

Perennial Value Shares for Income Trust

Quarterly Report as at 31 March 2013

| | 3 Months % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. | Since Inception [^] % p.a. |
|--|---------------|-------------|-------------------|-------------------|--|
| Perennial Value Shares for Income Trust* | 11.2 | 27.5 | 9.1 | 5.4 | 7.0 |
| S&P/ASX 300 Accumulation Index | 8.0 | 19.2 | 5.0 | 2.9 | 5.0 |
| Value Added (Detracted) | 3.2 | 8.3 | 4.1 | 2.5 | 2.0 |
| Capital Growth | 9.9 | 20.0 | 3.1 | -0.8 | 0.6 |
| Income Distribution | 1.1 | 6.6 | 5.2 | 5.3 | 5.6 |
| Net Performance ^{^^} | 11.0 | 26.5 | 8.3 | 4.6 | 6.2 |

*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.

- For the March quarter, the Trust paid a distribution of 1.1 cents per unit.
- The best performing stocks over the quarter included Harvey Norman (up 43.7%), Myer (up 41.2%) and Premier Investments (up 30.6%), as sentiment towards the retail sector improved.
- The Trust outperformed for the quarter and has now delivered a return of 27.5% for the past 12 months, outperforming the Index return of 19.2% by 8.4%.

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.

Dividend Activity

During the quarter, the Trust became entitled to dividends from Amcor, AMP, ASX, Bendigo and Adelaide Bank, BHP, Boral, Brambles, CBA, Crown, Fletcher Building, Iluka Resources, Lend Lease Group, Myer Holdings, Tatts Group, Telstra, Toll Holdings, Treasury Wine Estates, Wesfarmers, Woodside Petroleum and WorleyParsons.

Quarterly Distribution

The Trust paid a distribution of 1.1 cents per unit for the March quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.4 cents per unit. Based on the unit price at the start of the year (\$0.84), this equates to a pre-tax income yield of 1.7% for the quarter.

Trust Activity

During the quarter, we sold out of our position in Coca-Cola Amatil. At our average selling price of \$13.55, the stock was looking expensive, given its relatively low growth outlook, trading on a FY13 P/E of 17.5x. More importantly, it was only offering a gross yield of 5.9% and we believe that there are better opportunities for both current yield and dividend growth elsewhere. In addition, we moved to lock in profits and reduce our holdings in several stocks following very strong share price performance. These included building materials stocks, Fletcher Building and Boral, financials Macquarie Group and AMP and retailers Myer and Premier Investments. We also reduced our holding in Orica, based on our view that the company is likely to experience some near term

Perennial Value Shares for Income Trust Facts:

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 31/03/13): AUD71.1 million | Income Distribution Frequency: Quarterly |
| Team FUM (as at 31/03/13): AUD7.9 billion | Minimum Initial Investment: \$25,000 |
| Trust Inception date: December 2005 | APIR code: IOF0078AU |

*Gross dividend yield

earnings headwinds as low coal prices and wet weather impact sales of explosives to its Australian and Indonesian customers.

Proceeds were used to establish a number of new positions in stocks such as Crown Limited, Bendigo and Adelaide Bank and WorleyParsons. Crown combines a relatively defensive earnings stream with a significant pipeline of organic growth opportunities through ongoing investment in its Crown and Burswood casino properties in Australia as well as exposure to the rapid growth of Macau as a gaming destination via its stake in Melco International. Bendigo and Adelaide Bank is predominantly involved in mortgage lending market. As a result, it has a relatively low risk loan book and is leveraged to an improvement in housing lending growth.

The company also stands to benefit from the recent improvement in credit markets. At our average entry price of \$10.44, the stock was offering a FY13 gross yield of 8.2%. Worley Parsons is a global leader in the provision of engineering services to the oil and gas sector, servicing top-tier producers on major capital projects. The company has strong growth prospects in North America, Asia and the Middle East and this is expected to drive strong earnings and dividend growth over time. During the quarter, we also increased our holdings in ASX and Woodside Petroleum.

At quarter end, stock numbers were 29 and cash was 2.5%.

Stock and Trust Performance

The Australian equities market had another strong quarter, with the S&P/ASX 300 Accumulation Index (the Index) up 8.0%. Most sectors finished the quarter positively, with consumer discretionary (up 18.3%), financials (up 16.3%) and consumer staples (up 13.8%) being the strongest performers. Materials (down 8.5%) and resources (down 6.4%) underperformed.

