PERENNIAL GROWTH MANAGEMENT

Perennial Socially Responsive Shares Trust

Monthly Report
31 July 2015

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	5.7	1.1	5.7	6.1	12.3	16.3	9.4
S&P/ASX 300 Accumulation Index	4.3	-0.8	4.3	5.5	10.8	14.8	9.4
Value Added (Detracted)	**1.4**	**1.9**	**1.4**	**0.6**	**1.5**	**1.5**	**0.0**
Net Performance	5.5	0.8	5.5	4.9	11.1	15.2	8.4

* 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 Mickelburough

Risk profile:
High

Trust FUM (as at 31 July 2015):
AUD4.4 million

Income distribution frequency:
Half yearly

Team FUM (as at 31 July 2015):
AUD2.6 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **The economic recovery in the US continues as evidenced by generally supportive economic data.**
- **It is time to invest for growth.**
- **We are looking for opportunities to invest in companies that are investing capital to sustainably grow their businesses.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 1.36% in July, finishing up 5.67% against the Index which rose 4.31% for the month.

Health care (up 9.5%) was the strongest performing sector this month, closely followed by consumer staples (up 7.5%). Industrials (up 6.5%) and consumer discretionary (up 6.3%) were the best of the rest with real estate (up 5.5%), utilities (up 5.2%), telecommunications (up 5.5%) and financials (up 4.6%) also notching up strong results. The key underperformers were energy (up 0.1%) and materials (down 1.4%).

Investment Themes and Stock Performance

Chinese economic data has remained underwhelming and policy response is demonstrating concern.

The Chinese leadership face the reality of balancing long term reforms on corruption, the environment and market liberalisation with maintaining economic growth. There are signs that the Chinese government is becoming more aggressive in their management of the economy as they implement monetary policy to stimulate growth.

BHP Billiton (not held - restricted, down 2.2%) underperformed the market during the month as commodity prices retreated significantly over the month. In terms of stock specific news BHP Billiton released their quarterly production report in which they provided FY16 volume guidance which disappointed relative to expectations. The biggest disappointments were in petroleum and copper where they guided to declining yoy volumes, down 7% and 12% respectively. We believe that their strategy of maintaining a progressive dividend results in the company forgoing investment opportunities that would likely generate returns significantly in excess of their cost of capital.

Bluescope Steel (overweight, up 21.0%) outperformed as the market became more confident that the company could successfully implement a strategy to exit Port Kembla. While the exact cost of the remediation of Port Kembla is not known, should it be deemed economically viable the potential benefit to the company would be the ceasing of loss making steel production. While we believe the successful implementation of the strategy would enable Bluescope to increase the flexibility in its cost structure and focus on its best of breed coated products, we feel it is too early to grow too confident about such a large undertaking and will look forward to reporting season to gain further insights.

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 US dollar and general upward pressure on US interest rates. This view is now a consensus view; however the theme remains intact and is accelerating.

Westfield Corporation (overweight, up 10.0%) one of our favoured US Dollar (USD) earners, outperformed over the period as speculation continued to mount on the prospect of corporate action. There has already been a failed attempt at M&A in the US real estate investment trust sector between Simon Property Group Inc.

(SPG) and Macerich Co. (MAC) and it has been noted that possession of Macerich assets could be accretive to Westfield's future earnings.

Mayne Pharma (overweight, up 18.8%) is a significant beneficiary of a stronger USD with 90% of revenues earned in USD, while large portions of the cost base are denominated in Australian Dollar (AUD). Other share price drivers will be the trend for sales of Doryx following the takeover of the distribution of the product in May 2015. The 66 person dedicated sales force is expected to increase the share of market in the months ahead. The early indications from prescription data in the US are that sales have been stable with some uptick in late June. The company also has a large portfolio of drugs awaiting approval with the FDA.

It is time to invest for growth.

We believe that this theme is contrarian relative to current market sentiments. Where most segments of the market are still focussed on capital management, we are looking for opportunities to invest in companies that are investing capital to sustainably grow their businesses.

Asciano Group Limited (overweight, up 22.3%) outperformed in July after it had received an indicative, conditional and non-binding takeover bid of $9.05 from Canadian Infrastructure firm Brookfield. Over the last 4 years Asciano has spent approximately $3 billion improving the quality and efficiency of its asset base and it was clear from the Port Botany tour in June that Patrick Stevedoring has a significant scale, productivity and cost advantage over its competitors Hutchison and DP World. In FY16 we forecast capex to decline and cash flow to improve materially driving up shareholder returns.

