shanghai Composite up 0.4% although the Nikkei 225 was very weak, down 9.6%. The Federal Reserve left rates unchanged and metal prices were strong, with iron ore (up 8.0%) and copper (up 2.7%), partially retracing last month's declines. Brent oil remained steady and the Australian Dollar (AUD) firmed slightly to 74.5 US cents (up 3.0%).

Defensive industrial sectors outperformed with utilities (up 5.6%) and REITs (up 3.5%) standing out. Our underweight stance in these sectors worked against the Trust. The metals and mining sector (up 3.4%) was helped by higher metals prices with the gold sector (up 22.0%) rising sharply, reflecting a higher gold price (up 8.8%), likely due to the postponement of US interest rate rises and heightened economic uncertainty.

Trust Activity

The strongest Trust performers included Newcrest Mining (up 20.6%) which rallied on the stronger gold price, Stockland Property Group (up 6.7%) and AGL Energy (up 3.8%) as the mindset of the market shifted in favour of defensive quality. Leading iron ore giant, Rio Tinto (up 1.8%) followed the higher iron ore prices. A recent addition to the portfolio, Westfield Holdings (down 0.7%) did comparatively well, notwithstanding its UK exposure.

Prior to the Brexit announcement, our Trust's exposure to financials with UK operations, CYBG plc and Henderson Group, was substantially reduced by selling at an average price of \$5.43 and \$5.08 respectively. Following the outcome of the referendum, these stocks experienced significant negative share price performance, with Henderson Group (down 31.2%) and CYBG plc (down 28.2%) for the month. The Trust then repurchased both stocks at significantly lower prices. QBE Insurance declined (down 16.2%), and other financial stocks were also weak, given the cautious sentiment concerning global equity markets, with AMP (down 8.5%) and Macquarie Group (down 8.0%). We are comfortable in the outlook for each of these companies.

In addition to the Trust changes mentioned above, the Trust has been buying AGL Energy, as the outlook is solid and the NSW electricity wholesale price continues to strengthen. Gas prices have recently spiked in the cold weather which should help AGL given their investments in gas storage. The Trust also increased its holding in Flight Centre at attractive prices. At month end, stock numbers were 47 and cash was 4.3%.

Outlook

In recent months, we have become more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. Further, the close election result is unfavourable given the policy uncertainties this creates. The Trust remains mildly overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight 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	7.8	9.1
Westpac Banking Corporation	6.2	7.0
Telstra Corporation	6.0	4.8
BHP Billiton Limited	5.7	4.3
ANZ Banking Group Limited	5.5	5.0
National Australia Bank	5.1	4.8
Wesfarmers Limited	4.3	3.2
Woolworths Limited	3.2	1.9
Woodside Petroleum	3.1	1.4
Macquarie Group Limited	2.9	1.7

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.5	4.1
Materials	13.9	14.1
Industrials	1.1	8.1
Consumer Discretionary	9.7	5.3
Consumer Staples	8.7	6.8
Health Care	2.8	7.2
Financials-x-Real Estate	36.8	35.4
Real Estate	8.4	9.6
Information Technology	0.0	1.2
Telecommunication Services	6.9	5.6
Utilities	2.0	2.7
Cash & Other	4.3	-

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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