Perennial Socially Responsive Shares Trust

Monthly Report
30 April 2015

	Month	Quarter	FYTD	1 year	2 years	3 years	5 years
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Socially Responsive Shares Trust*	-1.3	6.5	9.0	10.4	12.2	14.5	7.5
S&P/ASX 300 Accumulation Index	-1.6	5.1	11.1	10.2	10.2	14.2	8.3
Value Added (Detracted)	**0.3**	**1.4**	**-2.1**	**0.2**	**2.0**	**0.3**	**-0.8**
Net Performance	-1.4	6.3	8.1	9.3	11.2	13.5	6.5

* Gross Performance. Past performance is not a reliable indicator of future performance.

Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

Portfolio manager:
Lee Mickelburough

Risk profile:
High

Trust FUM (as at 30 April 2015):
AUD53.5 million

Income distribution frequency:
Half yearly

Team FUM (as at 30 April 2015):
AUD2.6 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2001

APIR code:
IOF0117AU

- **Companies which possess strong fundamentals for growth will continue to outperform.**
- **The economic recovery in the US continues as evidenced by generally supportive economic data.**
- **Domestically, consumer confidence and business conditions have continued to weaken and the AUD will likely continue to slide.**

Trust performance overview

The Perennial Socially Responsible Shares Trust (the Trust) outperformed the S&P/ASX300 Accumulation Index (the Index) by 0.3% in April, finishing -1.3% against the Index which finished -1.6% for the month.

April saw a bounce in the downtrend of two of this year's worst performing sectors, as the recent weakness in the energy sector (up 8.5%) was at least temporarily reversed and resources (up 4.3%) followed suit. Banks (down 5.9%) was the worst performing sector followed by healthcare (down 4.0%) and technology (down 4.0%) which also underperformed. The utilities sector (up 2.0%) was positive, while industrials (up 0.6%), consumer discretionary (up 0.2%) and telecommunications (down 0.9%) remained stable.

Investment Themes and Stock Performance

Companies which possess strong fundamentals for growth will continue to outperform.

We added two new positions this month, in Mantra Group Limited and Veda Group Limited.

Mantra Group Limited (new position) is the second largest hotel room operator in Australia managing over 15,000 rooms under three key brands; Peppers, Mantra and Breakfree. Growth in the business is being driven by rising occupancy and room rates across their portfolio of hotels, while management expect to compliment this organic growth by making small bolt on acquisitions as opportunities become available. The current macro-economic back drop is supportive for Mantra, with a lower Australian dollar (AUD) driving more Australians to holiday domestically as well as attracting more international visitors, especially from rising inbound Chinese tourism. Mantra is exposed to improving trends in Queensland tourism, especially South East Queensland and the Gold Coast. While at the same time, improving business conditions especially in Sydney and Melbourne are positive for their CBD hotels.

Veda Group Limited (new position) is Australia's largest data analytics company (85% market share) which collects, stores and analyses data for its customers to assist in their decision making and risk management. It has collected its own proprietary data spanning 45 years of historical data on 20 million individuals, credit information on over 5.7 million commercial organisations, 2.7 million records in its tenancy database and five years' worth of defaults from hundreds of businesses. In addition, Veda accesses public information including land titles, the personal property securities register, ASIC information and comprehensive court judgment default collection information. Veda's customers include 12,500 business and 470,000 consumers. Their strategy is focused on extracting value from the comprehensive database they have created and diversifying the business into new areas. These include fraud prevention, commercial scoring, consumer scoring and supporting the marketing strategies of its customers. Recent developments for the group include a series of acquisitions which have complemented the company's core capabilities and have positioned the group well in this rapidly evolving market segment. We forecast the company to generate strong cash flow and improving returns on capital and believe it is materially undervalued.

Mayne Pharma Group (overweight, up 13.1%) continued its strong recent performance. In February Mayne acquired the Doryx brand in the US from Actavis. We monitor prescription volumes for this drug and they have been performing well during the transition phase to Mayne Pharma management. The solid performance gives us comfort that transaction is on track. The company has a large pipeline of drugs awaiting approval from the FDA in the US and if any of these are approved in the new financial year they will drive further growth. Following the capital raising in February and subsequent performance, the company is now of the size that warrants inclusion in the S&P/ASX 200 Accumulation Index. This potential inclusion in the larger index is broadening investor interest in the stock.

