Perennial Value Shares for Income Trust

Monthly Report
31 July 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	3.8	-0.2	3.8	9.9	18.1	12.3	8.2
S&P/ASX 300 Accumulation Index	4.3	-0.8	4.3	5.5	14.8	9.4	6.2
Value Added (Detracted)	**-0.5**	**0.6**	**-0.5**	**4.4**	**3.3**	**2.9**	**2.0**
Capital Growth	3.7	-1.6	3.7	3.5	12.0	6.5	2.1
Income Distribution	0.0	1.2	0.0	5.5	5.2	5.0	5.3
Net Performance^^	3.7	-0.4	3.7	9.0	17.2	11.5	7.4

*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 July 2015):
AUD75.2 million

Income distribution frequency:
Quarterly

Team FUM (as at 31 July 2015):
AUD8.4 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **The market rebounded strongly in July, with the S&P/ASX 300 Accumulation index ending the month up 4.3%.**
- **The most significant portfolio news related to Asciano after the company received an indicative takeover proposal from the Canadian infrastructure giant, Brookfield.**
- **The better performing sectors during the month were Healthcare (up 9.4%) which rallied strongly on the weaker AUD and Consumer Staples (up 7.5%).**

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 demonstrate superior dividend yield characteristics to the overall stock market.

Portfolio Activity

During the month, we continued to take profits and reduce our holding in JB Hi-Fi following its strong share price performance. We sold stock during the month at an average price of $20.61, having previously sold down part of the position in June. The stock subsequently closed the month at $19.31.

Proceeds were used to further increase our holdings in AGL Energy. As mentioned in last month's commentary, AGL has good defensive characteristics from its utility business and stands to benefit from any rise in electricity demand and pricing, both of which are showing signs of improvement. The company is also moving aggressively to improve efficiency as well as being on the front foot in terms of embracing the growth of renewable energy sources such as solar. The stock is currently offering an attractive FY16 gross yield of 6.8% underpinned by a strong balance sheet.

At month end, stock numbers were 29 and cash was 3.1%.

Stock and Portfolio Performance

The market rebounded strongly in July, with the S&P/ASX 300 Accumulation index ending the month up 4.3% and recovering most of the previous month's losses. The Trust delivered a return of 3.8%, underperforming the benchmark by 0.5%. Over the past 12 months, the Trust has delivered a return of 9.9%, some 4.4% ahead of the S&P/ASX 300 Accumulation Index return of 5.5%.

Globally, despite the ongoing drama in Greece and China, major markets were up with the S&P 500 up 2.0%, FTSE up 2.7% and Nikkei 225 up 1.7%. In China, share prices fell with the Shanghai Composite down 14% despite the efforts of the authorities to stem the fall. China's economic data had improved, continuing the apparent dislocation between activity and markets albeit the Shanghai Composite is still up over 60% in the last year. Elsewhere, the US Federal Reserve edged closer to the first tightening as the economy continued to heal, and Europe's data remained solid, despite the tremors emanating from Greece.

In Australia, the economic data was mixed with another upbeat reading on employment, which means the jobless rate is now actually below its level of a year ago. Retail spending and consumer confidence though, remained weak while business confidence found fresh highs. The housing markets in Sydney and Melbourne continued to strengthen. At the behest of regulators, the Australian banks introduced further measures towards month end to curb lending to investors in an effort to restrain the strong housing markets. Commodity prices were extremely weak with the Brent oil price down 17.9%, copper down 8.8% and iron ore down 11.5%. There was a flow-on impact on the Australian dollar which fell from US$0.77 to US$0.73 over the month. The Reserve Bank of Australia (RBA) left interest rates unchanged.

The better performing sectors during the month were Healthcare (up 9.4%) which rallied strongly on the weaker AUD, Consumer Staples (up 7.5%), Industrials (up 6.3%), Consumer Discretionary (up 6.3%) and REITs (up 5.7%). Metals and mining (down 3.0%) was the worst performing sector, followed by Materials (down 1.4%) and Energy (up 0.1%).

The most significant portfolio news related to Asciano after the company received an indicative takeover proposal from the Canadian infrastructure giant, Brookfield, for an implied value of $9.05 per share in scrip and cash. The share price rallied strongly over the month to close at $8.13. We added this stock to the portfolio in April at an average price of $6.68. We believe that the indicative bid price undervalues the longer-term value of the asset base as the company is about to enter a robust free cash flow phase as capex requirements reduce significantly, we rate management highly and there is significant potential for dividends to be increased and franking credits to be released.

The major banks all rallied, with Westpac (up 8.4%) the strongest, followed by NAB (up 4.4%), CBA (up 2.9%) and ANZ (up 1.5%). As widely expected following the Financial Services Inquiry, Australian Prudential Regulation Authority (APRA) announced that it would require the major banks to hold more capital against their mortgage portfolios effective 1 July 2016. The banks moved quickly to begin to offset the negative impact this would have on returns and profitability by lifting the interest rates they charge on investor and interest only loans. This suggests that the banks will largely be able to maintain current levels of profitability whilst holding the higher levels of capital required.

Stocks which underperformed tended to be our resource holdings, falling in response to lower commodity prices, with Orica (down 9.7%), Origin Energy (down 5.3%), Downer (down 4.8%), BHP (down 2.2%), Rio Tinto (down 1.7%) and South32 (down 0.3%). Resources continue to be heavily out of favour and we see contrarian value in this sector of the market.

Market Outlook

While there has been a heightened level of volatility in markets recently, the economic fundamentals of major economies overall seem to be improving slowly and this should drive economic and earnings growth. Further, the current very low interest rates highlight the relative attractiveness of equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
National Aust. Bank	9.5	6.1
Westpac Banking Corp	8.9	7.5
ANZ Banking Group Ltd	8.5	6.2
Telstra Corporation	7.4	5.4
BHP Billiton Limited	6.8	5.7
Commonwealth Bank	5.7	9.6
Woodside Petroleum	5.1	1.7
Macquarie Group Ltd	4.6	1.9
AMP Limited	4.5	1.3
AGL Energy Limited	3.5	0.8

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.3	4.8
Materials	13.3	14.0
Industrials	3.4	7.4
Consumer Discretionary	7.5	4.4
Consumer Staples	1.9	6.7
Health Care	0.0	6.3
Financials-x-Real Estate	47.6	39.5
Real Estate	5.0	8.0
Information Technology	0.0	1.0
Telecommunication Services	7.4	5.9
Utilities	3.5	2.1
Other	3.1	-

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