The Trust delivered a return of 11.2% for the quarter, outperforming the Index return by 3.2%. The Trust has now delivered a return of 27.5% for the past 12 months, outperforming the Index return of 19.2% by 8.3%. Notwithstanding the income focus, it is pleasing that the Trust has been able to outperform the Index over a period of strong overall market returns.

In terms of global markets, Japan was the standout performer during the quarter (up 19.3%) as the incoming Prime Minister pledged to combat deflation and the strong yen. The S&P500 and FTSE also had strong quarters, up 10.0% and 8.7%, respectively, as the markets shrugged off fears surrounding the "fiscal cliff" and focused on improving economic data, particularly in the US. The Shanghai Composite (down 1.4%) was the laggard, as confidence around a stabilising economy in the early part of the quarter gave way to concerns that newly announced government measures may temper growth.

Domestic economic data was generally positive, with solid January retail sales and consumer confidence rising to a two year high. The economy added a higher-than-expected 71,000 jobs in February and the unemployment rate increased slightly to 5.4%. The Reserve Bank of Australia kept the official cash rate steady at 3.0% and the Australian dollar finished the quarter largely unchanged at USD1.04.

Reporting season was a major focus during the quarter. Overall, it was better compared to the past year or so. The key change was the absence of material profit downgrades which had been a feature of recent years. Overall, the Trust fared well, with solid to strong results being delivered by a number of key holdings, including AMP, ASX, Brambles, Crown, Lend Lease, Tatts Group, Telstra and Woodside Petroleum. Critically, in the most recent reporting period, stocks accounting for 58% of the Trust increased their dividend, 22% held their dividend flat and only 20% reduced their dividend. It is very pleasing to see that the majority of companies have been able to increase their dividends while operating in what has continued to be a challenging economic environment.

The best performing stocks over the quarter included Harvey Norman (up 43.7%), Myer (up 41.2%) and Premier Investments (up 30.6%), as sentiment towards the retail sector improved on the back of better than expected results and recent improvements in retailing conditions. Other strong performers included Toll Holdings (up 32.8%), NAB (up 23.4%), Treasury Wine Estates (up 22.6%), ASX (up 18.8%) and Westpac (up 18.1%).

Stocks which underperformed included resources stocks BHP (down 10.2%), Orica (down 2.5%) and Iluka (up 4.8%). Other stocks which underperformed included, property stocks Australand (up 1.5%) and Stockland (up 3.4%).

ESG

Perennial Value remains alert to environmental, social and corporate governance (ESG) issues in the Trust. During the quarter, we met with ANZ's Head of Corporate Sustainability and discussed ANZ's current Corporate Responsibility framework. The framework which is likely to be reviewed later this year, outlines objectives to promote responsible practices, build financial capability in communities - particularly those on low incomes and supporting urban sustainability through reducing its environmental footprint.

Outlook

Markets have been more positive recently, as investors have taken a more optimistic view on the likely outcome of key issues such as the US fiscal cliff and downside risks around the European debt crisis. Despite this, the level of macroeconomic uncertainty remains high and ongoing volatility is likely. Longer-term, however, 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 as at 31 March 2013

| Stock | Trust Weight % | Index Weight % |
|--|----------------|----------------|
| Commonwealth Bank. | 8.26% | 8.87% |
| National Aust. Bank | 7.68% | 5.85% |
| Telstra Corporation. | 7.40% | 4.55% |
| BHP Billiton Limited | 7.12% | 8.52% |
| Westpac Banking Corp | 7.09% | 7.74% |
| ANZ Banking Grp Ltd | 6.68% | 6.34% |
| ASX Limited | 4.47% | 0.51% |
| AMP Limited | 4.40% | 1.24% |
| Woodside Petroleum | 3.81% | 1.81% |
| Wesfarmers Limited Partially Protected | 3.05% | 0.00% |

Asset Allocation as at 31 March 2013

| Asset Class | Trust Weight % | Index Weight % |
|----------------------------|----------------|----------------|
| Energy | 5.1% | 6.3% |
| Materials | 17.1% | 18.3% |
| Industrials | 4.9% | 7.0% |
| Consumer Discretionary | 9.4% | 4.2% |
| Consumer Staples | 5.7% | 8.7% |
| Health Care | 0.0% | 4.4% |
| Financials-x-Real Estate | 42.9% | 36.5% |
| Real Estate | 5.0% | 7.2% |
| Information Technology | 0.0% | 0.8% |
| Telecommunication Services | 7.4% | 4.8% |
| Utilities | 0.0% | 1.7% |
| Other | 2.5% | - |

Rounding accounts for small +/- from 100%.

Signatory of:



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