Perennial Socially Responsive Shares Trust

Monthly Report
31 May 2014

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	1.3	3.4	22.7	18.4	21.9	10.6	11.7
S&P/ASX 300 Accumulation Index	0.6	2.5	19.0	16.1	20.7	9.8	12.1
Value Added (Detracted)	**0.7**	**0.9**	**3.7**	**2.3**	**1.2**	**0.8**	**-0.4**
Net Performance	1.2	3.2	21.7	17.3	20.8	9.6	10.7

* 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 Mickelburough

Risk profile:
High

Trust FUM (as at 31 May 2014):
AUD48.9 million

Income distribution frequency:
Half yearly

Team FUM (as at 31 May 2014):
AUD2.5 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The Trust finished up 1.3% in May, outperforming the Index.**
- **The top contributors during the month were BHP Billiton (not held), Mayne Pharma and Vocation.**
- **Most regional equity markets achieved positive returns during the month.**

Trust performance overview

The Perennial Growth Socially Responsive Shares Trust (the Trust) finished up 1.3% in May, outperforming the S&P/ASX300 Accumulation Index (the Index) by 0.7% with the Index finishing up 0.6% for the month.

There was moderate dispersion across sectors, with energy (up 2.9%), utilities (up 2.7%) and healthcare (up 2.7%) offering the best returns. Materials (down 2.9%), consumer discretionary (down 0.9%) and property (up 0.3%) posted the lowest returns.

The top contributor during the month was BHP Billiton (not held, down 2.0%) as ongoing concerns around Chinese economic growth and commodity demand weighed on the sector, with iron ore falling for a sixth consecutive month.

Mayne Pharma (up 8.8%) also contributed positively as the stock regained much of the ground lost in April. As with the previous month, there was little stock specific news to drive the share price apart from better sentiment towards the biotech sector. We continue to have confidence in the company's growth prospects over the next few years as the company develop their pipeline of new drug releases. Mayne Pharma has a strong management team, excellent production facilities and an improving distribution network in the US.

Also contributing positively during the month was Vocation (up 25.0%). The company announced the acquisition of Real Institute, who have been a partner with Vocation for a number of years in the enterprise segment of the business. The acquisition gives Vocation presence in NSW and complements the existing presence in QLD and WA. The deal will be mainly debt funded and leaves the group with a comfortable capital structure. The structural drivers for the industry continue to be supportive for the group's business model with each state government on track to develop their own demand led model for vocational education with NSW, the largest state, set to go live in July this year.

The Trust's biggest detractor from performance was WorleyParsons (down 4.5%), which partly reversed the strong share price performance seen in April. This was despite the company maintaining the solid contract momentum of recent months, announcing three material contracts: LNG train maintenance in Trinidad and Tobago; Engineering and Construction Management, a massive $11.7b gas pipeline through Turkey; and Front End Engineering and Design services, a Canadian LNG project. The contract wins demonstrate the company's diversity by business line and geography. Investors have lost faith in the stock following a series of earnings downgrades during the past couple of years, leaving the company materially undervalued in our opinion. We believe the strong contract momentum and renewed focus on costs leaves the company in a good position to meet its June financial year guidance.

Aurizon Holdings (down 4.6%) also underperformed, following an announcement that with 85% partner Chinese steelmaker Boasteel it had bid $1.4b for Aquila Resources. The key objective of the bid is access to Aquila's 50% stake in the West Pilbara Iron Ore Project (WPIOP), with Aurizon seeing it as a strategic opportunity to own, develop and operate the port and rail infrastructure project in partnership with a tier one global steel company. Also during May, Aurizon with 70% partner Qube Holdings in the Sydney Intermodal Terminal Alliance (SIMTA), announced it had been successful in securing exclusive rights to develop the Moorebank Intermodal precinct in South Western Sydney. We see both WPIOP and SIMTA as growth prospects for Aurizon that could generate returns of 12-14% plus and add value to the company over the medium to long term.

