

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	0.5	10.9	10.5	13.3	14.2	15.3	7.7
S&P/ASX 300 Accumulation Index	-0.1	10.3	12.9	13.9	13.4	15.3	8.3
Value Added (Deducted)	0.6	0.6	-2.4	-0.6	0.8	0.0	-0.6
Net Performance	0.4	10.6	9.7	12.2	13.2	14.3	6.7

* Gross Performance. Past performance is not a reliable indicator of future performance.

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio manager:

Lee Mickelborough

Risk profile:

High

Trust FUM (as at 31 March 2015):

AUD54.0 million

Income distribution frequency:

Half yearly

Team FUM (as at 31 March 2015):

AUD2.6 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2001

APIR code:

IOF0117AU

- ▶ **Companies which possess strong fundamentals for growth will continue to outperform.**
- ▶ **The economic recovery in the US continues as evidenced by generally supportive economic data.**
- ▶ **Chinese economic data has remained underwhelming.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 0.6% in March, finishing up 0.5% against the Index which finished down 0.1% for the month.

Technology (up 3.2%), Banks (up 2.5%) and Healthcare (up 2.1%) were the strongest performing sectors in March, while the recent weakness in Resources (down 6.2%) sector continued with Energy (down 5.7%), REIT's (down 2.1%) and Utilities (down 0.6%) all falling.

Investment Themes and Stock Performance

Companies which possess strong fundamentals for growth will continue to outperform.

One of Trust's longer standing positions, **JB Hi-Fi Limited (overweight, up 6.8%)** is in the process of developing its Commercial (Education, Insurance, Business and Telco sector direct sales) and HOME businesses, both of which are driving growth and complementing their existing electronics stores network. In the backdrop, the company is also currently benefiting from macro-economic factors, including lower interest rates and falling petrol prices, while a stronger housing market is leading to new homes being fitted out. In our view, the company valuation remains undemanding with significant upside supported by a strong balance sheet. The company is also offering a 5% fully franked yield which is very attractive to the market at the moment.

Mayne Pharma Group Limited (overweight, up 3.2%) continued its strong performance following on from the two very important transactions that it announced last month. The first announcement was the end to litigation by Pfizer to stop the company launching its generic version of Pfizer's Tikosyn drug. Tikosyn is used for the treatment of irregular heartbeat. Annual sales of the drug in the US are approximately USD150 million. We estimate this drug may contribute up to USD23 million in the first full year to market. The second transaction that Mayne announced was the acquisition of the Doryx brand and related assets from Actavis for USD50 million in conjunction with two other key existing generic products in separate transactions for a payment of up to USD15.7 million. After taking into account the acquisitions and associated capital raisings the deal is highly accretive to growth and returns.

Contrary to our experience in Mayne Pharma, we did not fare so well in **GI Dynamics (overweight, down 49.1%)** this month after the US Food and Drug Administration halted a key trial into its Endobarrier treatment for obesity and type-2 diabetes. The setback came about after four of the 325 patients enrolled in the trial developed bacterial infections in the liver. We continue to monitor the situation as previously there has been good evidence to suggest that the Endobarrier device works and the company has adequate cash to continue its planned pipeline of development. There remains the possibility that once investigated, the halted trial may be resumed.

Henderson Group PLC (overweight, up 9.3%) continued its recent strong performance following confirmation by various industry surveys of strong industry flows into a broad range of European asset classes. As highlighted in previous months the introduction of Quantitative Easing by the European Central Bank has been the trigger for these flows. We expect that Henderson will be a significant beneficiary of this retail flow momentum with the report of the first quarter of the year, expected in April, to confirm this positive trend.

Caltex Limited (new position) was added to the portfolio following the sell down of Chevron's 50% stake. Chevron's exit from the register is significant as going forward the majority of shareholders will be Australian and in favour of liberating the \$1.1b of excess franking credits that sit on Caltex's balance sheet. Post the closure of the Kurnell refinery late last year (which has reduced earnings volatility and freed up substantial working capital) Caltex is arguably undergeared and well-placed to either materially increase dividends or undertake off market share buybacks to distribute the franking credits. Caltex has an improving growth outlook, boosted by a company-wide cost out program which will deliver up to 10% earnings upside by FY16 and Fuel Retailing is assisted by the ACCC's decision to limit supermarket fuel discounts at 4 cents per litre.

We added **Carsales.com (new position)** Australia's market leader in online automotive classifieds, to the Trust in March. We estimate that Carsales owns more than 85% of its segments revenue due to its dominance in attracting audience and inventory. Since inception, Carsales has been at the forefront of the move of automotive advertising from print media to online, and has managed to capitalise on this movement while also broadening into motor finance through investment in Stratton finance. In recent times Carsales has broadened its international footprint through acquisitions of Webmotors and SK Encarsales. During this period of growth, Carsales has maintained a strong balance sheet and retained a top management team which will continue to drive the company's expansion.

