PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Monthly Report
30 April 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	2.8	4.9	-3.9	-7.6	4.7	9.3	6.8
S&P/ASX 300 Accumulation Index	3.3	6.4	0.3	-4.7	5.0	6.2	5.4
Value Added (Detracted)	**-0.5**	**-1.5**	**-4.2**	**-2.9**	**-0.3**	**3.1**	**1.4**
Capital Growth	2.8	4.2	-9.6	-14.2	-1.2	3.1	0.6
Income Distribution	0.0	0.5	5.1	6.0	5.1	5.4	5.4
Net Performance^^	2.8	4.7	-4.5	-8.2	3.9	8.5	6.0

*Gross Performance. ^Since inception: December 2005. 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 30 April 2016):
AUD $41 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 April 2016):
AUD $6.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **Over the 12 months to April 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 7.8%. This compares favourably to twelve month term deposit rates of 2.6% available over the same period.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.4% per annum.**
- **Markets rallied in April, with the Index up 3.3%.**

Trust characteristics

In line with the objective, the Trust continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Trust Performance

The S&P/ASX300 Accumulation Index (the Index) rallied strongly, finishing the month up 3.3%. The Perennial Value Shares for Income Trust (the Trust) returned 2.8%, underperforming the Index by 0.5%.

Globally, markets were mixed with the S&P500 up 0.3%, the FTSE100 up 1.1%, the Nikkei 225 down 0.6% and the Shanghai Composite down 2.2%. The Federal Reserve kept rates unchanged in April. Commodity prices continued to firm, with Brent oil ending the month up 18.0% (closing just below five month highs) and the iron ore price up 22.0%. In Australia, the Reserve Bank of Australia (RBA) left interest rates unchanged at 2.0% for the tenth straight meeting, cautioning that a rising currency could "complicate" the economy's transition away from resources. The weak March quarter consumer price index (CPI) (down 0.2% quarter on quarter) marked the first negative inflation number since December 2008, and drove the Australian Dollar (AUD) down 2.0% on the day. The AUD closed the month at 76 US cents, down 1.0 cent.

Resources outperformed during the month, with metals and mining (up 19.0%) and energy (up 7.5%) both up strongly. Healthcare (up 3.3%) and REITs (up 2.8%) also performed well, while consumer discretionary (down 1.7%), utilities (down 0.3%), telecommunications (up 0.5%), consumer staples (up 1.1%) and financials-ex-REITs (up 1.5%) lagged.

Trust holdings which outperformed included our resource-related stocks, with BHP (up 22.7%), Rio Tinto (up 20.8%) and Woodside Petroleum (up 9.2%). Other outperformers included Scentre Group (up 5.2%), Suncorp (up 5.0%), Boral (up 4.2%). The major banks lagged the market marginally, with an average return of 2.0%. While we have seen the emergence of a small number of non-performing loans, we see these as isolated company-specific issues, rather than as evidence of any broad-based deterioration in credit quality, with corporate Australia overall in strong financial shape. We see the sector as offering attractive value with a FY17 sector average price to earnings (P/E) of 11.1 times and gross yield of 9.6%.

Stocks which detracted from performance included domestically exposed stocks such as Flight Centre (down 9.1%), Lend Lease (down 8.4%), Harvey Norman (down 1.9%) and Event Hospitality and Entertainment (down 1.3%) as sentiment towards the local economy softened slightly.

Trust Activity

During April we reduced our position in BHP, which has rallied some 47.0% from its lows in January. We also trimmed our holding in Flight Centre. While this has been a strong contributor to the Trust over the past 12 months, we were concerned about the impact of slowing outbound travel, particularly given the potential consumer sentiment issues as a result of the upcoming election.

Proceeds were used to establish a position in Bank of Queensland. The bank offers a relatively straight forward exposure to the Queensland economy, with the state accounting for around half of its loan book. We believe that this region will benefit from the pick-up we are currently seeing in domestic tourism and which we expect to continue into the future. Further, the bank is focussed on residential and small business lending, with minimal exposure to risk areas such as property development or resources. At the month-end price of $11.25, the stock was trading on an attractive valuation, with an FY17 P/E of 11.0 times and gross yield of 9.8%.

At month end, stock numbers were 25 and cash was 5.0%.

Outlook

Data points confirm the ongoing transition to the east coast economy. The Trust continues to be exposed to this theme through overweight positions in retail, building and infrastructure / construction-related stocks. We remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs. These sectors have become a crowded trade and valuations remain stretched as a result of historically low interest rates. The Trust continues to exhibit Perennial Value's true to label value characteristics, with it offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.9	9.0
Westpac Banking Corp	8.6	7.4
Telstra Corporation	8.4	4.7
National Australia Bank	6.8	5.1
ANZ Banking Group Ltd	6.2	5.0
Wesfarmers Limited	6.1	3.4
AMP Limited	5.3	1.2
BHP Billiton Limited	5.2	4.7
Woodside Petroleum	4.5	1.4
Event Hospitality	4.5	0.0

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.5	4.2
Materials	12.9	14.4
Industrials	0.8	8.1
Consumer Discretionary	7.7	5.0
Consumer Staples	6.1	7.1
Health Care	0.0	6.8
Financials-x-Real Estate	45.8	36.3
Real Estate	6.7	8.9
Information Technology	0.0	1.4
Telecommunication Services	8.4	5.3
Utilities	2.1	2.4
Cash & Other	5.0	-

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