

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-4.2	-6.6	-11.5	5.6	8.6	6.6
S&P/ASX 300 Accumulation Index	-2.6	-3.0	-9.3	5.3	5.4	5.1
Value Added (Detracted)	-1.6	-3.6	-2.2	0.3	3.2	1.5
Capital Growth	-4.5	-11.6	-17.4	-0.2	2.6	0.4
Income Distribution	0.0	4.6	5.4	5.0	5.2	5.4
Net Performance ^{^^}	-4.5	-7.0	-12.0	4.8	7.8	5.8

*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 March 2016):

AUD 40 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 March 2016):

AUD 6.3 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ Over the 12 months to March 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 7.5%. This compares favourably to twelve month term deposit rates of 2.7% available over the same period.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.5% per annum.
- ▶ Markets declined in the March quarter, with the Index down 2.6%.

Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Quarterly Distribution

The Trust paid a distribution of 0.5 cents per unit for the March quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 0.7 cents per unit. Based on the unit price at the start of the financial year (\$1.19), this represents a pre-tax distribution yield for the quarter of 0.6% and brings the pre-tax distribution yield for the last 12 months to 7.5%. This compares favourably to the 12 month term deposit rates available for that period of around 2.7%.

Trust Performance

During the March quarter, the S&P/ASX300 Accumulation Index (the Index) fell 2.6%. The Trust fell 4.2%, underperforming the Index by 1.6%.

Global markets were sold off heavily into the New Year, unwinding prior strong December gains, to plumb new two to three year lows by mid-January. This was driven by fears for growth, particularly the slowing Chinese economy and falling commodity prices, which lead to a broad-based sell-off. Thereafter, concerns of a hard landing in China faded which spurred commodities prices and global markets higher. Moves for the quarter comprised the S&P500 up 0.8%, FTSE down 1.1%, Nikkei down 12.0% and the Shanghai Composite down 16.3%. The Brent oil price fell 26.0% to 12 year lows before recovering to finish the quarter up 6.0%. The iron ore price fell to 11 year lows in early January then rebounded to close the quarter up 24.0%. In Australia, the February unemployment rate fell from 6.0% to 5.8%, with the majority of job creation occurring in the Eastern states, testimony that the transition from the mining/energy to non-mining sectors of the economy is on track. The cash rate remains at 2.0% and the Australian Dollar (AUD) rallied on the back of US Dollar (USD) weakness and iron ore prices to finish at 76.6 US cents (up 5.0%), up 11.8% from mid-January lows.

Better performing sectors over the quarter included REITS (up 6.4%), materials (up 5.2%) and utilities (up 3.3%). Financials-ex-REITS (down 9.7%), information technology (down 5.0%) and healthcare (down 1.6%) lagged.

Stocks which contributed positively to performance over the quarter included Harvey Norman (up 12.4%), Iluka Resources (up 10.1%), Downer (up 10.0%), Flight Centre (up 9.9%) and Scentre Group (up 8.5%). Stocks which detracted from performance were predominantly the financials, with the major banks down an average of 11.4% and Macquarie Group down 20.2% as financials were sold off globally.

Our overweight position in the banks worked against the Trust over the quarter, in part due to the emergence of a small number of non-performing loans. Importantly, we see these as isolated company-specific issues, rather than evidence of any broad-based deterioration in credit quality, with corporate Australia overall in strong financial shape. The banks are currently offering an attractive sector average FY17 gross yield of 9.8%.

Trust Activity

During the quarter we took profits and reduced our holdings in AGL Energy and Event Hospitality and Entertainment (formerly known as Amalgamated Holdings). Both of these stocks have performed very strongly in recent times, having outperformed the market by 34.7% and 42.9% respectively over the past 12 months. Proceeds were used to increase our holdings in a number of stocks offering attractive dividend yields, including AMP (FY17 gross yield 8.1%), Suncorp (10.2%) and Wesfarmers (7.4%). At month end, stock numbers were 24 and cash was 3.5% at quarter end.

Environmental, Social and Corporate Governance (ESG)

Perennial remains alert to ESG issues in the portfolio. During the quarter, BHP's Samarco JV and the Brazilian Government came to an agreement regarding civil claims, subject to court approval, for rehabilitation and rebuild after last year's tailings dam collapse. The cap on liabilities was lower than initial market expectations. Expectations are that Samarco may resume mining operations earlier than expected, perhaps later this year, a good outcome for a community needing a return to economic activity.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.1	9.4
Westpac Banking Corp	8.5	7.4
Telstra Corporation	8.4	4.8
ANZ Banking Group Limited	7.3	5.0
National Australia Bank	6.6	5.1
Wesfarmers Limited	6.0	3.4
BHP Billiton Limited	5.6	4.0
AMP Limited	5.3	1.3
Event Hospitality	4.6	0.0
Woodside Petroleum	4.2	1.4

Outlook

Economic data confirms the ongoing transition to a recovering East coast economy. The portfolio continues to be exposed to this theme through overweight positions in retail, building and infrastructure/construction-related stocks. The Trust remains overweight both in the major banks and in the large-cap, low-cost, financially-sound resources companies, where the recent very substantial sell-off has opened up medium-term value. 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. Transurban is a stark example of this 'flight to earnings' certainty, with the stock currently trading on a FY17 gross dividend yield of 4.6%. This compares poorly to the portfolio's forecast FY17 gross yield of 8.0%. The overall portfolio 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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially sound, high dividend yielding equities.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.2	4.1
Materials	12.8	13.0
Industrials	0.9	8.4
Consumer Discretionary	9.6	5.3
Consumer Staples	6.0	7.2
Health Care	0.0	6.8
Financials-x-Real Estate	45.8	36.9
Real Estate	6.7	9.1
Information Technology	0.0	1.2
Telecommunication Services	8.4	5.5
Utilities	2.1	2.5
Cash & Other	3.5	-

Rounding accounts for small +/- from 100%.

Signatory of:



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