We increased our holding in **Macquarie Group (overweight, up 5.2%)** via a capital raising following the announcement of an acquisition of a portfolio of aircraft. The 90 aircraft portfolio with an average fleet age of 2 years was purchased for \$US4b with the capital requirement as part of this transaction expected to be \$A0.6b. The group will fund this with a combination of existing cash and the capital raising of A\$0.5b announced with this transaction. While not of great magnitude, we assessed the transaction as being accretive to our valuation and participated in the capital raising.

We used some market weakness to top up our position in **Challenger (overweight, up 4.3%)** which continues to offer an attractive investment proposition, trading at a 16% discount to our assessed valuation and offering significant earnings potential. Challenger is positioned to deliver acceleration in its Annuity book growth. We are forecasting 12% net book growth in FY15, future growth is underpinned by new distribution agreements with CBA and Vic Super.

We exited **Asaleo Care Limited (position sold)** as it traded closer to our assessed valuation and our concerns grew over the hedges rolling off key commodity inputs. While Asaleo's hedge positions are effective today, later in the year the group will need to recover higher costs of production with price increases and we assessed this as posing a significant risk to our earnings expectations.

The economic recovery in the US continues as evidenced by generally supportive economic data.

This remains a central theme in our portfolio construction. We are seeing the gradual normalisation of US monetary policy, ongoing recovery in the USD and general upward pressure on US interest rates. We have chosen to play this central theme through tilting the portfolio towards those companies that have operations whose fundamentals will be supported in this environment.

In past monthly commentaries we have spoken about our exposure to Real Estate Investment Trusts (REITs). Under this particular thematic we are focused on sector (retail, residential, industrial, office), offshore earnings, strong development books, and leasing environment in the countries in which they operate. Further as there is a relationship between bond yields and the valuation of REITs, normalisation of monetary policy and the subsequent rise of bond yields are likely to play an important role on REIT valuations.

This month we reviewed our holdings in light of the normalisation of US monetary policy and the effects that we believe we will see on bond yields. In light of this review we elected to exit our position in **Stockland (position sold)**, our most domestically focused REIT after a period of strong share price performance in favour of retaining offshore exposure. We also decided in favour of trimming our exposure to **Goodman Group (overweight, up 1.8%)**. We have been pleased with the performance of Goodman over the time that we have held the company; however we elected to reduce the size of the position due to our expectations of rising US interest rates during 2015. Our position in **Westfield Corp. (overweight, down 2.7%)** was left intact as we continue to see strong upside in its core US and European business as well as strong upside in its development portfolio and potential for engagement in corporate activity.

Chinese economic data has remained underwhelming.

The Chinese leadership face the reality of balancing long term reforms on corruption, the environment and market liberalisation with maintaining economic growth. Despite the weaker growth we have not observed any change of government policy; this is consistent with our view that the leaders are maintaining a long term view of China's growth trajectory.

As a result of Chinese economic conditions, investors remain cautious on **Bluescope Steel (overweight, down 12.7%)**. While we note the downward trajectory of hot rolled coil prices, we believe the effect of the lower prices are being offset due to lower input costs, in particular iron ore, and also through the lower AUD. Looking longer term, it is our view that the combination of Bluescope's Global Building Solutions and Building Products divisions, which give the company global reach, should be able to drive earnings growth in coming years.

On the subject of the Steel market, we made the decision to exit **Sims Metals (position sold)**. Sims has been a strong performer for the Trust, however in our view the share price reached a point where the upside available to the company was well and truly factored in and as such exited on valuation grounds.

Our remaining holding in **Fortescue Metals (position sold)** was sold during the month. Despite cost cutting initiatives and the lower AUD helping its competitive position, the company is still being overwhelmed by the falling iron-ore price. Unlike its major competitors that have a broader spread of commodities and better balance sheets, we considered FMG to be too financially exposed if the downturn in prices continued throughout this year.

Western Areas (overweight, down 15.0%) was subject to concerns over recent weakness in nickel prices.

Domestically, consumer confidence and business conditions have continued to weaken and the Australian dollar will likely continue to slide.

There will be a transitory period between the current weakness and subsequent recovery as the falling Australian dollar should assist in rebalancing the Australian economy in the longer term. As such, we have maintained a general underweight position to the Australian retail sector.

After reporting a poor 1H15 result late in February **Woolworths (not held, down 1.7%)** continued to decline in March. As noted in February's commentary, Woolworths cut its FY15 guidance, replaced the Head of Supermarkets and announced a strategic review. 2Q15 Food & Liquor LFL sales growth was up 1.2%, the lowest since 3Q12. Management acknowledged its weak price position relative to Coles, Aldi, IGA and Costco and will reinvest in excess of \$500 million back into the supermarkets business to improve price perception. Other business units including General Merchandise, Home Improvement and Hotels were also weak. The FY15 NPAT growth guidance of 4 to 7% was downgraded to be at the lower end of current analyst NPAT growth forecasts of 1.8 to 6.6%. This poor price perception with customers and poor execution of the Home Improvement strategy are key reasons the portfolio has not held Woolworths for several years.

