Perennial Value Australian Shares Trust

Monthly Report
31 August 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	-0.3	2.1	5.6	6.6	7.7	10.2	10.7
S&P/ASX 300 Accumulation Index	-1.6	2.1	4.7	9.7	6.6	9.5	7.8
Value Added (Detracted)	**1.3**	**0.0**	**0.9**	**-3.1**	**1.1**	**0.7**	**2.9**
Net Performance	-0.3	2.0	5.5	5.7	6.8	9.3	9.9

*Gross Performance. ^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Perennial Value Australian Shares 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 2016):
AUD $1.3 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 August 2016):
AUD $9.3 billion

Minimum initial investment:
$25,000

Trust inception date:
March 2000

APIR code:
IOF0200AU

- **The market fell in August, with the S&P/ASX300 Accumulation Index (the Index) down 1.6%.**
- **Reporting season was the highlight of the month, seeing a rotation into value.**
- **The Trust fell 0.3%, outperforming the market by 1.3%.**

Trust Performance

The Perennial Value Australian Shares Trust (the Trust) fell 0.3% for August, outperforming the Index by 1.3%.

The international markets were mixed with the S&P500 down 0.1%, FTSE100 up 0.9%, Nikkei 225 up 1.9% and the Shanghai Composite up 3.6%. Metal prices eased post their recent rallies, with nickel down 8.6%, copper down 5.2%, gold down 3.4% and iron ore falling 2.8% over the month. The oil price closed up 8.4%, having rallied 21.0% intra-month. The Federal Reserve left rates unchanged and the Reserve Bank of Australia (RBA) reduced rates by 25 basis points to 1.5%, with the Australian Dollar (AUD) finishing the month down 0.5 cents at 75 US cents.

Reporting season was the highlight of the month. As expected, results were generally subdued, with soft revenue growth, an ongoing focus on cost control and weak earnings growth. Industrial earnings were mixed but overall flattish, while bank earnings declined slightly and resource earnings fell sharply on lower commodity prices.

The reporting season saw a reversal of the trends of the past twelve months, with many of the “expensive defensive” parts of the market underperforming, having failed to meet the market’s very high expectations of them. Notable examples of stocks which we have not held on the basis of overvaluation include Blackmores (down 21.5%), REA Group (down 9.5%), Transurban (down 8.8%), Brambles (down 8.4%) and CSL (down 8.4%). Interestingly, despite the share price falls, these stocks are still trading on demanding valuations, with FY17 price to earnings (P/E) ratios of 20 to 30 times, suggesting further downside risk.

By contrast, we were pleased to see strong performances from some of the out of favour stocks we hold which we believe offer very good value. Holdings which performed particularly strongly included Downer EDI (up 20.4%) which delivered a solid result in challenging conditions and guided for FY17 profits significantly higher than market forecasts, as it manages the transition from a mining services focus towards public infrastructure and services provision. Ansell (up 17.6%) rallied hard after delivering a result which showed improved organic growth and announcing the potential sale of their consumer products business. Flight Centre (up 14.6%) performed well despite reporting slightly lower earnings as a result of discounting by airlines. Despite this headwind, the company is continuing to invest and expand its global footprint to underpin future growth. Harvey Norman (up 11.2%) outperformed after delivering a very strong result, with profit up 20.0% and the dividend increased by 50.0%. All of these businesses have strong market positions, good management and are trading at attractive valuations. Further, they are underpinned by strong balance sheets which allowed them to maintain or increase their dividends.

Resource stocks Woodside Petroleum (up 9.6%) and BHP (up 4.7%) performed well. Despite reporting earnings which were down significantly on last year, the large resources companies have achieved significant unit cost and capex reductions. Combined with the recent rally in commodity prices this should see stronger cash generation going forward. CBA (down 4.3%) was the only major bank to report, with flat earnings per share (EPS) and dividends highlighting the earnings pressure the sector is facing, as well as the reason the Trust is underweight the banks.

Stocks which detracted from performance included Gateway Lifestyle (down 18.5%) with FY17 guidance lowered following a decision to bring forward the conversion programme of four tourist parks to retirement parks. AGL Energy (down 8.1%) declined after indicating the benefit of stronger wholesale electricity prices is expected to moderate, QBE Insurance (down 7.7%) fell on a rise in Australian claims costs and AMP (down 7.1%) slipped after a disappointing result from the life business. We remain comfortable with the outlook for each of these businesses and note that each has internal initiatives underway to address these issues and improve performance.

Trust Activity

During the month we took profits and reduced our holdings in Boral and Navitas following strong share price performances. We also reduced our positions in Telstra and the banks. Proceeds were used to increase our holding in Amcor which continues to deliver good organic and acquisitive growth, demonstrating its model continues to be sound and global opportunities abound. We also increased our holdings in Macquarie Group, BHP and CYBG. At month end, stock numbers were 47 and cash was 3.5%

Outlook

In recent months, we have become slightly more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. The Trust remains overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight given that sector's high leverage at a time of historically low interest rates.

The Trust 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.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.0	8.5
BHP Billiton Limited	6.0	4.5
Westpac Banking Corporation	5.7	6.8
ANZ Banking Group Limited	5.3	5.4
National Australia Bank	4.9	5.0
Telstra Corporation	4.6	4.4
Wesfarmers Limited	4.3	3.3
Macquarie Group Limited	3.9	1.9
Woolworths Limited	3.2	2.1
Woodside Petroleum	2.9	1.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.0	4.1
Materials	14.7	14.7
Industrials	1.1	7.4
Consumer Discretionary	9.6	5.5
Consumer Staples	8.7	7.2
Health Care	3.0	7.3
Financials-x-Real Estate	36.9	35.4
Real Estate	8.0	9.4
Information Technology	0.0	1.3
Telecommunication Services	5.3	5.1
Utilities	2.0	2.6
Cash & Other	3.6	-

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