Asciano Group Limited (overweight, up 4.3%) provided a solid trading update for the FY15 third quarter. The update was better than the market had been anticipating with container lifts growing 3.6% during the quarter. Coal tonnage declined 2.0% driven by a derailment in the Gunnedah Basin, however overall in coal Net Tonne Kilometres (NTKs) grew 5.1% for the quarter supporting the company's guidance for EBIT growth of at least 5%. Our outlook for the business remains favourable.

Fairfax Media Limited (overweight, up 9.4%) performed well in April after it held an investor day on the last day of March to focus on its on-line real estate business, Domain. With greater understanding of the business in the investment community, the shares reacted positively. We believe Domain will continue to drive the performance of the business.

Following six months of strong outperformance, **James Hardie Group Industries (overweight, down 4.3%)** underperformed in April. The key reason for the retracement was a cluster of softer data for US housing and quarterly results for US homebuilders that showed solid, but not spectacular, demand for new housing. James Hardie has been the largest active position in the Trust, however we have reduced our overweight to reflect the strong performance and somewhat more muted outlook. We remain positive on the company as US housing construction recovers to more normalised levels and the company continues to have success with its market penetration strategies.

We continued to add to our position in **Caltex Limited (overweight, up 1.4%)** after participating in the Chevron sell down in late March. Chevron's exit from the register is significant, as going forward, the majority of shareholders will be Australian and in favour of liberating the $1.1 billion of excess franking credits that sit on Caltex's balance sheet. Following the closure of the Kurnell refinery late last year (which has reduced earnings volatility and freed up substantial working capital) Caltex is arguably under geared and well-placed to either materially increase dividends or undertake off market share buybacks to distribute the franking credits. Caltex has an improving growth outlook, boosted by a company-wide cost out program which will deliver up to 10% earnings upside by FY16 and Fuel Retailing is assisted by the ACCC's decision to limit supermarket fuel discounts at 4 cents per litre.

Transpacific Industries Limited (exited) was exited after approaching valuation. Transpacific reported a weak 1H15 result in February, when the performance of its industrial division experienced significant margin compression. In December, Transpacific acquired a high quality, long life strategic landfill asset in Melbourne from Boral. The asset will replace its Clayton landfill, which has less than two years left of use, and will also increase its waste internalisation, grow third party waste volumes and drive earnings growth from FY16. We had expected some weaknesses in the industrial business in FY15, however the 1H15 results were considerably worse than forecast and resulted in large earnings downgrades and a decline in valuation.

Bluescope Steel Limited (overweight, down 16.3%) performed poorly in April as global steel prices fell. While the company sells most of its manufactured steel into the domestic market at good margin, it still exports over 20% of production at no more than break even. This is despite iron ore and coal prices being at low levels and the currency assisting. In addition, the company's New Zealand iron-sands export business is now likely to be losing money. Offsetting these negatives are the improving margins in its domestic coated products (i.e. colourbond) business, excellent growth from the US based operations and a lower currency gives to its competitive position in Australia. We see an improving growth profile in the second half of this year and in 2016, and view the company as considerably undervalued.

The economic recovery in the US continues as evidenced by generally supportive economic data.

This remains a central theme in our portfolio construction. We are seeing the gradual normalisation of US monetary policy, ongoing recovery in the US dollar (USD) and general upward pressure on US interest rates. We have chosen to play this central theme through tilting the Trust towards those companies that have operations whose fundamentals will be supported in this environment.

Despite the company's significant exposure to the US, we moved to an underweight position in **CSL Limited (underweight, down 1.2%)** during April. We expect earnings growth to slow in the near term due to increasing competition from Baxter's subcutaneous IVIG HyQvia and Biogen's long acting recombinant factor VIII. In addition, currency movements will weigh on growth (weak Euro compared to USD for reporting) and a stronger Swiss franc will place pressure on margins in FY16 due to the company's Swiss-based manufacturing base. Given this increasingly challenging competitive environment, we believe that market earnings expectations for a strong pickup in growth during the second half and into FY16 look optimistic.

Chinese economic data has remained underwhelming.

The Chinese leadership face the reality of balancing long term reforms on corruption, the environment and market liberalisation with maintaining economic growth. Despite the weaker growth, we had previously not observed any significant changes of government policy; consistent with our view that the leaders are maintaining a long term view of China's growth trajectory. In April we saw the first evidence of a change from this approach, as the People's Bank of China (PBOC) announced a larger than expected reduction in the required reserve ratio for financial institutions with a cut of 1% from 19.5% to 18.5% for large banks and 17.5% to 16.5% for medium and small banks, effective from 20 April.

While it is still too early to know if the required reserve ratio reduction was a one off or a sign of more aggressive management of the economy, we do feel that it signifies that the government is probably becoming more concerned about the state of the Chinese economy and perhaps it is in worse shape than we previously had accounted for. In this light we feel that it is reasonable to maintain our cautious approach in relation to companies with direct exposure to the Chinese economy.

BHP Limited (not held, restricted, up 3.0%) announced their calendar year first quarter results. The key take away from the announcement was that the company has slowed its iron ore capacity growth through postponing the Port Hedland inner harbour debottlenecking project. This is the first time that we have seen one of the world's major producers of iron ore move to stabilise seaborne supply. In conjunction with the move by the PBOC, this news was taken as a material positive for the iron ore market and helped the commodity and producers to rally significantly over the month. BHP also benefited from the significant rally in oil in April, as the oil market surged on the back of slower than expected inventory build figures released in the US during the month.

The small position that we had retained in **Illuka** was exited on valuation grounds.

Domestically, consumer confidence and business conditions have continued to weaken and the AUD will likely continue to slide.

There will be a transitory period between the current weakness and subsequent recovery as the falling AUD should assist in rebalancing the Australian economy in the longer term. As such, we have maintained a general underweight position to the Australian retail sector.

Oil has entered a period of structural supply/demand imbalance in favour of supply.

This will create economic imbalances between countries leveraged to production versus consumption.

Brent oil rallied hard over the course of April, finishing the month up 21.6% on the back of slower than expected US inventory build. The flow on effect of the move was a strong upward movement in oil and gas related companies. In particular, **Sundance Energy Limited (overweight, up 34.4%)** outperformed the market strongly on the back of the commodity price movement.

As well as benefitting from the oil price, our other favoured exposure, **Karoon Gas Australia Limited (overweight, up 27.3%)** announced a 213 metre gross oil column had been confirmed in the Echidna-1 exploration well from wire line pressure data across the Paleocene and Maastrichtian aged reservoir intervals. Physical oil samples recovered measure a 39.5 degree API oil gravity. The find supports the mean estimated resource of approximately 100 million barrels. Given the proximity to the Piracuca and Bilby oil discoveries and the geologic similarities to Kangaroo, we like the look of this prospect. We continue to ride out the share price volatility and have retained our overweight position.

Naturally, with an oil price rally of this magnitude, oil and gas names that we don't own negatively impacted our overall performance. **Oil Search (not held, up 12.4%), Origin Energy (not held, up 12.6%) and Santos (not held, up 16.2%)** all outperformed over the month.

At the close of the month the Trust held 40 stocks and had an effective cash balance of 6.7%.

Market Overview

The Australian market drifted down 1.7% on an accumulated basis in April, underperforming most of its global peers. North American markets climbed with the S&P 500 rising 0.9%, the Dow Jones rising 0.4% and the Nasdaq up 0.8%. European markets were mixed with the Euro Stoxx 50 down 2.2% while the FTSE 100 increased 2.8%. Asian markets too were mixed with the Shanghai Composite the best performer soaring 18.5%. The Nikkei 225 finished up 1.6%, while the Hang Seng Index decreased 0.9%.

The US market was well supported by first quarter earnings results which were largely ahead of market expectations. The minutes from the FOMC were in-line with previous assessments of the US economy and the committee kept its outlook for the economy unchanged. The ISM manufacturing PMI slipped for a fifth consecutive month, falling from the revised 52.9 in February to 51.5 in March and behind of the 52.5 expected. The ISM non-manufacturing PMI arrived at 56.5, in line with the 56.5 expected and down from the revised prior period reading of 56.9. The Thomson Reuters/University of Michigan consumer confidence index increased moderately to 95.9 from the revised 93.0 prior and was still well ahead of the 94.0 reading expected. Non-farm payrolls registered a reading of 126,000 in March, significantly behind the 245,000 expected. The participation rate slipped 0.1% to 62.7% just behind the expected reading of 62.8% while the unemployment rate held steady at 5.5% in line with expectations. Housing starts increased 2.0% for the month of March, significantly behind the 15.9% rise expected, volatility in the series remains high. Building permits tumbled 5.7% significantly lower than the decline of 1.9% expected. Headline CPI for March rose 0.2% just behind the 0.3% expected and the core measure rose 1.8% month on month.

Chinese economic data remained patchy. As mentioned previously, the PBOC announced a larger than expected reduction in the required reserve ratio for financial institutions, effective from 20 April 20. The PBOC also announced targeted cuts for other selected financial institutions. The recently released HSBC flash Manufacturing PMI was weaker than the market had forecast coming in at 49.2, weaker than the 49.6 expected and 0.4 behind March's reading. March M2 money supply growth eased from February's 12.5% reading to 11.6% year on year, well below the 12.4% expected. New loan creation came in at 1,180 billion Yuan for March ahead of the 1,040 billion Yuan expected.

The Reserve Bank of Australia left the benchmark rate at 2.25% in April, however they retained guidance that "further easing may be appropriate over the period ahead". NAB business confidence increased to 3 points in March against 0 points in February. The NAB business conditions rose 4 points to a reading of 6. The Westpac MI consumer confidence index fell 3.2% to 96.2 in April from 99.5 in March. The economy added 37,700 jobs in March well ahead of the 15,000 increase forecast, while the participation rate increased to 64.8% from 64.7% in February. The jobless rate fell to 6.1% a 0.2% decrease on the prior reading. Retail sales increased 0.7% in February, ahead of the 0.4% rise expected and the 0.4% in the prior period. Building approvals declined 3.2% month on month in February, ahead of the 4.0% decline expected.

The AUD rose strongly against the USD in April, rising 3.9% as higher iron ore prices buoyed sentiment towards the currency The USD traded weaker against most currencies as softer than expected economic data tempered expectations of an interest rate rise. The AUD fell 0.23% against the Euro.

Spot Brent crude oil rallied strongly in April rising 21.6% over the course of the month. Iron ore followed suit with a respectable gain of 9.4% after BHP announced plans to curb the pace of its iron ore expansion. Base metals were solidly higher over the month, including copper (up 4.9%), zinc (up 15.6%), nickel (up 12.8%) and Aluminium (up 8.5%). Spot gold remained flat for the month.

Best/Worst Performers

(Best) company	Month Return	(Worst) company	Month Return
Mayne Pharma Group Limited	13.1%	BHP Billiton Limited (Not Held)	3.0%
Karoon Gas Australia Ltd	27.3%	Bluescope Steel Limited	-16.3%
Sundance Energy Australia Limited	34.4%	Origin Energy Limited (Not Held)	12.6%
Fairfax Media Limited	9.4%	ANZ Banking Group Limited	-7.2%
Asciano Limited	4.3%	Healthscope Ltd	-7.2%

New/Increased positions

Veda Group Ltd	New
Mantra Group Ltd	New
Caltex Australia	Increased
BlueScope Steel Ltd	Increased
Carsales.Com Ltd.	Increased

Exited/Decreased positions

CSL Limited	Reduced
Transpacific Indust.	Exited
James Hardie Indust	Reduced
Sundance Energy	Reduced
Iluka Resources	Exited
Western Areas Ltd	Reduced

Top 10 Holdings

Stock name	Trust weight %	Index weight %
National Aust. Bank	8.5	6.0
Commonwealth Bank.	7.9	9.7
ANZ Banking Grp Ltd	7.9	6.3
Westpac Banking Corp	6.9	7.6
Mayne Pharma Ltd	3.6	0.1
Asciano Limited	3.3	0.4
AMP Limited	3.1	1.3
Caltex Australia	3.0	0.6
Challenger Limited	2.9	0.3
Westfield Corp	2.8	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.5	5.1
Materials	10.2	14.8
Industrials	11.1	7.5
Consumer Discretionary	5.0	4.5
Consumer Staples	0.0	6.8
Healthcare	8.5	6.0
Financials-x-Real Estate	41.9	39.0
Real Estate	4.7	7.7
Information Technology	1.3	1.0
Telecommunication Services	2.5	5.7
Utilities	2.5	2.0
Cash	6.7	-

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:

PRI Principles for Responsible Investment