Market overview

Most regional equity markets achieved positive returns during the month with Hong Kong's Hang Seng (up 4.3%), Japan's Nikkei (up 2.3%), the US S&P500 (up 2.1%), the UK's FTSE100 (up 1.0%) and China's Shanghai Composite (up 0.6%) all rising.

Within the US, first quarter GDP was revised down to an annualised rate of -1.0% (the first negative quarter in three years), as companies added to inventories at a slower pace and curtailed investment, with the inclement weather being a major factor. Economic data for more recent periods showed improvement following the impact of harsh winter weather during the early part of the year. Nonfarm payrolls for April came in at a higher than forecast 288,000 (with March also revised up from 192,000 to 203,000) resulting in the unemployment rate falling to 6.3%, the lowest level since September 2008. Initial jobless claims fell below 300,000 for the first time in eight years, whilst housing starts, building permits and new home sales for April all rose sharply from the previous month.

There were tentative signs of improvement in the Chinese economy, with the HSBC Manufacturing PMI coming in at a better than expected 49.7 and Chinese M2 Money Supply for April rebounding to an annual growth rate of 13.2% year on year. Both imports and exports for April came in ahead of consensus forecasts. Weaker fixed asset investment and a slower rate of industrial production growth highlighted the challenges faced by the Chinese leadership in maintaining economic momentum.

The European economy continues to offer a tepid rate of recovery with the unemployment rate for the region falling slightly to 11.8%, and both manufacturing and services PMI's for May remaining in expansionary territory, coming in at 52.5 and 53.5 respectively. Retail sales for March increased 0.3% month on month. The European Central Bank elected to keep interest rates at 0.25%, although ECB President Mario Draghi indicated that both conventional and unconventional measures will be considered to try to stave off the deflationary conditions that continue to threaten the region. Tensions between Russia and the Ukraine remain elevated, with a number of deadly clashes taking place throughout the month, although newly elected Ukrainian President Petro Poroshenko appears committed to trying to work towards a peaceful resolution to the conflict.

Domestically, the first budget delivered by Treasurer Joe Hockey saw the announcement of a number of spending cuts and tax increases as the government battles a widening budget deficit. The unemployment rate remained unchanged at 5.8% as the total number employed rose by 14,200. Retail sales for March rose 0.1% month on month. The RBA elected to keep interest rates at 2.5% and their commentary continues to point to a period of stability in rates. Scaremongering ahead of the Budget and poor articulation of the Budget's laudable medium direction led to a severe decline in consumer sentiment. The risk is that a negative feedback loop develops between falling levels of confidence and the real economy.

The Australian Dollar remained in a very tight range against the USD during the month, appreciating marginally by 0.4% over the month to finish at $0.9310. Commodity performance was mixed with the weakness in iron ore continuing with the spot price falling sharply (down 12.9%), its sixth consecutive negative month. In other commodity markets nickel (up 5.0%), copper (up 3.1%), WTI Crude (up 3.0%), aluminium (up 2.1%) and Brent Crude (up 1.2%) all rose. The gold spot price fell (down 3.2%) to finish at $1,250 an ounce.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
ANZ Banking Grp Ltd	8.3	6.7
Commonwealth Bank.	7.6	9.6
Westpac Banking Corp	6.9	7.8
National Aust. Bank	6.1	5.7
CSL Limited	4.7	2.5
Lend Lease Group	3.5	0.5
ResMed Inc.	3.1	0.3
AMP Limited	2.9	1.1
Santos Ltd	2.8	1.0
WorleyParsons Ltd	2.8	0.3

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	10.5	6.0
Materials	7.3	16.9
Industrials	11.6	7.0
Consumer Discretionary	2.2	4.2
Consumer Staples	0.0	8.2
Healthcare	10.3	4.7
Financials-x-Real Estate	41.0	38.0
Real Estate	5.9	7.0
Information Technology	0.6	0.8
Telecommunication Services	3.6	5.3
Utilities	1.9	1.7
Cash	5.0	-

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