Perennial Value Shares Wholesale Trust

Monthly Report
31 August 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-7.5	-9.4	-4.0	-0.6	14.0	8.3	9.6
S&P/ASX 300 Accumulation Index	-7.7	-8.8	-3.7	-3.2	11.0	7.9	7.3
Value Added (Detracted)	**0.2**	**-0.6**	**-0.3**	**2.6**	**3.0**	**0.4**	**2.3**
Capital Growth	-7.5	-11.5	-4.2	-5.4	8.7	3.3	1.2
Income Distribution	0.0	1.9	0.0	4.0	4.4	4.2	7.6
Net Performance	-7.5	-9.6	-4.2	-1.4	13.1	7.5	8.8

*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Perennial Value Shares Wholesale 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 2015):
AUD 1.2 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 August 2015):
AUD 8 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **Globally, August was dominated by the slowing growth in China and the ensuing volatility in financial markets as many investors trimmed their holdings of riskier assets.**
- **In general, reporting season results were in line with expectations, with Industrials delivering modest EPS growth while resource company earnings fell sharply due to lower commodity prices.**
- **Strong portfolio performers included steel stocks Sims Metal (up 21.4%) and BlueScope Steel (up 18.7%).**

The volatility of recent months continued in August, with the ASX300 Accumulation Index ('Index') finishing the month down 7.7%. This followed a rollercoaster ride which saw the Index down as much as down 11.7% mid-month. The Perennial Value Australian Shares Trust ('Trust') fell by 7.5%, outperforming the Index by 0.2%.

Globally, August was dominated by the slowing growth in China and the ensuing volatility in financial markets as many investors trimmed their holdings of riskier assets. As a result, China took steps during the month to underpin growth, cutting interest rates and bank reserve requirements, lifting infrastructure spending and announcing a surprise devaluation of the Chinese Yuan ('CNY'). However, by the end of the month, the markets seemed to have calmed, partly as the economic data firmed. In particular, there was a big upwards revision to Q2 Gross Domestic Product ('GDP') growth in the United States of America ('US') plus another decent payrolls outcome and the data for Europe remained encouraging. Greece announced fresh elections but markets took this news in their stride. Other emerging market central banks broke foreign exchange pegs with the US as the Federal Reserve ('Fed') neared the start of policy normalization. Fed speakers though, indicated that the Reserve may be backing away from September lift in rates. International markets all finished the month down, with the S&P500 down 6.3%, FTSE100 down 6.7%, Nikkei 225 down 8.2% and Shanghai Composite down 12.5%.

Australian data was mixed, with the release of decent retail sales numbers for June and employment growth for July again surprising on the upside, although there was an unexpected spike in the jobless rate back to 6.3%. The latest quarterly business investment report, however, was gloomy, revealing little evidence of the much anticipated rotation towards non-mining sources of growth. In fact, economy-wide investment will likely fall again this financial year. Consumer confidence rose strongly early in the month (helped by fading drags like concerns about Greece) and business confidence slumped, highlighting again the disparity between households and corporates. There was further strength in the housing market, with prices continuing to rise, particularly in the east coast cities. The Reserve Bank of Australia (RBA) left the cash rate steady at 2.0% and the Australian Dollar (AUD) declined from 73 to 71 US cents.

The other main focus of the month was reporting season. Results were generally in line with expectations, with Industrials delivering modest Earnings Per Share ('EPS') growth while resource company earnings fell sharply due to lower commodity prices. Low top-line growth was again a feature of results, with a significant proportion of earnings improvement being driven again by cost-out and internal improvement programs. Currency was also a major driver, with many companies beginning to see benefits from the lower AUD. This particularly favoured companies with significant offshore earnings. Outlook statements were again cautious given the uncertain economic environment and weak demand conditions both domestically and globally.

