Perennial Value Shares for Income Trust

Monthly Report
29 February 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-2.9	-5.6	-11.1	-15.4	3.5	7.6	6.2
S&P/ASX 300 Accumulation Index	-1.7	-4.5	-7.4	-13.4	2.9	4.6	4.7
Value Added (Detracted)	-1.2	-1.1	-3.7	-2.0	0.6	3.0	1.5
Capital Growth	-3.0	-6.7	-15.8	-21.8	-2.5	1.4	-0.1
Income Distribution	0.0	0.8	4.4	5.8	5.2	5.4	5.4
Net Performance^^	-3.0	-5.9	-11.4	-16.0	2.7	6.8	5.3

*Gross Performance. ^Since inception: December 2005. 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 29 February 2016):
AUD $39 million

Income distribution frequency:
Quarterly

Team FUM (as at 29 February 2016):
AUD $6.1 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **Over the 12 months to December 2015, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 9.2%. This compares favourably to twelve month term deposit rates of 3.2% available over the same period.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.4% per annum.**
- **Reporting season was solid, demonstrating the transition to an east coast recovery is continuing.**

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.

Trust Performance

February was a difficult month for markets, with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 1.7%. The Trust fell 2.9%, underperforming the index (the Index) by 1.2%.

Globally, markets struggled in the early part of the month on concerns around global economic growth before recovering somewhat. The S&P500 was down 0.4%, the Shanghai Composite was down 1.8% the Nikkei225 fell 8.5% while the FTSE100 was up 0.2% over the month. The Brent oil price ended the month 4.0% higher and the iron ore price rose 18.0%. In Australia, the employment report was soft after a number of strong months and the unemployment rate increased from 5.8% to 6.0%. However, forward looking job advertisements data remained solid and auction clearance rates in Sydney and Melbourne had a strong start to the New Year. The Reserve Bank of Australia (RBA) cash rate remained at 2.0% and the Australian Dollar (AUD) closed the month up slightly at US 71.4 cents.

Better performing sectors over the month included resources (up 11.2%), industrials (up 5.8%) and REITs (up 2.8%). The weaker sectors included financials (down 7.0%), telecommunications (down 5.5%) and consumer staples (down 4.8%).

A large number of companies reported during the month and, on the whole, reporting season was solid with 44.0% of Earnings per Share (EPS) results ahead of expectations and 32.0% in line with expectations. While resources companies reported weaker results given falls in commodity prices, the results were largely in line with expectations. Importantly, of the 19 stocks held in the portfolio which reported during the month, 13 increased their dividends and three held their dividends flat while only three reduced their dividends.

The profit results of a number of industrial holdings confirmed that the transition to an improving east coast economy is occurring, with Harvey Norman (up 7.7%), Boral (up 6.3%) and Flight Centre (up 5.9%) all benefitting from this theme. Our resource holdings also contributed positively over the month, with Iluka Resources (up 23.9%), Downer (up 10.9%) and Rio Tinto (up 6.8%).

Stocks which detracted from performance included Macquarie Group (down 10.2%) and the major banks (down an average of down 7.9%). Financials as a group were sold down on macro concerns both here and offshore. In our view these concerns are overdone and we remain positive on the Australian banks, which are currently offering attractive valuations, with a sector average FY16 Price to Earnings (P/E) of 10.5 times and gross yield of 10.3%. CBA delivered a rock solid result during reporting season, with the other banks providing reassuring trading updates as well.

Trust Activity

In terms of Trust activity, we increased our holdings in a number of stocks offering attractive gross yields, including AMP (FY16 gross yield 8.0%), Suncorp (9.6%) and Wesfarmers (7.4%). We also received shares in Clydesdale Banking Group which was spun out of NAB. However, we exited this holding on account of its very low, unfranked dividend yield. At month end, stock numbers were 24 and cash was 2.9%.

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Trust is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, 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.

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.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.8	9.2
Telstra Corporation	8.6	4.9
Westpac Banking Corp	8.3	7.4
ANZ Banking Grp Ltd	7.2	5.0
National Aust. Bank	6.3	4.9
Wesfarmers Limited	5.8	3.4
BHP Billiton Limited	5.4	3.8
Event Hospitality	5.3	0.0
AMP Limited	5.0	1.2
Woodside Petroleum	4.2	1.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.2	4.0
Materials	12.5	12.9
Industrials	0.8	8.6
Consumer Discretionary	10.3	5.1
Consumer Staples	5.8	7.3
Health Care	0.0	7.3
Financials-x-Real Estate	44.6	36.3
Real Estate	6.7	9.2
Information Technology	0.0	1.2
Telecommunication Services	8.6	5.6
Utilities	3.6	2.5
Cash & Other	2.9	-

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