Perennial Value Australian Shares Trust

Quarterly Report
31 March 2015

	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	12.5	16.0	16.6	17.0	8.4	12.1
S&P/ASX 300 Accumulation Index	10.3	12.9	13.9	15.3	8.3	8.7
Value Added (Detracted)	**2.2**	**3.1**	**2.7**	**1.7**	**0.1**	**3.4**
Net Performance	12.3	15.3	15.6	16.0	7.4	11.3

*Gross Performance. ^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Perennial Value Australian Shares 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 31 March 2015):
AUD1.7 billion

Income distribution frequency:
Half yearly

Team FUM (as at 31 March 2015):
AUD8.1 billion

Minimum initial investment:
$25,000

Trust inception date:
March 2000

APIR code:
IOF0200AU

- **Both globally and domestically, macro data was mixed.**
- **Financials (up 14.1%) was the best performing sector, Energy (down 3.7%) was the only sector to deliver a negative return.**
- **Overall results from the February reporting season were well-received, with the majority of stocks experiencing positive share price reactions.**

The March quarter was particularly strong for the Australian equity market with the S&P/ASX 300 Accumulation Index (the Index) up 10.3%. The Perennial Value Australian Shares Trust (the Trust) delivered a robust 12.5% return for the quarter, outperforming the Index by 2.2%.

On a financial year-to-date basis the Trust continues to perform strongly, up 16.0% and approximately 3.1% ahead of the Index return of 12.9%.

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 European and US market performance in the quarter can be attributed to varying central bank Quantitative Easing (QE) programs, with the European market 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 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.

Financials (up 14.1%) was the best performing sector, followed by consumer discretionary (up 13.9%), utilities (up 13.8%) and healthcare (up12.2%). 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.

The focus of the quarter was the February 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. Capital management was again a feature of the results, with two thirds of those companies which reported in the Trust increasing their dividends by an average of around 9%. A number of companies also announced share buybacks including portfolio holdings Fairfax (up 11.4%) and Rio Tinto (up 1.3%).

The most pleasing aspect of the outperformance for the quarter was in the contribution from a diverse spread of stocks, both industrial and resources. Some 13 stocks delivered returns greater than 20% for the quarter. Highlights included Iluka Resources (up 45.0%) reversing prior period underperformance, Henderson Group (up 36.2%) which benefited from increased global investment flows toward UK and European equities following the announcement of European quantitative easing, and Harvey Norman (up 32.4%) following improved sales activity. Macquarie Group (up 31.5%) was also up strongly after announcing earnings guidance upgrades in January and February along with the acquisition of a large aircraft leasing portfolio toward the end of the quarter which was financed through a capital raising at $73.50 which the Trust participated in. The stock ended the quarter at $76.67.

Stocks which detracted from performance tended to be those exposed to the resource and energy sectors following weakness in underlying commodity prices. Bluescope Scope Steel (down 25.0%), AWE (down 6.6%) and Woodside Petroleum (down 4.3%) all underperformed, along with contractors Leighton Holdings (down 3.6%) and Downer EDI (down 2.8%).

In terms of portfolio movements, the most significant changes were to sell out of two stocks, Amcor and Resmed, which have delivered very strong share price returns for the Trust over recent times, to the point where the valuation of both companies appeared stretched. In the case of Resmed we sold out during March at an average price of $8.27 after purchasing the stock in early 2014 at an average of price of $4.87. We also continued to lock in gains from some of the Trust's stronger performing holdings over the past twelve months, including Telstra and Lend Lease.

Proceeds were reinvested into topping up existing holdings, including Commonwealth Bank and Graincorp, along with adding new stocks Flight Centre and Leighton Holdings which have both been sold down by the market in recent times to attractive valuation levels.

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.

At month end, stock numbers were 43 and cash was 2.5%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	9.3	8.1
National Aust. Bank	8.2	6.2
BHP Billiton Limited	8.1	6.6
Commonwealth Bank.	7.3	10.0
ANZ Banking Grp Ltd	6.6	6.7
Telstra Corporation.	6.1	5.1
Macquarie Group Ltd	3.1	1.7
Rio Tinto Limited	2.8	1.6
AMP Limited	2.7	1.3
QBE Insurance Group	2.7	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.7	4.4
Materials	21.6	14.4
Industrials	3.2	7.3
Consumer Discretionary	10.2	4.3
Consumer Staples	3.3	6.7
Health Care	1.2	6.1
Financials-x-Real Estate	41.2	40.4%
Real Estate	3.8	7.7
Information Technology	0.0	1.0
Telecommunication Services	6.1	5.6
Utilities	2.0	2.0
Other	2.6	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment