PERENNIAL VALUE MANAGEMENT

Perennial Value Shares Wholesale Trust

Monthly Report
30 September 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-4.2	-8.1	-8.1	0.0	11.5	6.4	9.2
S&P/ASX 300 Accumulation Index	-2.9	-6.5	-6.5	-0.7	9.1	6.3	7.0
Value Added (Detracted)	**-1.3**	**-1.6**	**-1.6**	**0.7**	**2.4**	**0.1**	**2.2**
Capital Growth	-4.3	-8.3	-8.3	-4.8	6.3	1.5	0.9
Income Distribution	0.0	0.0	0.0	4.0	4.3	4.1	7.5
Net Performance	-4.3	-8.3	-8.3	-0.8	10.6	5.6	8.5

*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 30 September 2015):
AUD 1.2 billion

Income distribution frequency:
Half yearly

Team FUM (as at 30 September 2015):
AUD 7.3 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **Globally, the month was dominated by extreme gloominess about the prospects for growth in China.**
- **In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years**
- **August employment report was much better than expected and the jobless rate fell slightly to 6.2%.**

September proved to be a difficult month for investors generally and the Perennial Value Australian Shares Trust (the Trust), with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 2.9%. The Trust underperformed the index by 1.3%. The sell-off, in our view, has been very much led by global macro funds taking a very bearish view on the outlook for China and therefore Australia. The Trust's underperformance was primarily due to the sell-off in housing and resource stocks. This is discussed in more detail below. The resultant downward move in share prices has also been magnified by unusually low stock turnover levels during the month. Investors should note that while the market has fallen 13.9% from its peak in April, it has delivered a largely flat return of 0.7% for the last 12 months.

Globally, the month was dominated by extreme gloominess about the prospects for growth in China. Key data disappointed, including the latest monthly production and investment prints, alongside the manufacturing PMI and many investors seem to be losing faith that China can maintain growth of close to the 7.0% target. This is despite even more stimulus being announced and further exchange rate depreciation. The weakness in China is reverberating through the region, with Taiwan, Singapore and now Japan in technical recession. Outside Asia, however, the news was better, with European growth seemingly tracking close to 2.0%, although inflation across the region has dropped back close to zero. Similarly, the US economy is doing well, although employment growth was unexpectedly weak early in the month. The Federal Reserve (the Fed) however, baulked at raising interest rates, citing offshore "wobbles" as a key reason for caution. Equity markets had a very tough month, with most indexes losing further ground, as many investors reassessed the prospects of a world without the same momentum in China's growth engine.

In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years. There has been no significant policy change yet, but consumer and business confidence likely will lift on hopes of a fresh start, particularly around economic reform. The domestic data was a mixed bag. Retail sales growth was weak and consumer and business confidence fell, but the August employment report was much better than expected and the jobless rate fell slightly to 6.2%. The Q2 Gross Domestic Product (GDP) report was also underwhelming, showing that growth was barely positive, albeit after a decent Q1. The Australian Dollar (AUD) weakened further over the month, in line with the Reserve Bank of Australia (RBA) expectations, dropping below 70 US cents, and the RBA leaving the cash rate steady, as was widely expected.

In this risk-off environment with concerns over Chinese growth, the industrials segment of the market (down 2.0%) significantly outperformed the resources sector (down 8.1%), with metals & mining (down 6.4%) and energy (down 12.0%). Within the industrials, the domestic cyclicals tended to underperform as investors worried about the broader impacts of the slowing resources sector and a potential peaking in the housing market. This also impacted the major banks which fell an average of 3.6%.

Strong Trust performers included Newcrest (up 13.4%) which rallied on the stronger AUD gold price and Graincorp (up 11.0%) which responded positively to an improved grain crop outlook and the potential for another takeover approach from ADM following the changes in Canberra. Other strong performers included Amalgamated Holdings (up 3.8%), Fairfax (up 3.5%), Orora (up 2.6%), Henderson Group (up 2.4%), CIMIC Group (up 2.3%) with its leverage to rising infrastructure investment and Aristocrat Leisure (up 2.0%) whose new product portfolio continues to gain market share.

In terms of stocks which detracted from performance, the sell-off in housing-related companies held in the Trust has been significant and, we believe, often indiscriminate, including Boral (down 23% off August highs), BlueScope Steel, Harvey Norman and Lend Lease (each down 20%) and Stockland (down 11%). Perennial Value does not subscribe to this sudden and negative change in sentiment, which appears to be driven by an overheated apartment building sector. Each of the building-related companies has diversified earnings streams. Boral's domestic housing exposure represents 21% of total profits, Lend Lease around 10% and Stockland 30% to 35%. Stocks held also generally have a far greater reliance on detached housing and renovations, where the cyclical upturn to date has been more muted. These companies have their largest presence in the eastern seaboard, especially New South Wales (NSW) where the detached housing cycle most likely has at least two years to run. Queensland is only starting to improve while Victoria is likely to slow from a high level.

During the month, Brickworks (up 4.3%) delivered a record FY15 profit result and highlighted strong momentum in building approvals on the east coast, with an "extremely strong order book in most east coast divisions". Further, this group of companies offers significant value at current levels. Harvey Norman, for example, is currently trading on a prospective FY16 gross yield of 8.0%, Lend Lease on a FY16 P/E of 11.2x and Stockland on a FY16 price to NTA of 1.0x. Thus, we continue to retain these stocks in the Trust

With regards to our materials and resources exposure, the Trust has held a range of companies providing select, diversified industry exposure. From a portfolio construction perspective, given global macro uncertainties, we have ensured in recent times that the Trust was not overly exposed to any one stock. Notwithstanding, this sector took the brunt of the global macro sell-off. Stock holdings which were hardest hit included AWE (down 33.3%), Origin Energy (down 26.2%) and Iluka (down 16.4%). Mid-month, we reduced the Trust's exposure to Origin at an average price of $7.13 and it closed the month at $6.10. On 30 September, Origin announced $4.7 billion of capital initiatives, including a $2.5 billion capital raising, to strengthen its balance sheet. This comes on top of recently announced $2.2 billion in capital initiatives, including capex reductions, reduced cost of doing business and asset sales. Sims Metal (down 15.9%) and BlueScope Steel (down 15.8%) fell due to their exposure to steel prices despite Sims recently reiterating its business improvement targets and BlueScope setting out its plans for Port Kembla.

In terms of Trust activity, in addition to reducing Origin, we sold down Asciano following the recent takeover announcement from Brookfield and also took profits in AMP and Macquarie Group following outperformance over the past year. Proceeds were reinvested into a limited number of existing holdings, including AWE, News Corp and Sandfire Resources, each of which were significantly sold down during the month. Of note is that we view both AWE and Sandfire as being mid cap stock specific opportunities offering outstanding value at current levels. In the case of Sandfire (down 9.4%), the stock was sold off despite the copper price actually rising in AUD terms, clear evidence emerging of global copper production curtailments and continuing positive drilling results adjacent to Sandfire's existing operations in Western Australia.

At month end, stock numbers were 45 and cash was 2.3%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.2%	9.3%
Westpac Banking Corp	8.0%	7.1%
National Aust. Bank	7.8%	5.9%
ANZ Banking Grp Ltd	6.6%	5.9%
Telstra Corporation	6.2%	5.2%
BHP Billiton Limited	6.0%	5.4%
Macquarie Group Ltd	3.5%	1.9%
Woolworths Limited	3.0%	2.4%
QBE Insurance Group	2.8%	1.3%
Woodside Petroleum	2.5%	1.5%

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.1%	4.0%
Materials	20.0%	14%
Industrials	3.2%	8.0%
Consumer Discretionary	10.8%	4.7%
Consumer Staples	6.6%	7.1%
Health Care	0.0%	6.4%
Financials-x-Real Estate	40.3%	38.4%
Real Estate	4.1%	8.4%
Information Technology	0.0%	1.1%
Telecommunication Services	6.3%	5.7%
Utilities	2.5%	2.3%
Cash &Other	2.3%	-

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