Perennial Socially Responsive Shares Trust

Quarterly Report as at 30 September 2013

	Quarter %	Financial YTD %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.
Perennial Socially Responsive Shares Trust*	14.3	14.3	26.8	20.3	8.8	6.4
S&P/ASX 300 Accumulation Index	10.3	10.3	23.6	18.9	8.9	7.1
Value Added (Detracted)	**4.0**	**4.0**	**3.2**	**1.4**	**-0.1**	**-0.7**
Net Performance	14.0	14.0	25.7	19.2	7.8	5.4

* Gross Performance Past performance is not a reliable indicator of future performance

- For the quarter, the Trust outperformed the Index return by 4.0%.
- A great deal of market focus continued to surround the path of recovery of the US economy and the impact this has on the timing of withdrawal of unconventional monetary policy stimulus.
- We believe that the Trust is well positioned to capture above Index investment returns in the current macroeconomic environment.

Trust Performance Overview

The Perennial Growth Socially Responsive Shares Trust (the Trust) finished up 14.3%, outperforming the S&P/ASX300 Accumulation Index (the Index) return by 4.0%, with the Index finishing up 10.3% for the quarter.

Once again, there was significant divergence between sector performances, with cyclical sectors performing strongly as investors were buoyed by improving data out of China and the prospect of an uptick in the domestic economy. The materials (up 14.7%), consumer discretionary (up 13.2%), energy (up 12.3%) and industrial (up 10.7%) sectors were the strongest performers, while REITs (down 1.1%), consumer staples (up 2.9%) and healthcare (up 4.6%) all underperformed the Index. This dispersion between sectors is almost the exact opposite to performance in the June 2013 quarter.

A great deal of market focus continued to surround the path of recovery of the US economy and the impact this has on the timing of withdrawal of unconventional monetary policy stimulus. Sectors offering cyclical growth have outperformed defensive sectors since May, and this trend continued throughout the September quarter. We believe that the longer term themes of increasing global interest rates, a stronger USD and a move away from yield focused investing will continue. In our view, companies offering growth and effectively deploying capital into projects offering solid economic returns will be recognised by the market and outperform over the medium term. Our portfolio has been constructed to be a beneficiary of these themes and we believe that the Trust is well positioned to capture above Index investment returns in the current macroeconomic environment.

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio Manager:
Lee Mickelburough

Risk Profile:
High

Trust FUM (as at 30/09/13):
AUD53.8 million

Income Distribution Frequency:
Half yearly

Team FUM (as at 30/09/13):
AUD2.3 billion

Minimum Initial Investment:
$25,000

Trust Inception date:
December 2001

APIR code: IOF0117AU

The top performer during the quarter was **Fortescue Metals Group (up 56.3%).** Fortescue was a strong contributor during the period on the back of stronger iron ore prices in China, as the destocking of iron ore seen during the June quarter ended. Fortescue's June quarterly production report released during July and its FY13 result released in August, were also positive relative to guidance, with cash costs coming in lower than expectations and cash generation higher than guidance. Despite the company announcing that The Pilbara Infrastructure (TPI) sale process had ended with the decision taken not to sell any of the asset, the company's sale of a stake in its Iron Bridge magnetite project and US$500 million prepayment for port access to Formosa together with an improved operational free-cash flow outlook, provided the market with comfort around the company's debt position. The company should generate significant cash flow growth as it increases output towards its target of 155Mt per annum, along with an improving ROIC.

Also adding to performance was **Mayne Pharma (up 50%).** The company continues to see excellent gains from its US based generic drug manufacturing business that was acquired earlier this year. Increased demand for its portfolio of pain relief products resulted in a solid profit result in August, and along with rising confidence in the prospects for the company's proprietary SUBACAP anti-fungal treatment, the stock continued to be well supported.

Challenger Limited (up 37.2%) also performed strongly in the quarter. The company provided its FY13 full year result in August which came in ahead of market expectations. The result was driven by a strong result from the Funds Management division, with FUM up 33% during the financial year driven by a combination of organic growth and market returns. The company also provided strong FY14 cash operating earnings guidance of $465 to $475 million in the Life division, implying a margin of 4.5% which was ahead of expectations. In our view, the shares remain undervalued, with greater than 15% upside.

WorleyParsons (up 24.8%) was a strong performer, with several significant contract wins. The company has significant exposure to oil and gas projects and is geographically diversified, with the majority of the recent project wins outside of Australia. We expect the large amount of new work secured and acquisitions made during FY13 to drive earnings growth in FY14. This together with the significant barriers to entry in the key markets should help the company achieve attractive ROIC. On our current valuation metrics the stock has significant upside.

Also adding to performance was **Lend Lease (up 21.7%).** The company released its FY13 result which contained no negative surprises, lining up closely with the pre-announcement in mid-June: 10% profit growth with lower construction earnings offset by higher property development profits and a lower tax rate. The market reacted positively to Lend Lease's comments regarding the company establishing the largest development pipeline in its history, growth in the construction backlog and expected strong growth over the next three years. The company also announced that the first tranche of 159 residential apartments at Barangaroo in Sydney sold out within three hours, a very positive outcome for the project. We believe that Lend Lease's share price does not reflect the company's differentiated integrated development model and development pipeline which delivers solid and improving ROIC. Based on our metrics, the stock offers around 30% valuation upside.

The Trust's biggest detractor to performance was **BHP (not held and up 13.9%)**. The stock had a good quarter, with a focus back on the mining sector but the negative impact was far outweighed by the contribution of Fortescue Metals to the Trust.

Brambles (down 2.5%) also detracted from performance. The company reported FY13 results were within its guidance range and in-line with expectations however management's FY14 guidance of +4% to 8% profit growth was disappointing and below expectations. Brambles is a high quality industrial business and the global leader in pooling solutions, we had forecast stronger FY14 profit growth to be driven by its US pallets operations, fast growing Reusable Plastic Container (RPC) business and expansion into emerging markets. Brambles was one of the strongest performers in the Trust over the last 12 months and in light of this new information we revised our forecasts for future earnings down which saw the stock valuation decrease by around 8%. As a result of the more muted growth profile and decreased stock valuation, we took the opportunity to sell the position.

Trust Activity

During the quarter, several new positions were added to the Trust including Amcor, Transurban, Asciano, James Hardie and Aurizon.

Global packaging company Amcor achieves superior return on capital and solid earnings growth from its leadership positions in three packaging segments: Global Flexibles, American Rigid Beverages and Global Tobacco. Amcor has played a key role in consolidating these industry segments and has a strong track record of making value-adding acquisitions. Looking forward, with around 90% of earnings from offshore, Amcor's earnings will benefit from the weakening Australian dollar. In addition, we expect the past significant investment in the Australian operations will deliver an earnings turnaround following two years of decline. On our current metrics the stock offers around 18% valuation upside.

Transurban has a strong growth outlook from the M2 expansion in Sydney as well as underlying traffic growth and toll increases on the remainder of the network. The M2 expansion was fully opened on 1 August and provides a 50% capacity addition (from two lanes to three) plus a significant "catch up" toll rise (tolls have been frozen for two years while the road was under construction). The company is also working towards financial close on the F3-M2 connector project in late 2014. This innovative transaction will see Transurban leverage its remaining Sydney network to deliver a greenfield road for the NSW government. The deal has the potential to add about 40cps to valuation with modest traffic risk and represents upside to our current valuation. During the quarter, we took advantage of a discounted sell down by a major shareholder of Transurban to initiate a position.

Asciano is a high quality domestic industrial business, with market leading positions in coal haulage in NSW and Queensland, rail freight logistics and port stevedoring services throughout Australia. The company is coming to the end of a heavy capital expenditure period and it is expected that the new assets will drive better utilisation and efficiencies for the group and allow the flexibility to increase dividends and improve ROIC for investors. We forecast solid levels of growth, rising returns and have greater than 15% valuation upside from the current share price.

Over the quarter, James Hardie weakened in-line with US peers due to some softer US housing data, although we expect this is likely to be temporary as the sector adjusts to more sustainable (i.e. higher) interest rates. US housing construction activity remains more than 30% below long run trend levels, and the recent sell off has provided the opportunity to invest in a high quality business at a discount to valuation. James Hardie has a superior expected growth profile due to its exposure to the recovering US housing market and has consistently achieved top quartile returns.

Aurizon was added back into the Trust in September. In May 2013, we exited the holding as the share price approached our valuation. However, since May several new pieces of information have been disclosed; firstly, in July management provided a comprehensive investor update identifying operating margin targets above expectations; secondly, coal haulage volumes are running close to record levels in both Queensland and NSW; thirdly, government bond rates have rallied sharply which is positive for the regulated rate of return calculated under the UT4 process and fourthly, in August Aurizon reported a solid FY13 result. Incorporating these adjustments into our valuation and considering the share price underperformance since May, we took the opportunity to add the stock back into the Trust, with the stock offering around 20% upside.

During the quarter we elected to fully sell out of Computershare, AMP, Brambles, Regis Resources, Qube Holdings and Miclyn Offshore Express.

The small residual positions held in Computershare, Qube Holdings and Miclyn Express Offshore were sold with these stocks offering limited valuation upside. We also elected to reduce the Trust's positions in Brambles as previously noted.

We sold the position in AMP after a partial recovery in the share price following a downgraded profit outlook delivered in June. We have taken the view that the issues within the life insurance book will take a number of years to resolve. While the shares did have upside of 10% versus our exit price, we do not see that valuation gap closing in the near term and have therefore moved on to better opportunities.

During the quarter, we used the rally in the gold price and gold equities to sell the Trust's position in Regis Resources as the price approached our valuation and we no longer forecast any significant cash flow growth. Our gold price forecasts are based on a continuing improvement in the US economy and our belief that the eventual tapering of quantitative easing in the US will result in lower gold prices.

Market Overview

The September quarter was a strong one for global equity markets, as investors digested the news that the US Federal Reserve (Fed) had decided against tapering the $85 billion per month bond purchasing program. Globally, Europe's Euro Stoxx 50 (up 11.2%), Japan's Nikkei (up 5.7%), the US' S&P500 (up 4.7%) and the UK's FTSE100 (up 4.0%) were all stronger over the quarter. The strong performance of the Eurozone was supported by good news that the region had emerged from recession following six consecutive quarters of falling GDP, recording +0.2% GDP growth for the June quarter.

In Australia, September saw a change of Government as Tony Abbott was sworn in as the 28th Prime Minister (PM) of Australia after leading the coalition Liberal National Party to victory. September readings of the Westpac consumer confidence and NAB business confidence indexes pointed to rising confidence across the economy, which should be further supported by initial comments from PM Abbott that "Australia is once again open for business". In August, the Reserve Bank of Australia (RBA) further eased the cash rate to a record low of 2.50%, with housing data released late in the quarter indicating that a meaningful pick up in the housing market was well underway. The AUD/USD fell below 90c in August after the RBA cut rates to 2.50%, but recovered strongly in September, following news of a delay in the Fed's tapering program, to close the quarter up 2.0% at USD0.93.

In commodity markets, conflict in Syria and Libya in the Middle East during the quarter impacted the price of Brent Oil which closed up 6.9%. Iron ore rose 12.8% in the quarter, as Chinese steel output remained strong and port inventories remained low. Base metals also responded to stronger macroeconomic indicators from China, with the London Metal Exchange (LME) Index rising 6.8% over the quarter.

Domestically, the 2013 August reporting season identified several clear themes: ongoing cost reductions, muted top line sales growth and increasing payout ratios. Outlook comments remained cautious, with many companies noting that conditions had now stabilised and in some cases positive shoots were being seen. At a company level, Amcor and Brambles announced demergers of their Australian packaging business and Recall business respectively, while Crown received NSW Government approval for its proposed casino development at Barangaroo.

Environmental, Social and Governance Issues

Once again it is the fiscal year Annual General Meeting season. And once again, the remuneration reports are attracting the headlines. However, in a welcome change, the proxy advisors are generally comfortable (with some notable exceptions) with most of the reports that have been tabled this year. With the two strike rules still having an influence, there seems to be a greater transparency and consistency in the structure of executive incentives. While this is welcome, we would add that the reports remain far too complex, that long term incentive (LTI) hurdles are generally too low and there is still a propensity for companies to make changes too often – and those changes are generally to the favour of the executives. We would not normally comment on the nominal level of remuneration, but the rate of inflation in executive pay (especially in some sectors such as banking) is running at a level that we do not believe is sustainable. Companies and their boards risk backlash from shareholders, other employees and of course, politicians and the media if some relative restraint is not seen.

Another area we sense will become more of an issue over the next year is that of corporate taxation. The new Federal Government has indicated its interest in a tax review and we would be surprised if that did not focus strongly on the use of offshore tax shelters and structures used by multi-national and some larger domestic corporates to minimise their contributions to the ATO. It is an issue that can be politicised very quickly and the audit committees of listed companies will be best served knowing exactly how their finance departments are structuring their approach to tax. There is often a fine line between minimisation and avoidance and we are being careful and asking questions of our companies on the sustainability of their structures.

Asset Allocation as at 30 September 2013

Stock Name	Trust Weight %	Index Weight %
Energy	15.6	6.3
Materials	9.5	17.4
Industrials	8.1	6.8
Consumer Discretionary	0.0	4.8
Consumer Staples	0.0	8.3
Health Care	8.2	4.6
Financials-x-Real Estate	38.7	37.2
Real Estate	4.7	6.9
Information Technology	0.0	0.8
Telecommunication Services	2.9	5.2
Utilities	3.3	1.7
SPI Futures	5.8	-
Cash	3.1	-

Rounding accounts for small +/- from 100%.

Top Ten Holdings as at 30 September 2013

Stock	Trust Weight %	Index Weight %
National Aust. Bank	9.4	6.2
ANZ Banking Grp Ltd	8.9	6.5
Commonwealth Bank.	6.4	8.8
SPI Futures	5.8	0.0
Westpac Banking Corp	5.7	7.8
CSL Limited	3.9	2.4
Lend Lease Group	3.4	0.4
WorleyParsons Ltd	3.2	0.4
Caltex Australia	3.2	0.2
Challenger Limited	3.1	0.2