Perennial Value Shares for Income Trust

Monthly Report
31 January 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	3.2	1.5	7.5	14.7	18.2	10.8	7.9
S&P/ASX 300 Accumulation Index	3.2	1.9	5.7	12.1	14.0	8.5	6.1
Value Added (Detracted)	**0.0**	**-0.4**	**1.8**	**2.6**	**4.2**	**2.3**	**1.8**
Capital Growth	3.1	-0.1	3.7	8.7	12.2	5.0	1.8
Income Distribution	0.0	1.4	3.3	5.0	5.1	4.9	5.3
Net Performance^^	3.1	1.3	7.0	13.7	17.3	9.9	7.1

*Gross Performance. ^Since inception: December 2005. ^^This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:	Stephen Bruce
Risk profile:	High
Trust FUM (as at 31 January 2015):	AUD73.2 million
Income distribution frequency:	Quarterly
Team FUM (as at 31 January 2015):	AUD7.6 billion
Minimum initial investment:	$25,000
Trust inception date:	December 2005
APIR code:	IOF0078AU

*Gross dividend yield.

- **Following strong share performance, we took further profits in Amalgamated Holdings and Telstra.**
- **The Australian equities market rallied strongly into month end, with the Index finishing up 3.2%.**
- **Macquarie (up 6.6%) has been a very rewarding investment for the Trust and remains a core holding.**

Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Portfolio Activity

During the month, we sold out of Amcor. Having delivered a total return of 23.3% over the past 12 months, in our view the stock no longer represented attractive value or offered a compelling dividend yield and, was priced for perfection. This was somewhat confirmed by the share price weakness following the surprising announcement of the retirement of the highly-regarded CEO Ken MacKenzie. We also took further profits in Amalgamated Holdings and Telstra following their very strong share price performances, having delivered total returns of 50.4% and 32.2%, respectively, over the past 12 months. We also reduced our holding in QBE as, while we think there is compelling longer term value in the stock, the recent decline in bond yields may delay this being realised. At month end, stock numbers were 25 and cash was 5.3%.

Stock and Portfolio Performance

The Australian equities market recovered from early losses to rally strongly into month end, with the benchmark S&P/ASX300 Accumulation Index (the Index) finishing up 3.2%. The Trust also delivered a return of 3.2%, in line with the Index.

Global markets were mixed in January, with the S&P500 down 3.1% and the Shanghai Composite down 0.8% while the FTSE (up 2.8%) and Nikkei 225 (1.3%) rose. The European Central Bank announced that it will be implementing quantitative easing at a level exceeding market expectations and the Swiss Central bank abandoned the Swiss Franc's cap against the Euro. The oil price continued to fall, with the WTI oil price falling 9% over the month. Other commodities were also weak, with iron ore and copper both down 13%. Bond yields continued to fall sharply, with the US 10 year Treasury yield falling form 2.2% to 1.6% over the month. Global economic data was mixed. US retail sales were weak, China data remained soft and Eurozone deflation was worse than expected. However, more positively, US employment data was strong with the US unemployment rate falling to 5.6% and US consumer confidence jumped to the highest level since 2004.

Domestic economic data was generally positive, employment was stronger than expected in December with the jobless rate unexpectedly falling and housing credit was up 7.1% over the year to December, the strongest growth since December 2010. The Australian cash rate remained unchanged at 2.5% during January and the Australian dollar reached a five year low against the US dollar, falling from 81 to 78 US cents.

The defensive sectors outperformed over the month with telecommunications (up 8.2%), REITs (up 7.4%) and utilities (up 6.0%). Consumer discretionary (up 5.5%) also outperformed. The worst performing sector was energy (down 6.6%), followed by information technology (down 1.7%) and metals and mining (up 1.2%).

The best performing stock in the Trust was Iluka Resources (up 18.8%), reversing the previous month's underperformance. Other strong performers included domestic cyclicals Harvey Norman (up 17.6%), following press reports that the company experienced a surge in sales post-Christmas and Amalgamated Holdings (up 9.7%). REITs Westfield Corp (up 9.3%) and Scentre Group (up 8.6%) both outperformed on falling bond yields and Telstra (up 8.9%) also rallied. Macquarie Group (up 6.6%) reported that, due to better trading conditions and assistance from the falling Australian dollar, FY 15 earnings will be up 10% to 20%. This represented a significant upgrade from previous guidance of "slightly up on prior corresponding period" and, in our proprietary earnings model, we have increased our FY 15 earnings growth from 6% to 16%. Macquarie has proven to be a very rewarding investment for the Trust and remains a core portfolio holding. With 70% of earnings sourced offshore, we believe that the market still under appreciates the currency tailwinds in this business, the stock remains in an upgrade cycle and valuation is not stretched based on an attractive prospective FY 15 gross yield of 6.8%.

Stocks which detracted from performance again predominantly included our resource related holdings, with Downer (down 10.8%), Woodside Petroleum (down 9.8%), Origin Energy (down 8.5%) and Orica (down 4.3%).

Market Outlook

January again highlighted the ongoing volatility in markets. However, company earnings are continuing to grow and valuations are generally reasonable. The fall in energy prices, if sustained, should also provide further economic stimulus. Longer-term, as economic growth resumes and broadens, led in particular by a recovering US economy, company profits should continue to grow and dividends paid to shareholders should increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Telstra Corporation.	9.5	5.6
National Aust. Bank	9.2	6.1
Westpac Banking Corp	9.0	7.6
ANZ Banking Grp Ltd	8.8	6.4
BHP Billiton Limited	7.7	6.6
Commonwealth Bank.	5.9	10.2
Macquarie Group Ltd	5.1	1.4
Woodside Petroleum	4.9	1.7
AMP Limited	4.0	1.2
Suncorp Group Ltd	4.0	1.3

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.0	4.6
Materials	13.4	14.7
Industrials	0.9	7.3
Consumer Discretionary	7.1	4.2
Consumer Staples	2.0	7.4
Health Care	0.0	5.9
Financials-x-Real Estate	48.6	39.0
Real Estate	7.2	8.0
Information Technology	0.0	0.9
Telecommunication Services	9.5	6.1
Utilities	0.0	2.0
Other	5.3	-

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