Oil has entered a period of structural supply / demand imbalance in favour of supply.

This will create economic imbalances between countries leveraged to production and those leveraged to consumption.

On the back of a dry well at Kangaroo West, **Karoon Gas Australia (overweight, down 17.6%)** underperformed the market. While disappointing given the potential target size, Karoon still has a 50% exploration success rate in this campaign and we note still has some significant exploration events over the coming months. The next well in the Brazil campaign is the Echidna well which the company rates as having a 43% chance of success and mean estimated resource of circa 100million barrels of oil. Given the proximity to the Piracuca and Bilby oil discoveries and the geologic similarities to Kangaroo we like the look of this prospect. It is worth noting that Apache has contracted a rig to drill a well on which Karoon is 90% carried in the Carnarvon basin with drilling to commence in May. We have retained our overweight position and still feel it is the best way to approach this structurally challenged sector.

With oil prices little changed over the month and crude inventories continuing to build in the US, **Sundance (overweight, down 18.9%)** underperformed the market. While we agree that the outlook remains challenging as we have said before we believe that management has the experience and quality to guide the company through this downturn. We would highlight the acquisition by Sundance this month of 13500 net acres in the Eagle Ford Shale (EFS) at US\$1000/acre increasing their EFS land position by 69% as proof of this with management looking to grow the company at the bottom of the cycle.

At the close of the month the Trust held 40 stocks and had an effective cash balance of 4.4%.

Market Overview

The Index (down 0.05%) closed in slightly negative territory for March but did post its strongest quarter since the GFC closing up 10.3%. The Shanghai 300 (up 13.4%), Euro Stoxx 50 (up 3.3%) and Nikkei (up 2.2%) were the strongest performing markets, whilst FTSE100 (down 0.9%) and S&P500 (down 0.9%) declined.

The Federal Open Market Committee (FOMC) released a more dovish than expected statement during the month which resulted in markets pushing back the expected timing for the first US rate increase to 3Q15 from previous expectations of June.

Domestically economic data remained mixed in March with retail sales (up 0.4%), building approvals (up 7.9%), and 15,600 new full time jobs added pushing the unemployment rate down to 6.4%. However NAB business confidence and Westpac-MI consumer confidence disappointed relative to expectations. The AUS/USD declined 2.5% to close at 0.7606.

Chinese data continued to disappoint, with HSBC flash manufacturing PMI declining 1.5 points to 49.2 representing an 11 month low, industrial production (up 6.8%) growth was below expectations and the weakest in six years with the Chinese government cutting its GDP growth target to 7%, the lowest level in many years. In-line with the weak backdrop from China, global commodity markets remained depressed, with iron ore tumbling 17% to US\$52/t and the oil price (Brent) falling 6% to US\$57.34/barrels of oil equivalent (boe).

Best/Worst Performers

(Best) company	Month Return	(Worst) company	Month Return
BHP Billiton Limited (Not Held)	-5.3	Karoon Gas Australia Ltd	-17.6
Henderson Group PLC	9.3	Bluescope Steel Limited	-12.7
Rio Tinto Limited (Not Held)	-9.0	GI Dynamics Inc	-49.1
JB Hi-Fi Limited	6.8	Sundance Energy Australia Limited	-18.9
Mayne Pharma Group Limited	3.2	Western Areas Limited	-15.0

New/Increased positions

Caltex Australia	New
Carsales.Com Ltd.	New
Macquarie Group Ltd	Increased
Challenger Limited	Increased
Sundance Energy	Increased

Exited/Decreased positions

Sims Metal Mgmt Ltd	Exited
Stockland	Exited
Fortescue Metals Grp	Exited
Goodman Group	Reduced
Asaleo Care Limited	Exited

Top 10 Holdings

Stock name	Trust weight %	Index weight %
National Aust. Bank	8.8	6.2
ANZ Banking Grp Ltd	8.4	6.7
Commonwealth Bank.	8.3	10.0
Westpac Banking Corp	7.4	8.1
CSL Limited	5.1	2.9
Asciano Limited	3.2	0.4
Mayne Pharma Ltd	3.1	0.0
AMP Limited	3.1	1.3
Challenger Limited	2.9	0.3
James Hardie Indust	2.8	0.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.6	4.4
Materials	10.8	14.4
Industrials	10.7	7.3
Consumer Discretionary	4.2	4.3
Consumer Staples	0.0	6.8
Healthcare	10.9	6.1
Financials-x-Real Estate	43.5	40.4
Real Estate	4.7	7.7
Information Technology	1.3	1.0
Telecommunication Services	2.5	5.7
Utilities	2.4	2.0
Cash	4.4	-

Rounding accounts for small +/- from 100%.

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