Orocobre Limited (overweight, down 5.7%) underperformed the market during the month, however performed broadly in line with other resource names. The company reported their quarterly production in which June production missed the company's guidance as work was completed to identify issues with the mass balance which we consider to be part of commissioning a new plant. We acknowledge that commissioning a newly constructed plant can result in volatile results however importantly the company has maintained guidance that nameplate capacity will be reached during the December quarter. We remain attracted to the positive Lithium industry dynamics and the company's resource base which should allow for incremental growth opportunities at low capital intensity.

Incitec Pivot (overweight, down 6.0%) underperformed after announcing disruption of gas supply to its Moranbah ammonium nitrate plant could cost up to $22 million next financial year. We believe that the final financial impact will be significantly less than this "worst case" scenario as either, more wells will be drilled to restore supply, or Incitec will have financial recourse under the contract. Given we expect the impact to be transitory and will not affect value, we took advantage of the share price weakness to add to our position.

The key driver of value upside in this stock continues to be successful delivery of the Louisiana ammonia plant which is progressing to plan. In addition, the key US coal customer Peabody announced cuts to its expectations for US coal shipments which put pressure on the share prices of both Incitec and **Orica (not held, down 9.7%).**

GI Dynamics (overweight, down 72.0%) was placed in a trading halt towards the end of the month prior to the company's announcement of "its decision to discontinue its US pivotal clinical trial of EndoBarrier Therapy (the ENDO Trial) for the treatment of obese patients who have uncontrolled type 2 diabetes". The decision of the company is based on its inability to reach an agreement with the US Food and Drug Administration (the FDA) around a feasible risk mitigation strategy to reduce the incidence and severity of hepatic abscess (a bacterial infection of the liver). Despite the unusually high incidence rate seen in the ENDO Trial, the Ex-US incidence of hepatic abscess remains low at 0.73% out of 3000 units shipped commercially since 2009. GID will conduct a detailed review of interim results for the ENDO Trial and report its findings in the very near future. We believe that the risk attached to the company has increased significantly although there is still strong evidence supporting the efficacy of the Endobarrier. Caution is warranted until we get clarity and comfort on the future direction of the business and its cash management.

At the close of the month the Trust held 37 stocks and had an effective cash balance of 4.3%.

Market Overview

The Australian market (S&P/ASX 300 Accumulation Index) surged 4.4% on an accumulated basis in July. In global markets, European markets shrugged off concerns of a potential Greek exit to be the stand out performers with the CAC 40 up 6.1%, the Eurostoxx 50 up 5.2% and the DAX up 3.3%. US markets performed solidly with the S&P 500 Index up 1.6%, the Dow Jones up 0.4% and the NASDAQ up 2.8%. Chinese markets performed poorly as the local indexes pulled back from their bull market highs with the CSI 300 falling 14.7% and the Hang Seng falling 6.2% although there was no apparent contagion with the Nikkei 225 returning 1.7%.

Market attention shifted back to the long game of fundamentals after being diverted by the Greek exit saga and China's ambitious attempts to shore up domestic equity markets after sharp falls. On the former, a third bail-out package worth up to Euro 86 billion looks to have stopped a negative feedback loop developing that could have derailed the cyclical recovery currently underway in Europe. On the latter, steps taken by authorities appear to have placed a floor under domestic Chinese equity markets but at the cost of conditioning investors to Government support. Early steps to underpin Chinese demand appear to be bearing fruit with the Chinese economy expanding by 1.7% over the June quarter, up from the 1.4% lift experienced over the previous quarter. The Chinese economy looks set to expand by around 6.8% over 2015. The HSBC flash manufacturing PMI fell to 48.2, lower than both the 49.7 expected and the final reading of 49.4 in May. China's June CPI increased to 1.4% year-on-year, greater than the 1.3% increase expected, while PPI deflation decreased to -4.8% year-on-year against -4.6% expected. House prices declined in 48.6% of cities from May to June in the NBS 70-city house price index. M2 money supply rose to 11.8% year-on-year in June ahead of the 11.0% expected and up from the 10.8% in May. New loan creation totalled 1,281.3 billion yuan in the pcp. Total social financing rose 1,860 billion yuan in June, compared to 1,219 billion yuan in the pcp.

In the US, the economy's rebound from a weather/strike influenced March quarter, where growth was up only 0.2% was on the softer side of expectations. The US economy expanded by 0.6% over the June quarter with most of that growth coming from consumption. The ISM manufacturing PMI increased 0.7 points to 53.5, ahead of the 53.2 expected and the non-manufacturing PMI increased 0.3 to 56, just behind the 56.4 expected. Housing starts for June surged 9.8% month-on-month against a 6.7% increase expected. Labour market conditions appear to be firming as the unemployment rate moved down 0.2% to 5.3%, although nonfarm payrolls totalled 223,000 in June just below 233,000 expected. The US Federal Reserve (Fed) remains in a data dependent mode waiting for its two pre conditions of further labour market improvement and confidence in achieving its medium term inflation objective to be met. The lift off window remains between September and December with most FOMC participants looking for at least one tightening by year end. The Fed's Chairman Yellen has been at pains to point out that the upcoming Fed tightening cycle will be gradual and that until the legacies of the financial crisis have been finally worked through, the US cash rate was likely to remain lower than would otherwise be the case given their longer term growth and inflation forecasts. Headline CP for June rose 0.3% month-on-month in line with expectations.

