Perennial Value Shares Wholesale Trust

Monthly Report
31 October 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	4.1	-7.7	-4.3	0.2	11.9	7.0	9.5
S&P/ASX 300 Accumulation Index	4.4	-6.4	-2.3	-0.5	9.6	6.8	7.3
Value Added (Detracted)	**-0.3**	**-1.3**	**-2.0**	**0.7**	**2.3**	**0.2**	**2.2**
Capital Growth	4.0	-7.9	-4.6	-4.6	6.7	2.0	1.2
Income Distribution	0.0	0.0	0.0	4.0	4.3	4.2	7.5
Net Performance	4.0	-7.9	-4.6	-0.6	11.0	6.1	8.7

*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 October 2015):
AUD 1.4 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 October 2015):
AUD 7.6 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **Markets were strong globally with the S&P500 up 8.3%, FTSE up 4.9%, Nikkei up 9.8% and Shanghai Composite up 10.8%.**
- **The best performing stock in the Trust was BlueScope Steel (up 23.9%).**
- **We still see value in housing-related stocks held within this sector, and believe that investors generally have become too bearish on the domestic housing outlook**

Markets rebounded in October, with the S&P/ASX300 Accumulation Index (the Index) returning 4.4%. The Perennial Value Shares Trust (the Trust) delivered a return of 4.1%, underperforming the market by 0.3%.

Markets were strong globally with the S&P500 up 8.3%, FTSE up 4.9%, Nikkei up 9.8% and Shanghai Composite up 10.8%. Commodity prices were generally stable, the Reserve Bank of Australia (RBA) left the cash rate unchanged and the Australian Dollar (AUD) increased 1 cent to 71 US cents.

Sector performance was mixed, with energy (up 8.0%) the best performing sector, followed by utilities (up 6.9%), healthcare (up 6.2%), consumer discretionary (up 6.2%), industrials (up 5.1%) and financials (up 5.0%), while telecommunications (down 2.8%), consumer staples (up 0.5%) and IT (up 0.6%) lagged.

The best performing stock in the Trust was BlueScope Steel (up 23.9%) after announcing that it had reached agreement with the Government and unions to achieve the necessary cost reductions to continue steel production at Port Kembla as well as moving to full ownership of its strongly performing US operations. Other strong performers included NewsCorp (up 19.0%), CIMIC Group (up 18.0%) after delivering a strong Q3 trading update and confirming full-year guidance, Sandfire Resources (up 17.6%) and Crown Resorts (up 15.8%) after announcing at their Annual General Meeting (AGM) that the year had started strongly for their Australian casinos. Metcash (up 13.3%) rallied on optimism around their turnaround strategy and Macquarie Group (up 11.8%) rose after delivering a strong H116 result which saw Earning per Share (EPS) up 53% and the dividend increase by 23%. Henderson Group (up 11.4%) also performed well after reporting strong quarterly fund inflows.

Stocks which detracted from performance included Brickworks (down 6.4%), Telstra (down 3.7%), Newcrest (down 3.1%) and Woolworths (down 2.9%) which fell after announcing that H116 earnings would be down 28-35% as the company lowers prices and raises service levels at the first stage of its strategy to reinvigorate its supermarket business – a strategy we support. The outperformance of the Healthcare and Utilities sectors also weighed on our relative performance, as we remain underweight these sectors on account of their very expensive valuations and, in the case of infrastructure, high levels of debt.

With regards to housing-related stocks, we still see value in stocks held within this sector and, as mentioned in our September commentary, believe that investors generally have become too bearish on the domestic housing outlook. During the month, Stockland (up 5.2%) delivered an update which confirmed that it is on track for 6.0%-7.5% EPS growth in FY16 with land sales of 6,000 lots and Harvey Norman released strong first quarter FY16 sales results with like-for-like sales up 7.1% and pre-tax profit up 27.8%. These results, together with the reported acceleration in Bunnings sales, reinforce our continued positive outlook for the housing market, both in terms of new completions coming through and renovations.

In recent months, the banking sector has also been caught up in this negative sentiment, and during the month ANZ (up 0.5%), NAB (up 0.6%) and Westpac (up 6.2%) delivered their full-year results. While the results showed subdued earnings growth, a clear positive was the very good credit quality in their Australian business, with arrears trends continuing to improve. The recent mortgage rate rises clearly demonstrate the pricing power of the major banks and at current prices, having just completed capital raisings, we think they offer reasonable value, with a sector average FY16 gross dividend yield of 8.8%. The portfolio has participated in the recent capital raisings of each of the major banks and this has had the effect of increasing exposure to both the banking and, by default, housing sector too. To offset this and to ensure that the portfolio is not unduly exposed to the housing sector, holdings were selectively trimmed elsewhere in stocks including Boral and Harvey Norman.

In other stock specific news, Lend Lease held an investor day during the month. We were impressed by the depth of management who presented and the company reiterated the low settlement risk that they have in their residential apartment portfolio. This latter issue has been weighing on the share price recently. CIMIC Group (formerly Leightons) has continued to win new projects including Leighton Contractors, with its alliance partners, being selected as preferred consortium to deliver the Roe 8 Highway Project in Perth. Navitas also held an investor day and highlighted the underlying growth rate for education, a circa US$6 trillion market, which is forecast to grow at an annual rate of 8%.

In terms of portfolio activity, a feature of the first half of the month was a rebound in the materials and resources sectors. We took the opportunity to selectively reduce exposure to this sector via a number of holdings including Iluka, RIO, South32 and Sims Group. The portfolio remains mildly overweight to resources companies, with balance sheet strength a key criteria of the selected stocks held in this sector. The portfolio sold out of Asciano at an average price of $8.55 and it closed the month lower at $8.20.

In addition to taking up entitlements in the Westpac share issue, proceeds were reinvested across existing holdings including Crown Resorts and Metcash. Suncorp Group was introduced to the portfolio. The Suncorp Group consists of a strong multi-brand general insurance business with leading market share in Australia and NZ, a growing regional bank on the Eastern seaboard and a conservatively positioned life company. The personal lines insurance business is particularly strong with good systems and it has a low cost motor car repairer model which will perform even more competitively in a rising auto spare parts cost environment. The share price has largely tracked sideways over the past year and we were particularly attracted to the prospective FY16 gross yield of 9.6% underpinned by a surplus capital position.

At month end, stock numbers were 48 and cash was 2.7%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.5	7.5
Commonwealth Bank	8.4	9.4
National Aust. Bank	7.6	5.7
ANZ Banking Grp Ltd	6.7	5.6
Telstra Corporation	6.0	4.8
BHP Billiton Limited	5.8	5.3
Macquarie Group Ltd	3.7	2.1
Wesfarmers Limited	3.3	3.2
Woolworths Limited	3.1	2.2
QBE Insurance Group	2.6	1.3

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	3.4	4.3
Materials	16.3	3.9
Industrials	2.7	8.0
Consumer Discretionary	11.4	4.7
Consumer Staples	8.3	6.8
Health Care	0.0	6.5
Financials-x-Real Estate	42.5	38.8
Real Estate	4.2	8.4
Information Technology	0.0	1.1
Telecommunication Services	6.0	5.3
Utilities	2.5	2.3
Other & Cash	2.7	0.0

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