Of the Trust's holdings, 33 companies representing 68% of the portfolio reported. Of these, the majority showed earnings and dividend growth, with 20 companies increasing their EPS and 22 companies increasing their Dividends Per Share ('DPS'). This ongoing increase in dividends is particularly pleasing as it reflects the generally strong financial position of corporate Australia and allows shareholders to be rewarded while they wait for stronger earnings growth. Holdings which showed particularly pleasing earnings growth were Boral (EPS up 45%, DPS up 20%), Amalgamated Holding (EPS up 44%, DPS up 26%), Henderson Group (EPS up 31%, DPS up19%), Orora (EPS up 26%, DPS up 25%) and Harvey Norman (EPS up 25%, EPS up 143% including a special dividend).

The better performing sectors were defensives, with utilities (down 0.4%), REITS (down 4.0%) and consumer staples (down 4.1%) while metals and mining (down 3.9%) also fared relatively well following its sharp sell over recent months. The worst performing sector was energy (down 13.8%) on the lower oil price, while financials (down 10.6%) also underperformed.

Strong portfolio performers included steel stocks Sims Metal (up 21.4%) and BlueScope Steel (up 18.7%). Both of these stocks are responding to difficult market conditions by undertaking aggressive internal improvement programs. Importantly both of these stocks also have very strong balance sheets with low levels of debt and gearing.

Asciano (up 4.4%) outperformed, with Brookfield formalising its takeover offer with an implied value of $9.15 per share plus 39 cents per share in franking credits. We are currently assessing the bid. Other stocks which outperformed after delivering positive results included Flight Centre (up 3.9%), AGL Energy (up 3.3%), Fairfax (up 2.9%) and Amalgamated Holdings (up 0.9%).

Stocks which underperformed were typically our energy and Mining services holdings, with AWE (down 26.2%), Origin Energy (down 25.0%), Downer (down 17.8%) and Orica (down 17.4%). However, our overweight positions in Rio Tinto (down 2.1%) and BHP (down 4.8%) both outperformed the market. Both companies delivered results which showed ongoing cash flow focus and increased dividends. The major banks were also weaker, down an average of 11.8% on concerns over the economic outlook and capital requirements.

In terms of portfolio activity, the Trust participated in the Australian and New Zealand Banking Group (ANZ) and Commonwealth Bank of Australia (CBA) capital raisings. The Banks have sold off by around 20% from their highs and, at current levels, offer attractive valuations, with a FY16 sector average gross yield of 8.8%. The recent capital raisings strengthen the Banks' balance sheets, which is a positive and Perennial Value expects that, over time, the Banks will be able to reprice sufficiently to maintain returns. The Trust has now moved to a modest overweight position in the sector. The weaker market was used to top up some existing holdings where Perennial Value believes the share price falls to be overdone including Flight Centre, Harvey Norman and Macquarie Group. Purchases were funded through trimming some existing holdings which had performed strongly over the month including BlueScope Steel and Sims Group.

At month end, stock numbers were 45 and cash was 1.7%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corporation	8.1%	7.3%
Commonwealth Bank	8.0%	9.4%
National Australia Bank	7.8%	6.0%
ANZ Banking Group Ltd	6.5%	5.7%
BHP Billiton Limited	6.5%	5.9%
Telstra Corporation	6.2%	5.2%
Macquarie Group Ltd	3.4%	1.9%
AMP Limited	2.9%	1.3%
Woolworths Limited	2.9%	2.5%
QBE Insurance Group	2.7%	1.3%

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.8%	4.4%
Materials	20.0%	14.4%
Industrials	3.8%	7.6%
Consumer Discretionary	10.2%	4.6%
Consumer Staples	6.2%	6.9%
Health Care	0.0%	6.5%
Financials-x-Real Estate	40.4%	38.5%
Real Estate	4.1%	8.2%
Information Technology	0.0%	1.0%
Telecommunication Services	6.2%	5.7%
Utilities	2.6%	2.3%
Other	1.7%	-

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