Given the weaker start to the year in the US, the International Monetary Fund lowered their 2015 growth forecasts from 3.5% to 3.3% while leaving their 2016 growth forecast of 3.8% unchanged. The outlook remains for a moderate uneven global expansion driven by easy financial conditions, lower fuel prices, lessening fiscal drag in Europe and improving levels of confidence and labour market conditions.

The Australian economy continues to generate mixed readings with the overall tone on the softer side. Of the interest rate sensitive sectors, the housing sector looks to be peaking with building approvals up 2.4% May only to fall 8.2% in June. On the consumer side, the 0.3% rise in May retail trade was less than expected and consumer sentiment fell again in July. Encouragingly, the labour market held onto recent strong gains. Total employment lifted by 7,300 in June after May's 40,000 gain. Full time jobs rose by a solid 24,500 with part time jobs falling by 17,200. The unemployment rate came in at 6%.

Conditions in the business sector were more vibrant with the NAB business survey recording strong lifts in business conditions and confidence in June. On the prices side, the consumer price index rose by 0.7% in the June quarter to be up 1.5% over a year ago. A rise in fuel prices was a major contributor to the quarterly result. The average of the Reserve Bank of Australia statistical measures had underlying inflation up 0.5% for a yearly rate of 2.3%.

Against this backdrop, the RBA left the cash rate unchanged at 2.0% at its July meeting. At a speech later in the month, the RBA Governor reiterated that while further rate cuts to support demand remained "on the table" the threshold for further action remained high with the Governor noting that "it is not quite good enough simply to say that evidence of continuing softness should necessarily result in further cuts in rates, without considering the longer-term risks involved". Unlike the Fed, the RBA is not yet in a position to consider removing high levels of policy accommodation. We expect the RBA to hold the cash rate steady at 2% until H1 2017.

In regards to bonds, sluggish local and offshore data along with periods of weakness in equity markets underpinned a fall in Australian yields over the month. Three and ten year government bonds ended the month 12 basis and 25 basis points lower at 1.90% and 2.76%, respectively. These moves meant that the Bloomberg AusBond Composite Index experienced strong capital gains and ended the month 1.30% higher.

Spot Brent crude oil experienced a second month of declines, plummeting 18.6% in July. Iron Ore followed suit with a falling 10.0%. Base metals experienced a second particularly difficult month in June with the LME Index falling 6.2% for the period. Spot gold declined by a similar amount, 6.6% as the ongoing uncertainty of a potential Greek exit from the Eurozone dissipated.

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Best/Worst Performers			
(Best) company	Month Return	**(Worst) company**	Month Return
Asciano Limited	22.3%	Infigen Energy Limited	-15.6%
Mayne Pharma Group Limited	18.8%	Incitec Pivot Limited	-6.0%
BHP Billiton Limited (Restricted)	-2.2%	GI Dynamics Inc	-72.0%
Bluescope Steel Limited	21.0%	Wesfarmers Limited (not held)	8.8%
Caltex Australia	8.5%	Orocobre Limited	-5.7%

New/Increased positions	
Incitec Pivot	Increased
Westfield Corp	Increased
Westpac Banking Corp	Increased

Exited/Decreased positions	
Regis Healthcare Ltd	Exited
JB Hi-Fi Limited	Reduced
Mayne Pharma Ltd	Reduced

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Westpac Banking Corp	9.7	7.5
ANZ Banking Grp Ltd	8.9	6.2
National Aust. Bank	7.3	6.1
Commonwealth Bank.	6.7	9.6
Caltex Australia	4.1	0.6
Asciano Limited	4.0	0.5
Macquarie Group Ltd	3.5	1.8
Westfield Corp	3.5	1.3
AMP Limited	3.4	1.3
Mayne Pharma Ltd	3.2	0.1

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.1	4.8
Materials	11.7	14.0
Industrials	12.2	7.3
Consumer Discretionary	4.2	4.4
Consumer Staples	0.0	6.7
Healthcare	7.4	6.3
Financials-x-Real Estate	45.4	39.4
Real Estate	3.5	7.9
Information Technology	0.0	1.0
Telecommunication Services	2.5	5.9
Utilities	2.5	2.1
Cash	4.3	-

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