# Perennial Value Shares Wholesale Trust

**Monthly Report**
28 February 2015

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception^ |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares Wholesale Trust* | 8.8 | 15.0 | 16.1 | 17.6 | 17.5 | 9.5 | 10.8 |
| S&P/ASX 300 Accumulation Index | 6.9 | 12.6 | 13.0 | 14.2 | 15.8 | 9.5 | 8.4 |
| **Value Added (Detracted)** | **1.9** | **2.4** | **3.1** | **3.4** | **1.7** | **0.0** | **2.4** |
| Capital Growth | 8.8 | 12.5 | 13.3 | 12.5 | 12.1 | 4.7 | 2.2 |
| Income Distribution | 0.0 | 2.3 | 2.3 | 4.1 | 4.5 | 4.0 | 7.8 |
| Net Performance | 8.8 | 14.8 | 15.6 | 16.6 | 16.6 | 8.7 | 10.0 |

*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 28 February 2015):
AUD1.5 billion

Income distribution frequency:
Half yearly

Team FUM (as at 28 February 2015):
AUD8.2 billion

Minimum initial investment:
$25,000

Trust inception date:
June 2001

APIR code:
IOF0206AU

- **The Trust delivered a very strong return for February, on both an absolute and relative basis.**
- **Two driving forces for the month were the reduction in the official cash rate from 2.5% to 2.25% and a solid reporting season.**
- **The most pleasing aspect of the outperformance was in the contribution from a diverse spread of stocks, both industrial and resources.**

The Perennial Value Shares Wholesale Trust (the Trust) delivered a very strong return for February, on both an absolute and relative basis. The Trust rose 8.86% to deliver outperformance of 1.94% against the benchmark S&P/ASX300 Accumulation Index return of 6.92%.

The two driving forces for the month were the reduction in the official cash rate from 2.5% to 2.25% and a solid reporting season. The portfolio fared particularly well from reporting season, resulting in some very strong share price moves across a number of portfolio holdings.

Globally, markets ended the month higher, with the Nikkei 225 (up 6.4%), S&P500 (up 5.5%), Shanghai Composite (up 3.1%) and FTSE (up 2.9%) all stronger. In Europe, Greece's new Government secured a bailout extension and the German economy gained momentum as 4Q14 GDP rose 0.7%. The Japanese economy also grew at an annual rate of 2.2% quarter on quarter. The US continues to recover with the January jobs increase the highest since November 2008. This is now the longest number of consecutive months where new jobs exceeded 200,000 since 1994. In China, the People's Bank of China cut the reserve requirement ratio by 50 basis points and benchmark interest rates by 25 basis points.

Domestically, data was mixed. The Westpac Melbourne Index of Consumer Sentiment increased by 8% in February, the highest level of the index since January last year. The index is now 1% above the last reading prior to the May budget. The NAB Monthly Business Survey Confidence Index was up slightly to +3 points, however still below long run averages. The Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points to 2.25% during February and the AUD was steady at 78 US cents.

The better performing sectors during the month were Materials (up 11.8%), Resources (up 11.3%) and Energy (up 9.2%). The Trust is overweight these sectors. The defensive sectors underperformed during the month, with Telecommunications (up 0.6%), Consumer Staples (up 1.1%) and REITS (up 3.7%). The Trust is underweight the latter two sectors.

The focus of the month was reporting season. Overall, results were well-received, with the majority of stocks experiencing positive share price reactions. While operating conditions are mixed, many companies are seeing the benefits of business improvement programs and lower interest rates. Further, outlook statements were generally positive, particularly for companies leveraged to the retail and construction markets, indicating a good start to the second half of the financial year. The results of both BHP (up 15.0%) and Rio Tinto (up 11.9%) were well received by the market, with both companies strongly reinforcing further cost reductions and maintenance of progressive dividend policies. Capital management was again a feature of the results, with two thirds of those companies which reported in the portfolio increasing their dividends by an average of around 9%. A number of companies also announced share buybacks during the month including portfolio holdings Rio Tinto and Fairfax (up 8.9%).

The most pleasing aspect of the outperformance was in the contribution from a diverse spread of stocks, both industrial and resources. Some 19 stocks delivered returns of between 10% and 23% during the month. Highlights included QBE (up 22.4%) delivering a result in line with market expectations and a strengthened balance sheet. Macquarie Group (up 17.2%) after a strong December quarter, now expects a result at the top end of their guidance and Origin Energy (up 16.7%) announced a good first half result and continued progress on the APLNG project, with first production still on track for mid CY15.

This month can also be viewed as one where we have reaped the rewards of building higher conviction holdings in a number of out of favour, quality companies whose share prices have been depressed at various times over the past twelve months. Of particular note are AMP (up 43.1%) over the past twelve months), Ansell (up 41.5%), Harvey Norman (up 52.2%) and Macquarie Group (up 36.2%). In this regard, staying true to label to our investment process has proved rewarding.

Our investment process has also lead us to be very significantly underweight both Woolworths and Wesfarmers for a considerable period of time. In particular, we have had a long held view that Woolworth's margins would face considerable pressure from increased competition and the Masters concept would struggle against the formidable incumbent presence of Bunnings. Woolworth's share price fell 3.4% for the month as the half yearly profit result highlighted these concerns.

Stocks which detracted from performance included BlueScope (down 4.2%) and Telstra (up 0.3%). We took profits in the latter during the month (see below).

In terms of portfolio activity, the most significant moves were to lock in gains from some of the portfolio's strongest performing holdings over the past twelve months. These included the key diversified financial holdings, being AMP, Henderson Group and Macquarie Group and also Resmed and Telstra. The latter two we believe to be trading on relatively full valuations, having risen 73.7% and 31.6% respectively over the past twelve months.

Proceeds were reinvested into topping up existing holdings, including AGL Energy, Fairfax and Leighton Holdings. In the case of Fairfax, we participated in Hancock Prospecting's 14.6% sell down at 86.5 cents per share. This had the effect of clearing out a perceived stock 'overhang' and this was confirmed by the month-end closing price of 98 cents.
At month end, stock numbers were 45 and cash was 3.4%.

**Top 10 Holdings**

| Stock name | Trust weight % | Index weight % |
|---|---|---|
| Westpac Banking Corp | 8.8 | 7.9 |
| BHP Billiton Limited | 8.6 | 7.2 |
| National Aust. Bank | 8.0 | 6.1 |
| ANZ Banking Grp Ltd | 6.3 | 6.5 |
| Commonwealth Bank. | 6.2 | 9.9 |
| Telstra Corporation. | 6.0 | 5.2 |
| AMP Limited | 3.2 | 1.3 |
| Rio Tinto Limited | 3.1 | 1.9 |
| Macquarie Group Ltd | 2.8 | 1.6 |
| QBE Insurance Group | 2.8 | 1.2 |

**Asset Allocation**

| Sector | Trust weight % | Index weight % |
|---|---|---|
| Energy | 4.8 | 4.6 |
| Materials | 22.0 | 15.4 |
| Industrials | 2.9 | 7.2 |
| Consumer Discretionary | 10.4 | 4.3 |
| Consumer Staples | 3.1 | 6.9 |
| Health Care | 1.8 | 5.9 |
| Financials-x-Real Estate | 39.4 | 39.2 |
| Real Estate | 4.2 | 7.8 |
| Information Technology | 0.0 | 0.9 |
| Telecommunication Services | 6.0 | 5.7 |
| Utilities | 1.9 | 2.0 |
| Other | 3.4 | - |

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