Perennial Value Shares for Income Trust

Quarterly Report as at 31 December 2012

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	**Since Inception^ % p.a.**
Perennial Value Shares for Income Trust*	8.6	25.1	5.3	0.9	5.6
S&P/ASX 300 Accumulation Index	6.8	19.7	2.8	-1.8	4.1
Value Added (Detracted)	**1.8**	**5.4**	**2.5**	**2.7**	**1.5**
Capital Growth	7.2	18.2	-0.5	-5.1	-0.8
Income Distribution	1.1	5.9	4.9	5.1	5.6
Net Performance^^	8.3	24.1	4.5	0.1	4.8

*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.**

- The Trust delivered a return of 8.6% for the quarter, outperforming the Index return by 1.8%.
- Brambles, Boral Limited, Flight Centre and Myer Holdings Limited were added to the Trust during the quarter.
- The best performing stock was Macquarie Group (up 27.3%), which rallied on the improving financial markets outlook.

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 financials ANZ, NAB, Westpac and Macquarie Group, retailers Harvey Norman and Premier Investments, mining services company Orica and property companies Australand and Stockland.

Quarterly Distribution

The Trust paid a distribution of 1.0 cents per unit for the December quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.6 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 1.9% for the quarter.

Trust Activity

During the quarter, several new stocks were added to the Trust, including Brambles, Boral Limited, Flight Centre and Myer Holdings Limited. These are all stocks which, in addition to currently offering an attractive gross yield, have significant earnings and dividend growth prospects as well as strong market positions supported by sound balance sheets.

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

Trust FUM (as at 31/12/12):
AUD63.7 million

Team FUM (as at 31/12/12):
AUD7.4 billion

Trust Inception date:
December 2005

Risk Profile:
High

Income Distribution Frequency:
Quarterly

Minimum Initial Investment:
$25,000

APIR code: IOF0078AU

*Gross dividend yield

Brambles is best known for its pallet pooling business, CHEP, which is the global leader in its field. This is an attractive business with high barriers to entry. The company has a very strong balance sheet and earnings per share are forecast to grow at a double digit rate over the coming three years, which should drive strong dividend growth.

During the quarter, we exited our holdings in Graincorp, Adelaide Brighton and Flight Centre. No new stocks were added to the Trust during the quarter.

A highlight of the quarter was the takeover offer for Graincorp. While we held the stock on the basis of its business fundamentals and attractive dividend yield, we were always aware of the strategic value of its asset base, believing that it would be taken over at some point by a global agribusiness player. In October, US based Archer Daniels Midland (ADM) made an offer to acquire the business for $11.75. This represented a 33% premium to the share price at the time and, in our view, represented an attractive offer. We sold half of our holding to ADM for $11.75 prior to its bid and then sold the remainder on market at $12.53. We first acquired Graincorp in December 2010 for $6.38 per share. Since then it has been a very good performer for the Trust, delivering a total return of over 100%, compared to the market return of only 3% over that period.

We sold out of Adelaide Brighton as it has less upside than our other building materials holdings, Boral and Fletcher Building. We first introduced Adelaide Brighton to the Trust in December 2009. While the share price has only risen 12% over this period, the stock has paid a total of 54 cents in fully-franked dividends. When these are included, the stock has delivered a total return of 33% over this time. This compares favourably to the total return of the market of 9% and highlights the importance of dividend income to total return outcomes for investors, particularly through challenging periods in markets where capital gains are fewer.

We first acquired Flight Centre in July 2012. The stock subsequently performed very well, delivering a total return of 28% over the period until we sold in December, including the payment of 71 cents per share, fully-franked dividend. While operating conditions are currently very favourable and have driven the share price higher, things may be as good as they get for this stock and the earnings growth rate is likely to slow going forward, particularly should the Australian dollar weaken making overseas travel less affordable. Given the strong outperformance, we sold out of our holding and locked in profits.

Proceeds were reinvested to increase the Trust's resource exposure, with the Trust increasing its holdings in BHP and Iluka. BHP is attractive due to its strong balance sheet and diversified portfolio of low cost, long life assets. Iluka similarly holds a strong position, being the world's largest producer of zircon, a critical ingredient for the manufacture of ceramics and has very little debt. Importantly, these two companies pay a reasonable level of dividends. The prospects for the resources sector have improved in recent times with the Chinese economy seemingly having bottomed and commodity prices recovering from their mid-year lows. While the Trust has increased its resource holdings recently, it is still underweight relative to the overall market on account of the generally lower dividend yields offered by resource stocks.

We also topped up our holding in Brambles. This logistics company has very attractive fundamentals such as holding dominant market positions, and is continuing to increase market share in developed markets. It is also rolling out new products and has significant growth potential in emerging markets. These factors should drive organic growth in the near term. This is in addition to its potential to benefit from a recovery in economic activity in the US and Europe.

