

# Perennial Asian Shares Wholesale Trust

Quarterly Report as at 31 March 2013

	Quarter %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.	SI <sup>^</sup> %p.a.
Perennial Asian Shares Wholesale Trust*	5.2	19.0	7.8	6.2	3.5	5.8
MSCI Far East Free (ex Japan) Accum. Index	-0.7	6.9	0.4	2.6	0.7	4.8
<b>Value Added (Detracted)</b>	<b>5.9</b>	<b>12.1</b>	<b>7.4</b>	<b>3.6</b>	<b>2.8</b>	<b>1.0</b>
Capital Growth	4.9	17.4	7.4	5.4	0.9	0.1
Income Distribution	0.0	0.0	0.0	0.0	1.6	4.7
Net Performance	4.9	17.4	7.4	5.4	2.5	4.8

\* Gross Performance <sup>^</sup>Since Inception June 2001. Past performance is not a reliable indicator of future performance.

- The Trust outperformed the Index return by 5.9% over the quarter.
- The Indonesian market soared 14.5% closely followed by the Thai SET which finished up 12.2%.
- Sarin Technologies, St Shine, Techtronic and Shenzhou all delivered returns of around 30% during the quarter.

Asian markets lagged global indices over the first quarter of 2013. While monetary stimulus, better company earnings than expected and improving GDP growth drove North American and Japanese markets higher, Asian markets struggled for traction on many levels. Weaker than expected corporate earnings, especially in North Asia (Korea/China), macroeconomic and geopolitical influences weighed on performance. The positive for unit holders was that the Perennial Asia Equity Trust (the Trust) finished up 5.9%, substantially outperforming the MSCI AC Far East (ex Japan) Net Dividends Index in AUD (the Index) return (down 0.7%), by 5.9%. The Trust has outperformed the Index return by 12.1% over the last 12 months.

## Markets

It was a quarter where size mattered, or in this case it had the opposite effect. The large markets of China, Hong Kong, India and Korea were all down, between 1.0% and 1.6% over the quarter. The Trust's overweight position to the ASEAN region which delivered strong returns based on strong underlying GDP growth contributed to performance. The Indonesian market soared 14.5% closely followed by the Thai SET rising 12.2%. Singapore, often seen as one of the more defensive bourses in the region climbed 4.5% as investors chased quality and surety.

However, Japan had a significant impact on Asian returns with the introduction of 'Abenomics' in an attempt to increase inflation and stimulate spending. The Japanese market rose 20.3%, however the yen fell 8.0% offsetting some of the gains.

## Perennial Asian Shares Wholesale Trust Facts:

The Trust aims to grow the value of your investment over the long term by investing in a carefully selected portfolio of Asian shares (excluding Japanese shares) and to provide a total return (after fees) that exceeds the MSCI AC Far East (ex Japan) Net Dividends Index in AUD on a rolling three-year basis.

### Portfolio Manager:

James Soutter, Clay Carter

### Risk Profile:

High

### Team FUM

(as at 31/03/13):

AUD238.6 million

### Income Distribution

Frequency:

Annually

### Trust Inception date:

June 2001

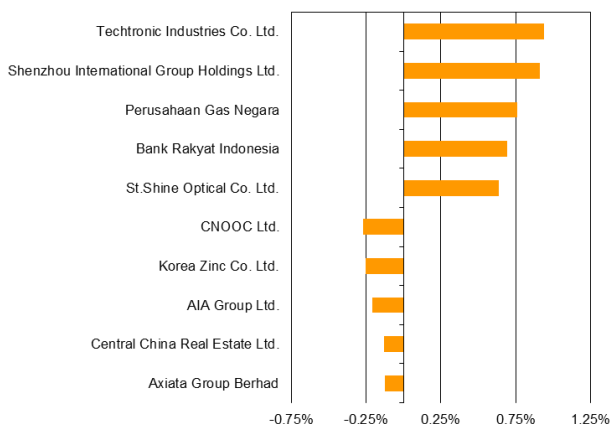
### Minimum Initial

Investment:

\$25,000

**APIR code:** IOF0203AU

## Stock Attribution



### Trust Activity

The significant outperformance over the quarter was the result of three main factors namely, stock selection, underweight to China, and overweight ASEAN.

China's underperformance and ASEAN outperformance over the quarter was largely driven by company earnings (during Q1 many companies reported their 2012 annual results). In China, off the back of there was a number of high profile profit warnings, in combination with changes to the tax regime governing property investment, markets eased. In ASEAN, the powerful dynamics of GDP growth and better corporate earnings enabled the markets to push higher. Through our fundamental research we uncovered a number of worrying signs within the Chinese corporate sector that has led us to our lower our allocation to this country.

On the stock front, our research continued to produce high quality companies with long term structural growth characteristics. Three smaller companies were among our better performers over the quarter. Sarin Technologies (Singapore), St Shine (Taiwan), Techtronic (Hong Kong) and Shenzhou (China) all delivered returns of around 30%.

Sarin Technologies is an interesting little company, a global leader in the design and manufacturing of precious gem cutting and viewing (for internal inclusions) machines, the shares rose 41% on a positive outlook for 2013. Techtronic, the maker of power tools including Ryobi had post stellar performance in 2012, the share price pulled back recently on profit taking. However, the strong underlying fundamentals driven by a better housing and DIY market in the US has seen the shares step higher once more.

The Trust prides itself on being an "all cap" fund, which allows it to invest in companies across the market capitalisation spectrum. Taiwanese company, St Shine has a market cap of less than USD1 billion, however, we deem this to be a little diamond in the rough that we have uncovered. Over the month, the shares were up 12.1% and since it was added to the Trust it has risen over 45%. St Shine manufactures contact lenses, a strategic growth area that has allowed the company to increase its earnings per share every year since it listed in 2004.

A few names underperformed the market through the quarter, led by Central China Real Estate. This small, high quality, Chinese developer from the Henan province in China fell 9.1%, hit by profit taking and risk aversion to the overall Chinese markets in relation to tax reforms that will likely negatively impact the bottom line of most Chinese property developers.

### North Korea

After markets had posted a strong start to the year, events in late March unfolded pushing the spectre of armed

conflict on the Korean peninsula to new heights, thus pushing equity markets lower.

If the North Korean government were to accede to the demands of the West and give up its nuclear ambitions, then it is widely expected that the regime itself would also fall. *"Absolute power corrupts absolutely"*. An all-out armed conflict is in no one's interest, least of all the North Koreans, thus other than the possibility of some minor skirmishes, we believe that probability of all-out conflict remains very low. However, desperate people can carry out desperate acts.

### Japan economics and its impact

As the Trust is an ex-Japan Trust, it does not invest into Japan. However, the throes of monetary and fiscal policies still cast their shadow over the region. 'Abeconomics' is taking shape, with the language and intention pushing the Japanese yen lower over the last six months. Post the end of the quarter, on 4 April, the Bank of Japan announced the introduction of a "quantitative and qualitative monetary easing". The announcement had significant consequences, with the yen weakening further and the Japanese stock market surging higher on a plan that is more aggressive than most analyst expected.

From an Asia ex Japan point of view; is this huge dynamic shift in Japanese monetary and fiscal policy positive or negative for the wider Asian region?

There are a number of reasons that we can take a positive stance on both Chinese GDP and its stock market in the face of Abeconomics, for a number of reasons, including the following:

- It has been projected that Japanese quantitative easing could likely boost China export growth by 1% and China's GDP growth should increase by 0.1%.
- As for the impact on China's equity market, the improved Japanese economic outlook could support investors' appetite for equity markets in Asia. If we follow an earlier point, that the Japanese easing will be positive for Chinese GDP growth, this could in turn improve the attractiveness of Chinese markets.
- The weaker yen is a clear negative for Korea, especially the Korean automotive industry which could see greater competitive pressures from its Japanese peers in terms of pricing on the back of a weaker yen.

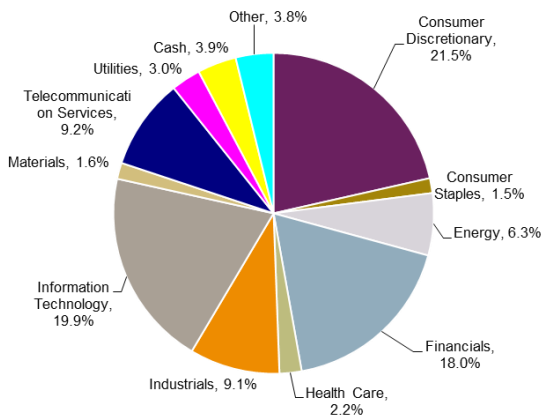
## Outlook

Although there are a number of exogenous risks that have the ability to throw Asian equity markets off course (bird flu, North Korea, Japanese quantitative easing), overall the end demand dynamics and current valuations, combined with growing economies and minimal debt relative to the rest of the world puts Asia in a great place moving forward.

## Environmental, Social and Governance

During the quarter, the Trust encountered no environmental, social and governance issues. We continue to liaise with companies where it is deemed corporate governance could be improved.

## Sector Weightings as at 31 March 2013



Rounding accounts for small +/- from 100%.

Signatory of:



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