Perennial Value Shares Wholesale Trust

Monthly Report
31 August 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	0.9	3.7	5.3	18.0	15.3	8.3	10.4
S&P/ASX 300 Accumulation Index	0.6	3.5	5.1	14.1	14.0	9.0	8.1
Value Added (Detracted)	**0.3**	**0.2**	**0.2**	**3.9**	**1.3**	**-0.7**	**2.3**
Capital Growth	0.8	1.9	5.2	13.0	9.8	3.5	1.7
Income Distribution	0.0	1.6	0.0	4.0	4.7	3.9	7.9
Net Performance	0.8	3.5	5.2	17.0	14.5	7.4	9.7

*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 31 August 2014):
AUD1.5 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 August 2014):
AUD8.1 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The Australian equities market built on July's strong return to finish the month up 0.6%.**
- **Domestically, reporting season was the focus in August.**
- **Stocks which performed well during the month included Harvey Norman (up 14.9%), Aveo Group (up 6.5%), Stockland (up 4.7%) and Boral (up 2.8%)**

The Australian equities market built on July's strong return to finish the month up 0.6%. The Perennial Value Shares Wholesale Trust (the Trust) delivered a return of 0.9%, outperforming the market by 0.3%.

Globally, markets ended the month higher, with the S&P500 (up 3.8%) recording a strong month as the US economy reported 2QGDP of 4.2%, the ISM manufacturing PMI rose to 57.1 and the ISM non-manufacturing PMI rose to 58.7, the highest level since 2005. The FTSE and Shanghai Composite both rose 1.3% and 0.7% respectively. The exception was the Nikkei 225 which fell 1.3%. Domestically, data was mixed. The unemployment rate hit a twelve year high of 6.4%, while retail sales increased 0.6% month on month in June, underpinned by strong sales in household goods and clothing. In August, the NAB business confidence survey increased 3 points and the Westpac consumer confidence index rose 3.8% month on month. The RBA left the cash rate unchanged at 2.5% and the AUD/USD ended the month steady at 93c.

The better performing sectors during the month were Healthcare (up 6.4%), Telcos (up 4.3%), Energy (up 4.0%), Industrials (up 2.0%), Utilities (up 1.8%) and REITs (up 1.7%). Metals and Mining (down 5.0%) was the worst performing sector, followed by Materials (down 3.7%), IT (down 0.8%) and Consumer Staples (down 0.4%).

Domestically, reporting season was the focus in August, with companies reporting results for the period to 30 June 2014. By and large, the results were well received, with many companies' share prices reacting positively. Several themes emerged from reporting season. Firstly, there was a continuation of the relatively subdued revenue growth environment of the past few years. However, there were some areas showing recovery, in particular the housing related sectors, which are experiencing strong demand conditions. While consumer spending has been generally subdued following the May budget, many companies indicated that there has been a pick-up in recent months and there is some evidence that the Australian economy is in better shape than some of the negative commentary might suggest. Secondly, companies remain squarely focussed on self-help initiatives, in the form of cost reductions and efficiency gains, to maintain margins and help offset inflationary pressures. Finally, cash flows were generally strong, leading to healthy balance sheets and allowing for increased dividend payments. In terms of the outlook, management teams continued to be guarded in their statements, however, the majority of companies held in the Trust indicated that they expect earnings to grow in the coming year.

Stocks which performed well during the month included housing and construction related names such as Harvey Norman (up 14.9%), Aveo Group (up 6.5%), Stockland (up 4.7%) and Boral (up 2.8%) which all delivered strong results on the back of the improving residential market.

Other strong performers included Orora (up 12.2%), whose solid result demonstrated the company was delivering what it had promised at the time of the demerger, with efficiency gains driving margin expansion. Amcor (up 9.5%) delivered a strong result, pleasing the market with improved cash flows in the wake of restructuring and acquisition costs. Origin Energy (up 10.1%) rallied after announcing that its Australia Pacific LNG project was now 75% complete and on budget. Sentiment turned positive on AMP (up 7.1%), a very much unloved Top 20 stock held by the portfolio, after the result showed that the problematic life insurance business had stabilised.

QBE (up 6.1%) announced a capital raising of $810m which was effectively a net raising of only $310m given the portion being used to retire convertible debt. The company also announced the intended future sales of its agency businesses, a partial sale of Lenders Mortgage Insurance and the reinsurance of its medical malpractice reserves at book value with quality reinsurers. These actions will be of clear benefit to the balance sheet. QBE will also take the opportunity to gradually increase its exposure to risk assets (and therefore, return) in its shareholders' funds which are currently invested predominantly in short term fixed interest securities. The portfolio participated in the capital raising via a share placement of $10.10 a share. The market's response has been positive, with the share price closing the month at $11.52. The above announcements could well represent a positive turning point in sentiment towards this institutionally under-owned Top 20 company.

The most significant portfolio detractors comprised BlueScope Steel (down 12.3%) and Henderson Group (down 8.2%), both of which were weaker on the back of reported profits which were below market expectations. We had previously taken profits and reduced our holdings in BlueScope at higher levels in May. Henderson Group has been a very strong performer over the past 12 months (up 48.2%) and we have been trimming our holding in this stock as it has risen. Upon reviewing the profit numbers in detail, we retain our holdings in both stocks. Not holding CSL (up 9.0%), also detracted from performance.

In terms of portfolio activity, whilst there were no major changes, we trimmed exposures in existing holdings including Asciano, CBA, Lend Lease, Orora and Sims Group. With regards to Sims Group, the share price had reacted very sharply (up some 25%) to the company's release of its strategy review (see our July monthly commentary) and we felt it sensible to trim into this share price strength.

Proceeds were reinvested into increasing holdings in stocks including AMP (at an average entry price of $5.33 versus month-end price of $5.88), Ansell ($18.67 versus $19.90), Harvey Norman ($3.14 versus $3.55). The subsequent rise in each of these stocks was due to the release of positive profit results. In addition to the QBE placement referred to above, the portfolio also participated in AGL Energy's 1 for 5 rights issue to raise $1.2bn to purchase the Macquarie Generation electricity assets from the NSW Government. We acquired stock at $11.00 versus the month-end close of $14.10.

At month end, stock numbers were 45 and cash was 1.7%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	9.7	8.3
Westpac Banking Corp	8.3	7.7
National Aust. Bank	7.0	5.9
ANZ Banking Grp Ltd	6.9	6.5
Telstra Corporation.	5.7	4.9
Commonwealth Bank.	5.6	9.3
Woodside Petroleum	3.6	2.1
Rio Tinto Limited	3.2	1.9
Macquarie Group Ltd	3.0	1.3
AMP Limited	2.8	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.4	6.3
Materials	23.9	16.8
Industrials	4.4	7.1
Consumer Discretionary	7.0	4.1
Consumer Staples	1.9	7.8
Health Care	2.7	4.9
Financials-x-Real Estate	37.8	37.9
Real Estate	6.9	7.1
Information Technology	0.0	0.8
Telecommunication Services	5.7	5.4
Utilities	1.7	1.7
Other	1.7	-

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