At quarter end, stock numbers stood at 27 with cash at 1.7%.

Stock and Trust Performance

The S&P/ASX300 Accumulation Index (the Index) rose 6.8% over the quarter. Most sectors finished positively at the end of the quarter with telecommunications (up 11.4%), healthcare (up 10.6%) and consumer discretionary (up 8.9%) the strongest performers. Consumer staples (up 5.2%), resources (up 4.6%) and energy (down 0.3%) underperformed.

The Trust delivered a return of 8.6% for the quarter, outperforming the Index return by 1.8%. The Trust has now delivered a return of 25.1% for the past 12 months, outperforming the Index return of 19.7% by 5.4%. 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 17.2%) as the incoming Prime Minister pledged to combat deflation and the strong yen. The Shanghai Composite (up 8.8%) was also strong as the market became more confident of a stabilising Chinese economy. The FTSE was up 2.7%, while the S&P500 (down 1.0%) lagged on the back of uncertainty over the US fiscal cliff.

Domestically, the Reserve Bank of Australia cut the cash rate by 0.5% over the quarter to 3.0%, citing a softening labour market and peaking mining capex as providing the scope for easing. Interest rates have now been cut by 1.75% since November 2011 which should provide further support to the Australian economy going forward. The unemployment rate was up by 0.1% to 5.2%. The Australian dollar was unchanged at USD1.04.

The best performing stock over the quarter was Macquarie Group (up 27.3%), which rallied on the improving financial markets outlook. Other stocks which outperformed tended to be those companies which are set to benefit from interest rate cuts including: retailers Myer (up 23.8%) and Premier Investments (up 15.8%), building materials companies Fletcher Building (up 19.2%) and Boral (up 13.8%). Property companies also did well, with Australand (up 19.0%) rallying after receiving a bid from GPT for its investment property portfolio and Lend Lease (up 18.2%)

after announcing several construction contacts. BHP (up 12.3%) also performed strongly as the resources sector rallied on the improving Chinese economic outlook and Telstra (up 11.5%) continued its strong performance.

The major bank reporting season wrapped up during the quarter, with ANZ, NAB and Westpac delivering their FY12 results. While operating conditions remain challenging, with subdued credit growth and ongoing margin pressures, the major banks remain well capitalised and positioned to continue to deliver attractive dividend yields. ANZ, NAB and Westpac increased their full year dividend per share payments by 4%, 5% and 6%, respectively. This follows the 4% increase in full year dividends from CBA. Performance of the major banks was mixed, with CBA (up 11.5%) and Westpac (up 8.2%) outperforming, while ANZ (up 4.4%) and NAB (up 1.6%) lagged.

The worst performing stock in the Trust was Iluka Resources (down 9.2%) which fell over continuing softness in the zircon market leading to downgraded near term earnings expectations. While this stock will require patience, it is highly leveraged to any improvement in demand. In the interim the company has a debt free balance sheet and will continue to pay dividends to investors. Other stocks which underperformed included Treasury Wine Estates (down 6.8%) which fell as investors took profits, Coca-Cola Amatil (down 0.8%) and Harvey Norman (0.0%).

ESG

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. During the quarter, two of our Trust holdings reported positive ESG developments. Chemical company Orica announced that it had invested to install new carbon abatement technology at all four of its Australian nitric acid plants. It is estimated that this will remove 390,000 tonnes of carbon dioxide equivalent per annum, giving the same benefit as removing 150,000 cars from the roads. Westpac is taking a leadership role in promoting equality in the work place and have focused on the recruitment, retention and development of talented female leaders. As a result, they have increased the proportion of women in leadership roles from 33% in 2010 to 40% in 2012. The bank has consistently received a large number of accolades from global sustainability and ethics monitoring organisations.

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 should grow and dividends paid to shareholders should increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings as at 31 December 2012

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	8.4%	10.4%
Commonwealth Bank.	8.3%	8.7%
Telstra Corporation.	7.8%	4.7%
National Aust. Bank	6.9%	5.0%
Westpac Banking Corp	6.9%	7.0%
ANZ Banking Grp Ltd	6.9%	5.9%
Orica Limited	5.1%	0.8%
AMP Limited	4.0%	1.2%
Macquarie Group Ltd	3.2%	1.1%
Woodside Petroleum	3.1%	1.8%

Asset Allocation as at 31 December 2012

Asset Class	Trust Weight %	Index Weight %
Energy	3.1%	6.4%
Materials	23.1%	21.7%
Industrials	4.9%	6.8%
Consumer Discretionary	6.7%	3.7%
Consumer Staples	6.4%	8.4%
Health Care	0.0%	4.5%
Financials-x-Real Estate	39.3%	33.8%
Real Estate	5.1%	7.3%
Information Technology	0.0%	0.7%
Telecommunication Services	7.8%	5.0%
Utilities	0.0%	1.7%
Other	3.5%	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment