

	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	1.0	1.0	8.0	18.3	8.6	7.5
S&P/ASX 300 Accumulation Index	-0.6	-0.6	5.7	14.4	6.6	5.6
<b>Value Added (Detracted)</b>	<b>1.6</b>	<b>1.6</b>	<b>2.3</b>	<b>3.9</b>	<b>2.0</b>	<b>1.9</b>
Capital Growth	-0.9	-0.9	3.0	12.0	3.0	1.3
Income Distribution	1.6	1.6	4.1	5.4	4.7	5.4
Net Performance <sup>^^</sup>	0.7	0.7	7.1	17.4	7.7	6.7

\*Gross Performance. <sup>^</sup>Since inception: December 2005. <sup>^^</sup>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 30 September 2014):

AUD71.3 million

### Income distribution frequency:

Quarterly

### Team FUM (as at 30 September 2014):

AUD7.6 billion

### Minimum initial investment:

\$25,000

### Trust inception date:

December 2005

### APIR code:

IOF0078AU

\*Gross dividend yield.

- ▶ During the quarter, we increased our holdings in stocks with significant US dollar (USD) earnings.
- ▶ The Trust returned 1.0% for the quarter, outperforming the Index by 1.6%.
- ▶ The best performing stock in the Trust over the quarter was Harvey Norman.

## 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.

## Quarterly Distribution

The Trust paid a distribution of 1.9 cents per unit for the September quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 2.7 cents per unit. Based on the unit price at the start of the year (\$1.15), this represents a pre-tax distribution yield for the quarter of 2.3% and brings the pre-tax distribution yield for the last 12 months to 6.0%. This compares favourably to the 12 month term deposit rates available for that period of around 3.5%.

## Portfolio Activity

During the quarter, we increased our holdings in stocks with significant US dollar (USD) earnings such as QBE, Aristocrat Leisure and Macquarie Group, all of which stand to benefit from a fall in the Australian dollar (AUD). We also increased our holding in Suncorp, whose strong capital position allowed it to lift its dividend by 40% at its full year result in August. Suncorp is currently offering a FY15 gross yield of 8.0%. We also increased our holding in BHP. At current levels, BHP is offering good long-term value and is paying an FY15 gross yield of 6.1%.

These positions were funded by reducing our holdings in the banks, where we have now moved to a mild underweight position. Our more negative view on the sector has been driven by a number of factors, including ongoing regulatory intervention to increase capital levels and relatively less attractive yield relative to rising bond yields. Most recently, the sector appears to have borne the brunt of offshore selling as the AUD weakened. We also reduced our holding in Woodside, where we moved to lock in profits. Woodside has been a strong performer and source of dividends over the past year, however the oil price has now moved significantly lower. We also reduced our holdings in Stockland and Brambles.

The Trust remains well diversified, with exposures to a range of industries and holdings across eight sectors. At quarter end, stock numbers were 26 and cash was 1.6%.

## Stock and Portfolio Performance

After a strong start to the quarter, a sell-off in September saw the S&P/ASX300 Accumulation Index (the Index) return -0.6% for the quarter. The Trust returned 1.0% for the quarter, outperforming the Index by 1.6%. Notwithstanding the income focus of the Trust, it is pleasing to note that the Trust has been able to deliver a strong total return of 18.3% pa over the past three years, outperforming the Index by 3.9% pa.

Global markets were volatile during the quarter as a gradually improving US economy generated debate as to the likely impacts of; 1) the US Federal Reserve's (the Fed) quantitative easing ending in the US and, 2) the timing of any interest rate increase. At the same time the market grappled with unrest in the Middle East and Russia, concerns over a slowdown in China and a sluggish European economy. Despite this the S&P500 (up 0.6%), Nikkei 225 (up 6.7%) and Shanghai Composite (up 15.4%) finished higher at end of the quarter while the FTSE (down 1.8%) finished lower.

Both globally and domestically, macro data was mixed. In the US, second quarter GDP growth came in at 4.6% on an annualised basis and employment data continued to show improvement while other data was more underwhelming, particularly towards quarter end. In China, the latest round of data indicates that growth is falling short of the official target, which prompted the announcement of additional bank liquidity measures to help stimulate growth. In Europe, the European Central Bank (ECB) also announced additional stimulus measures as growth remains barely positive. Domestically the unemployment rate remained at 6.1% despite some intra-period volatility after touching 6.4% in August. Consumer and business confidence remained stable over the quarter despite some more positive signs in August. Building approvals data was strong. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% however hinted that it may be considering counter-cyclical credit controls to cool the strong housing market.

The AUD/USD weakened significantly over the quarter, ending the quarter at 87.2c down from 94.3c at the end of June.

The best performing sectors over the quarter were healthcare (up 9.4%), telcos (up 5.4%), REITs (up 1.2%), IT (up 0.9%), industrials and consumer staples (both up 0.6%). The worst performing sector was metals and mining (down 3.8%) followed by materials (down 3.0%) and financials (down 2.5%).

The best performing stock in the Trust over the quarter was Harvey Norman (up 17.1%) which rallied after delivering a significantly improved profit result, lifting the dividend significantly and indicating they may consider steps to return excess franking credits. Other strong performers included Lend Lease (up 13.1%), Aristocrat Leisure (up 11.0%), Amcor (up 10.9%), Suncorp (up 8.8%) and QBE (up 8.6%).

Stocks which detracted from performance included the major banks which declined an average of 4.3%, for the reasons discussed above. NAB (down 0.7%) was the best performer, with the new CEO Andrew Thorburn taking over in August and moving quickly to change senior management, sell off non-performing UK loan portfolios and announce the intention to IPO their US operations. Resource holdings BHP (down 3.8%), Orica (down 3.0%) and Iluka Resources (down 2.6%) also underperformed on weaker commodity prices.

### ESG Factors during the quarter

Perennial Value Management (PVM) remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. We were pleased to see that in the 2014 financial year, Telstra invested \$217m in customer and community digital inclusion programs focussed on access, cyber safety and digital innovation and reached over 143,000 people with their "Everyone Connected" digital literacy programs.

### Market Outlook

The sell-off in September has erased the gains of the past two months and is a reminder that while there are positive economic signals in many markets, a level of macroeconomic uncertainty remains and ongoing volatility is likely. However, investors should take comfort from the fact that in the recent reporting season, of the 19 companies held by the Trust which reported results, 14 reported both increased earnings and dividends per share. Longer-term, as economic growth resumes and broadens, led in particular by a recovering US economy, company profits will continue to grow and dividends paid to shareholders will 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	4.9
BHP Billiton Limited	9.2	8.1
National Aust. Bank	7.8	5.7
Westpac Banking Corp	7.7	7.4
ANZ Banking Grp Ltd	7.3	6.3
Woodside Petroleum	6.0	2.1
Suncorp Group Ltd	5.7	1.3
Commonwealth Bank.	5.1	9.1
Aristocrat Leisure	4.3	0.2
Macquarie Group Ltd	4.2	1.4

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.6	6.4
Materials	13.7	16.4
Industrials	2.0	7.1
Consumer Discretionary	10.1	4.2
Consumer Staples	2.0	7.9
Health Care	0.0	5.1
Financials-x-Real Estate	45.8	37.4
Real Estate	7.5	7.2
Information Technology	0.0	1.0
Telecommunication Services	9.5	5.4
Utilities	0.0	1.8
Other	1.6	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032  
or visit [www.perennial.net.au](http://www.perennial.net.au).

Signatory of:



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