

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	2.8	12.0	0.1	-5.5	8.4	7.7	9.4
S&P/ASX 300 Accumulation Index	3.1	11.7	3.4	-2.1	7.7	7.3	7.4
Value Added (Detracted)	-0.3	0.3	-3.3	-3.4	0.7	0.4	2.0
Capital Growth	2.8	11.8	-2.9	-10.3	3.6	2.6	1.2
Income Distribution	0.0	0.0	2.2	4.0	4.0	4.3	7.4
Net Performance	2.8	11.8	-0.7	-6.3	7.6	6.9	8.6

*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 May 2016):

AUD \$1.2 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 May 2016):

AUD \$6.4 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **Markets rallied in May, with the S&P/ASX300 Accumulation Index (the Index) up 3.1%.**
- ▶ **Industrial stocks outperformed, as resource stocks followed commodity prices lower.**
- ▶ **The Trust returned 2.8%, underperforming the market by 0.3%.**

Market activity

The Perennial Value Australian Shares Trust (the Trust) delivered a positive absolute return of 2.8% for May. The index returned 3.1% slightly exceeding the Trust return by 0.3%.

Globally, markets were mixed with the S&P500 up 1.5%, the Nikkei 225 up 3.4%, the FTSE100 down 0.2% and the Shanghai Composite down 0.7%. The Federal Reserve left rates unchanged and commodity prices rolled over as expectations for the resilience of China's first quarter rally waned. Iron ore ended the month down 25.0% and copper was down 7.0%, while Brent oil remained on trend, up 4.6%. In Australia, the Reserve Bank of Australia (RBA) cut interest rates by 25 basis points on a lower outlook for inflation than previously forecast. The Australian Dollar (AUD) finished the month at 72 US cents, down 5.0%.

Cyclical sectors underperformed over the month with metals and mining (down 6.4%), materials (down 3.0%) and energy (down 1.6%) all ending lower. Stronger sectors included healthcare (up 9.4%), information technology (up 7.0%), consumer discretionary (up 5.6%) and financials (up 5.2%).

A number of stocks delivered double-digit returns, the most significant including CYBG plc (up 35.1%), which rallied after delivering its first result following its demerger from NAB in February. Management indicated significant cost reduction opportunities which should underpin an improvement in earnings and returns over the coming years. Aristocrat Leisure (up 28.6%) delivered a very strong interim result on exceptional volume, price and fee growth, taking market share from competition in otherwise flat background markets. We expect this strong market dominance to continue for the medium term. The AWE (up 25.2%) board rejected an unsolicited takeover proposal at 80 cents per share from Japanese private equity firm, Lone Star Funds. Macquarie Group (up 21.7%) rallied after delivering a record FY16 profit result of over \$2 billion, up 24.0% on the prior year, with strong growth in its key asset management business, and increasing the full-year dividend by 21.0%.

Negative share price performance was registered by stocks including Rio Tinto (down 13.3%), BHP Billiton (down 7.7%), Wesfarmers (down 5.0%) and Woodside Petroleum (down 3.3%). We remain comfortable in the outlook for each of these companies.

Notwithstanding the solid absolute return, a very strong performing healthcare sector (up 9.4%), where the Trust has a lower exposure than the index on the basis of overvaluation, worked against its performance. Also CSL, a top 10 index stock and not held in the Trust as it does not meet our valuation criteria, rose 10.1% impacting relative performance.

Trust Activity

The Trust reduced bank sector exposure, reflecting lesser confidence in the domestic economic outlook. The key factor in this decision was that the sector's valuation discount has narrowed following the banks' rally from their April lows and, while valuations are still reasonable, the sector has a relatively subdued earnings growth outlook and also faces some risks around rising bad debts and increasing capital levels. Proceeds were reinvested into Resmed and Westfield Holdings. Both are well managed and financially sound companies and would be net beneficiaries were the AUD to continue weakening. On balance, we believe that this may well occur.

At month end, stock numbers were 45 and cash was 5.9%.

Outlook

The Trust remains exposed to the ongoing transition to the East coast economy through its overweight positions in retail, building and construction-related stocks. The Trust also remains overweight in the large-cap, low-cost, financially-sound resources companies. 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 portfolio continues to exhibit Perennial Value's true to label value characteristics, with the Trust 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.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.9	9.2
Westpac Banking Corporation	6.3	7.1
Telstra Corporation	5.9	4.7
BHP Billiton Limited	5.7	4.2
ANZ Banking Group Limited	5.7	5.2
National Australia Bank	5.3	5.0
Wesfarmers Limited	4.3	3.2
Woolworths Limited	3.3	1.9
Woodside Petroleum	3.1	1.3
Macquarie Group Limited	3.0	1.8

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.2	4.1
Materials	12.8	13.7
Industrials	1.0	8.0
Consumer Discretionary	8.6	5.2
Consumer Staples	8.8	6.8
Health Care	2.7	7.3
Financials-x-Real Estate	39.0	36.6
Real Estate	8.1	9.2
Information Technology	0.0	1.3
Telecommunication Services	6.9	5.5
Utilities	0.7	2.4
Cash & Other	6.1	-

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:



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