

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	1.3	9.6	-2.6	-7.4	6.9	10.3	6.9
S&P/ASX 300 Accumulation Index	3.1	11.7	3.4	-2.1	7.7	7.3	5.7
Value Added (Detracted)	-1.8	-2.1	-6.0	-5.3	-0.8	3.0	1.2
Capital Growth	1.3	8.8	-8.4	-14.0	0.9	4.0	0.7
Income Distribution	0.0	0.5	5.2	6.0	5.2	5.4	5.4
Net Performance [^]	1.3	9.3	-3.2	-8.0	6.1	9.4	6.1

*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 31 May 2016):

AUD \$41 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 May 2016):

AUD \$6.4 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ Over the 12 months to May 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 7.8%.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.4% per annum.
- ▶ Markets rallied in May, with the S&P/ASX300 Accumulation Index (the Index) up 3.1%.

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

The Index rallied strongly, finishing the month up 3.1%. The Trust returned 1.3%, underperforming the market by 1.8%.

Globally, markets were mixed with the S&P500 up 1.5%, the Nikkei 225 up 3.4%, the FTSE100 down 0.2% and the Shanghai Composite down 0.7%. The Federal Reserve left rates unchanged and commodity prices rolled over as expectations for the resilience of China's first quarter rally waned. Iron ore ended the month down 25.0% and copper was down 7.0%, while Brent oil remained on trend, up 4.6%. In Australia, the Reserve Bank of Australia (RBA) cut interest rates 25 basis points on a lower outlook for inflation than previously forecast. The Australian Dollar (AUD) finished the month at 72 US cents, down 5.0%.

Cyclical sectors underperformed over the month with metals and mining (down 6.4%), materials (down 3.0%) and energy (down 1.6%) all ending lower. Stronger sectors included healthcare (up 9.4%), information technology (up 7.0%), consumer discretionary (up 5.6%) and financials (up 5.2%).

The best performing stock in the portfolio was Macquarie Group (up 21.7%), which rallied after delivering a record FY16 profit result of over \$2 billion, up 24.0% on the prior year, with strong growth in its key asset management business, and increasing the full-year dividend by 21.0%. Other strong performers included QBE (up 11.6%), Lend Lease (up 5.7%) and Boral (up 5.6%). The major banks outperformed, rising an average of 4.6%, after delivering first half results which were generally well-received by the market.

Stocks which detracted from performance included Flight Centre (down 19.6%), which fell after downgrading earnings as a result of weaker outbound travel growth. Fortunately, we had largely exited this position before the downgrade. The other main detractors were our resource holdings, which reversed some of their recent strong run, declining on the back of lower commodity prices, with Rio Tinto (down 13.3%) and BHP Billiton (down 7.7%). The Trust was also impacted in a relative sense by not holding healthcare stocks, which rallied strongly on the lower AUD. We do not hold these stocks on account of their expensive valuations and low dividend yields. CSL, for example, is trading on a FY17 price to earnings (P/E) of 24.9 times and gross dividend yield of only 2.1%.

Trust Activity

During May, we further reduced our holding in Flight Centre at an average price of \$36.11, ahead of the profit downgrade which saw the stock finish the month at \$31.61. Proceeds were used to increase our holding in Macquarie Group. This stock is well placed to benefit from a lower AUD, deriving nearly 70.0% of its earnings offshore and has several drivers to generate earnings growth in the coming year. At month end, stock numbers were 25 and cash was 5.1%.

Outlook

The Trust remains exposed to the theme of ongoing transition to the east coast economy through overweight positions in retail, building and construction-related stocks. The Trust also remains overweight in the large-cap, low-cost, financially-sound resources companies. We remain underweight the “expensive defensive” sectors of the market such as healthcare, infrastructure and REITs. These sectors have become a crowded trade and valuations remain stretched as a result of historically low interest rates. The Trust continues to exhibit Perennial Value’s true to label value characteristics, with the Trust 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.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.4	9.2
Westpac Banking Corporation	9.1	7.1
Telstra Corporation	8.8	4.7
ANZ Banking Group Limited	7.1	5.2
National Australia Bank	6.8	5.0
Wesfarmers Limited	5.8	3.2
BHP Billiton Limited	4.8	4.2
Event Hospitality	4.5	0.0
Woodside Petroleum	4.4	1.3
Stockland	3.3	0.7

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.4	4.1
Materials	12.1	13.7
Industrials	0.9	8.0
Consumer Discretionary	7.0	5.2
Consumer Staples	5.8	6.8
Health Care	0.0	7.3
Financials-x-Real Estate	46.8	36.6
Real Estate	6.9	9.2
Information Technology	0.0	1.3
Telecommunication Services	8.8	5.5
Utilities	2.1	2.4
Cash & Other	5.1	-

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:



Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 271501. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial’s website www.perennial.net.au.