

| | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception [^] |
|--|------------|------------|------------|------------|------------|------------------------------|
| | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares for Income Trust* | 11.5 | 16.2 | 17.2 | 19.2 | 11.5 | 8.7 |
| S&P/ASX 300 Accumulation Index | 10.3 | 12.9 | 13.9 | 15.3 | 8.3 | 6.8 |
| Value Added (Detracted) | 1.2 | 3.3 | 3.3 | 3.9 | 3.2 | 1.9 |
| Capital Growth | 10.4 | 11.1 | 11.6 | 13.1 | 5.7 | 2.5 |
| Income Distribution | 0.9 | 4.4 | 4.6 | 5.2 | 5 | 5.4 |
| Net Performance ^{^^} | 11.3 | 15.5 | 16.2 | 18.3 | 10.7 | 7.9 |

*Gross Performance. [^]Since inception: December 2005. ^{^^}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 31 March 2015):

AUD78.9 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 March 2015):

AUD8.1 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ **Domestically the signals remain mixed, with the rotation to non-mining sources of growth still a work in progress.**
- ▶ **Many companies reported their December half year results during the quarter. Overall, results were well-received, with the majority of stocks experiencing positive share price reactions.**
- ▶ **Financials (up 14.1%) was the best performing sector, followed by consumer discretionary.**

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 1.0 cents per unit for the March quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.5 cents per unit. Based on the unit price at the start of the financial year (\$1.15), this represents a pre-tax distribution yield for the quarter of 1.3% and brings the pre-tax distribution yield for the last 12 months to 6.2%. This compares favourably to the 12 month RBA term deposit rates available for that period of around 3.3%.

Portfolio Activity

During the March quarter, we took profits and reduced holdings in a number of stocks where strong share price performance meant they no longer offered attractive valuation characteristics or dividend yields. For example, we exited our holdings in Amcor and Westfield Corp. These stocks had delivered very strong total returns and were trading on FY15 P/E ratios of over 20 times and offering gross yields of less than 4%. We also reduced our holdings in Telstra, Macquarie Group, Suncorp and QBE, all of which had been strong performers.

Proceeds were used to establish positions in AGL, JB Hi-Fi and Flight Centre. AGL's energy businesses offer relatively defensive earnings underpinned by its position as the lowest-cost electricity generator. At our entry price of \$14.97, the stock was trading on an FY16 P/E of 13.9 times and offering an attractive gross yield of 6.2%. JB Hi-Fi is a well-managed business with a leading position in electronics and entertainment retailing. At our entry price of \$17.91, the stock was trading on an FY16 P/E of 13.6 times and offering a gross yield of 6.9%, underpinned by a very strong balance sheet. Flight Centre is the leading travel business in Australia, servicing both the leisure and corporate markets and has a track record of strong earnings growth. This stock is also underpinned by a very strong balance sheet with net cash of \$429 million. At our entry price of \$40.32, the stock was trading on a FY16 P/E of 14.8 times and offering a gross yield of 5.4%.

The Trust remains well diversified, with exposures to a range of industries, with holdings across nine sectors. At quarter end, stock numbers were 27 and cash was 7.7%.

Stock and Portfolio Performance

The S&P/ASX 300 Accumulation Index (the Index) rose strongly, finishing the quarter up 10.3%. The Trust finished the quarter up 11.5%, outperforming the Index by 1.2%. On a financial year-to-date basis, the Trust has delivered a total return of 16.2%, outperforming the Index by 3.3%.

Globally, markets ended the quarter broadly higher with the Shanghai Composite (up 15.9%) and Nikkei 225 (up 10.1%) particularly strong, while the FTSE (up 3.2%) was also up. The US market lagged with the S&P500 (up 0.4%) ending the quarter only marginally higher. Part of the divergence in the European and US markets performance in the quarter can be attributed to varying central bank Quantitative Easing (QE) programs with the Europeans announcing a larger than expected QE program in the quarter. In the US, the market remains focused on the timing and extent to which the US Federal Reserve (the Fed) may start to bring their QE program to an end.

