PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Monthly Report
30 June 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-4.9	-5.2	10.3	10.3	18.7	12.5	7.9
S&P/ASX 300 Accumulation Index	-5.3	-6.5	5.6	5.6	14.7	9.5	5.9
Value Added (Detracted)	**0.4**	**1.3**	**4.7**	**4.7**	**4.0**	**3.0**	**2.0**
Capital Growth	-6.1	-6.5	3.8	3.8	12.5	6.6	1.7
Income Distribution	1.1	1.1	5.5	5.5	5.2	5.0	5.3
Net Performance^^	-5.0	-5.4	9.3	9.3	17.7	11.6	7.0

*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 30 June 2015):
AUD73.4 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 June 2015):
AUD8.1 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **The Australian equity market sold off in June on concerns over the Greek financial situation.**
- **In a more defensive environment, the better performing sectors were Telcos (down 1.3%) and REITs (down 4.0%).**
- **Economic fundamentals of major markets overall seem to be improving slowly and this should drive economic and earnings growth.**

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.

Portfolio Activity

During the month, we took profits and reduced our holding in JB Hi-Fi following its strong share price performance. We added this stock to the Trust in February at an average price of $17.92 per share and were sold at $21.54 having also received a fully-franked dividend of $0.59 per share, bringing the total return to up 23% over the four months. The stock subsequently closed the month at $19.48.

Proceeds were used to increase our holdings in AGL Energy, Origin Energy and Orica. AGL has good defensive characteristics from its utility business and is 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. AGL is offering an attractive FY15 gross yield of 7.1%. Origin Energy also has a defensive utility business, however stands to generate significantly increased cash flow when its APLNG plant is commissioned in the second half of the year. This cash flow will support a step-up in dividend payments to shareholders, with a forecast FY17 gross yield of 8.4%. Orica is investing heavily in Research & Development to entrench its position as the leading global mining explosives provider and at the same time significantly reducing overhead costs. The company is well positioned to perform strongly once mining activity stabilises.

At month end, stock numbers were 29 and cash was 4.3%.

Stock and Portfolio Performance

The Australian equity market sold off in June on concerns over the Greek financial situation, with the S&P/ASX300 Accumulation Index (the Index) ending the month down 5.3%. The Trust returned -4.9%, outperforming the Index by 0.4%. For FY15, the Trust delivered a return of 10.3%, approximately 4.7% ahead of the Index return of 5.6%.

Globally, the month was dominated by events in Greece. Equity markets slumped as uncertainty about Greece's membership of the currency union escalated as it edged towards default. Major markets declined, with the S&P500 (down 2.1%), FTSE (down 6.6%), Nikkei (down 1.6%) and the Shanghai Composite (down 7.3%), all finishing the month lower. US economic data continues to be positive, supported by stronger labour market and manufacturing indicators as well as a continued improvement in homebuilder sentiment. In China, the People's Bank of China reduced its 2015 GDP growth forecasts marginally to 7.0% and cut the benchmark 1 year lending and deposit rates by 0.25% and the banks' reserve requirement ratio by 0.5% in attempt to stimulate growth.

In Australia, the domestic data flow was mixed. Even with strong Q1 nominal GDP growth (up 2.3%), overall nominal growth was still only up 1.2% year on year. Employment in May grew at the strongest rate since April 2011, causing the unemployment rate to fall to a better than expected 6.0%. Business confidence lifted following the popular investment measures announced in the federal budget. Consumer confidence, however, remains fragile and retail sales growth also was consequently weak. The housing market remained strong and the Reserve Bank of Australia left the cash rate steady at 2.0%, with the Australian dollar closed the month flat at 77 US cents.

In a more defensive environment, the better performing sectors were Telcos (down 1.3%) and REITs (down 4.0%). Financials (down 2.9%) also outperformed with stronger relative performance from the major banks. The more cyclical sectors underperformed, with Consumer Discretionary (down 10.9%) the worst performing sector, followed by Resources (down 9.7%) and Industrials (down 7.8%).

The best performing stock in the Trust for the month was CBA (neutral) which recovered after being sold down over the past few months on concerns over increased regulatory capital requirements. The other major banks all outperformed, with NAB (down 2.9%), ANZ (down 3.0%) and Westpac (down 4.2%). Other stocks which outperformed included Macquarie Group (down 0.4%), Suncorp (down 0.7%), Telstra (down 1.3%), Aristocrat Leisure (down 1.9%), Stockland (down 2.8%) and Orica (down 2.8%).

The worst performing stock was Flight Centre (down 26.7%) which fell sharply after warning that profit would come in at the lower end of its previous guidance. In our view this is an overreaction and this is a quality business with strong management and a net cash position of $500 million. At the month end price of $34.11, the stock is trading on a FY16 P/E of 13.3x and offering a gross yield of 6.5%. Importantly, this dividend is underpinned by the very strong balance sheet and is based on a conservative payout ratio of only 60% of NPAT. Other stocks which underperformed in the risk-off environment included our resource holdings, with South 32 (down18.3%), Iluka Resources (down 14.7%), BHP (down 8.6%), Rio Tinto (down 7.6%) and Origin Energy (down 10.1%).

Market Outlook

The current tribulations in Greece have introduced a heightened level of volatility into markets. However, the economic fundamentals of major markets overall seem to be improving slowly and this should drive economic and earnings growth. The current low interest rates highlight the relative attractiveness of equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
National Aust. Bank	9.3	6.2
ANZ Banking Grp Ltd	8.6	6.3
Westpac Banking Corp	8.4	7.1
Telstra Corporation.	7.2	5.3
BHP Billiton Limited	7.1	6.1
Commonwealth Bank.	5.7	9.8
Woodside Petroleum	5.0	1.7
Macquarie Group Ltd	4.7	1.9
AMP Limited	4.2	1.3
QBE Insurance Group	3.0	1.3

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.3	5.1
Materials	13.8	14.8
Industrials	3.1	7.2
Consumer Discretionary	8.5	4.3
Consumer Staples	1.8	6.5
Health Care	0.0	6.0
Financials-x-Real Estate	46.5	39.2
Real Estate	4.9	7.9
Information Technology	0.0	1.0
Telecommunication Services	7.2	5.9
Utilities	2.6	2.0
Other	4.3	-

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