Both globally and domestically, macro data was mixed. The biggest disappointment for the US was the underperformance of the consumer, despite improvements in non-farm payrolls and lower energy prices. The industrial data for Japan and China has disappointed, with PMIs unexpectedly slipping, but the improvement in Europe has been clear with Germany, in particular continuing to deliver activity data consistent with around 3% GDP growth. Domestically the signals remain mixed, with the rotation to non-mining sources of growth still a work in progress. Retail spending growth remains weak. Employment growth was sufficient for the unemployment rate to finish the quarter at 6.3%, in line with where it started. The residential property market remained strong, particularly in Sydney which saw record auction clearance rates during the quarter. Business confidence slipped, however, alongside further slides in key commodity prices, particularly iron ore. The Reserve Bank of Australia lowered the cash rate by 25 basis points to a record low 2.25% in February causing the Australian Dollar (AUD) to continue its decline. The AUD/USD ended the quarter at 76c down from 82c at the end of 2014.

Many companies reported their December half year results during the quarter. 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. Capital management was again a feature of the results, with 85% of those companies which reported in the Trust increasing their dividends by an average of around 8%. A number of companies also announced share buybacks during the month including portfolio holding Rio Tinto.

Financials (up 14.1%) was the best performing sector, followed by consumer discretionary (up 13.9%), utilities (up 13.8%) and healthcare (up 12.2%). Energy (down 3.7%) was the only sector to deliver a negative return, while consumer staples (up 4.1%), metals and mining (up 6.3%) and materials (up 7.7%) also underperformed.

Stocks which performed well included Harvey Norman (up 32.4%), Macquarie Group (up 31.5%), Aristocrat Leisure (up 28.5%), Boral (up 22.0%), AMP (up 19.5%) and QBE (up 18.3%). The major banks also outperformed, up an average of 14.8%.

Stocks which detracted from performance were predominantly our resource holdings, with Woodside Petroleum (down 4.3%), Downer (down 2.8%), Origin Energy (down 0.9%) and Rio Tinto (up 1.3%). Iluka Resources (up 45.0%) was the exception, reversing the fall in the previous quarter.

ESG Factors during the quarter

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ESG) issues in the Trust. During the quarter, we met with the new CEO of AGL who indicated a desire for the company to significantly increase their service offering within the residential solar market. We believe the company is well positioned to participate in this fast growing segment, and are encouraged that the company is looking to mitigate any potential longer term risks around its fossil fuel based generation assets. The new CEO also announced a review of the company's NSW CSG assets in Gloucester, the development of which have been the subject of some community concern. We feel the review of these assets is appropriate to address risks around broader potential brand damage as a result of any community issues. We will continue to monitor these developments closely.

Market Outlook

The market's strength over recent times highlights the continued relative attractiveness of equities in the current low interest rate environment.

| Top 10 Holdings | | |
|----------------------|----------------|----------------|
| Stock name | Trust weight % | Index weight % |
| Westpac Banking Corp | 9.5 | 8.1 |
| National Aust. Bank | 9.3 | 6.2 |
| ANZ Banking Grp Ltd | 9.1 | 6.7 |
| BHP Billiton Limited | 7.6 | 6.6 |
| Telstra Corporation. | 6.9 | 5.1 |
| Commonwealth Bank. | 5.8 | 10.0 |
| Woodside Petroleum | 4.7 | 1.6 |
| AMP Limited | 4.2 | 1.3 |
| Macquarie Group Ltd | 3.3 | 1.7 |
| Aristocrat Leisure | 3.0 | 0.3 |

| Asset Allocation | | |
|----------------------------|----------------|----------------|
| Sector | Trust weight % | Index weight % |
| Energy | 6.1 | 4.4 |
| Materials | 13.3 | 14.4 |
| Industrials | 0.8 | 7.3 |
| Consumer Discretionary | 10.1 | 4.3 |
| Consumer Staples | 1.9 | 6.7 |
| Health Care | 0.0 | 6.1 |
| Financials-x-Real Estate | 46.3 | 40.4 |
| Real Estate | 4.9 | 7.7 |
| Information Technology | 0.0 | 1.0 |
| Telecommunication Services | 6.9 | 5.6 |
| Utilities | 2.0 | 2.0 |
| Other | 7.7 | - |

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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