PERENNIAL VALUE MANAGEMENT

Perennial Value Australian Shares Trust

Monthly Report
30 November 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Australian Shares Trust*	-1.0	-1.3	-5.3	2.3	11.0	7.2	10.7
S&P/ASX 300 Accumulation Index	-0.7	0.7	-3.0	2.1	9.2	6.9	7.6
Value Added (Detracted)	-0.3	-2.0	-2.3	0.2	1.8	0.3	3.1
Net Performance	-1.1	-1.5	-5.7	1.4	10.1	6.2	9.9

*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 30 November 2015):
AUD 1.4 billion

Income distribution frequency:
Half yearly

Team FUM (as at 30 November 2015):
AUD 6.6 billion

Minimum initial investment:
$25,000

Trust inception date:
March 2000

APIR code:
IOF0200AU

- **Globally, the clear highlight was the release of a strong US employment report, which added 271,000 jobs in October, and the jobless rate slipping to 5.0%.**
- **In Australia, the October jobs report was also very strong, delivering an unexpected near 60,000 net gain in employment and a fall in the jobless rate back below 6.0%.**
- **The best performing stock in the portfolio was Metcash (up 24.4%).**

The market eased slightly in November, with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 0.7%. The Perennial Value Australian Shares Trust (the Trust) fell 1.0%, underperforming the market by 0.3%.

Markets were quiet globally, with the S&P500 up 0.1%, FTSE down 0.1%, Nikkei up 3.5% and the Shanghai Composite up 1.9%. Globally, the clear highlight of the month was the release of a strong US employment report, with 271,000 jobs added in October, and the jobless rate slipping to 5.0%, strengthening expectations that the Federal Reserve (the Fed) will start raising rates in December.

In Australia, the October jobs report was also very strong, delivering an unexpected near 60,000 net gain in employment and a fall in the jobless rate back below 6%. The strong results were uniform across states and align with leading indicators of employment, which have been positive. There have also been healthy results for business conditions, which held at recent highs, and consumer confidence, which bounced, despite the banks' recent mortgage rate hikes. Retail sales data for September, however, was sluggish. Overall, this is consistent with our more positive outlook for the domestic economy as the transition to the non-resources sector takes place. The Reserve Bank of Australia (RBA) left the cash rate steady at 2.0% and the Australian Dollar (AUD) drifted slightly higher over the month to close at 72.3 US cents, despite further falls in key commodity prices.

Sector performance was mixed, with healthcare (up 5.2%) the best performing sector, followed by information technology (up 4.5%), financials (up 2.5%), industrials (up 1.0%) and consumer discretionary (up 0.5%). Resources lagged, with metals and mining (down 16.5%) and energy (down 1.3%), while Real Estate Investment Trusts (REITs) (down 2.8%), utilities (down 1.4%), consumer staples (down 1.3%) and telecommunications' (down 0.5%) all detracted.

The best performing stock in the portfolio was Metcash (up 24.4%), which rallied after delivering a H116 profit result which, while down on the prior period, showed some encouraging early signs that management's turnaround plans are having a positive effect. We first entered this stock in July at an average price of $1.15, with the stock closing the month at $1.48. This stock offers significant upside should the company be successful in working with its independent retailer customers to reinvigorate the network and restore sales momentum – something we believe to be achievable under the new management team.

Other holdings, which outperformed included Myer (up 15.6%) which rallied after delivering an annual general meeting (AGM) update, which showed a significant improvement in comparable store sales growth and reaffirmed the FY16 profit guidance. Amalgamated Holdings (up 7.6%) and recent portfolio addition, Navitas (up 6.7%) both outperformed. We see these stocks, with their exposure to domestic tourism and education of international students respectively, as offering an excellent way to capitalise on the expected long-term growth of these sectors, driven by the growth of the middle-classes in Asia. These stocks provide a way to benefit from regional growth in a "post-resources boom" environment. Brickworks (up 6.5%) and Boral (up 5.2%) both outperformed and we believe these stocks are well-placed to benefit from ongoing elevated levels of housing activity and the coming increase in infrastructure investment.

The major banks all outperformed, rising by an average of 3.3%. This is pleasing as we recently moved to an overweight in the banks, as post their sell-off, they are offering attractive valuations with a sector average FY16 P/E of 12.1x and a gross yield of 8.7%. The banks have all significantly increased their capital levels in recent times and, while we expect only modest earnings growth, dividends should be sustainable absent a material increase in bad debts. Given our benign outlook for the domestic economy, we do not expect this to occur.

Stocks which detracted from performance included Sims Metal (down 31.4%), which fell after downgrading earnings guidance due to the sharp fall in the scrap metal price. While this was disappointing, the company has moved swiftly to lower its cost base in the face of this pressure. Importantly, the balance sheet remains strong. As noted in the October commentary we have been reducing our holding in this stock at an average price of $10.19, compared to the month end price of $6.75.

Resource holdings also underperformed, with BHP down 21.4% due to weaker commodity prices and the tailings dam failure in Brazil. We are very disappointed by the issue at Samarco and will continue to monitor developments from an Environmental, Social and Corporate Governance perspective. Newcrest (down 11.4%) and Rio Tinto (down 9.4%) also underperformed.

The outperformance of the healthcare sector also weighed on our relative performance, as we remain underweight this sector which trades on an average FY16 P/E of 22.8x and, in our view, does not offer attractive valuation. This compares to our portfolio which is trading on a FY16 P/E of 14.5x. Investors should note that while healthcare stocks do have defensive characteristics on the demand side, they are subject to high levels of regulatory risk given that a significant proportion of their revenue is derived from government funding.

In terms of portfolio activity, we took profits in stocks, which have performed strongly in recent times, reducing our holdings in Aristocrat Leisure and CIMIC Group, which have returned 48.4% and 30.1% respectively over the past 12 months and have been significant positive contributors to portfolio performance. We also exited our holding in BlueScope Steel following its strong performance, having outperformed the market by 43.0% so far this financial year. In addition, we continued to selectively reduce exposure to the resources sector, exiting a number of holdings, including Iluka Resources, Origin Energy, and South32. The portfolio remains mildly overweight to resources companies, with balance sheet strength a key criteria of the selected stocks held in this sector. Consistent with our positive view on the banks, the proceeds were used to increase weightings in CBA and Westpac as well as adding to positions in Suncorp and Navitas.

At month end, stock numbers were 45 and cash was 3.2%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.4	9.9
Westpac Banking Corp	9.2	7.8
National Aust. Bank	7.5	5.6
ANZ Banking Grp Ltd	6.8	5.7
Telstra Corporation	6.0	4.8
BHP Billiton Limited	4.7	4.2
Macquarie Group Ltd	3.6	2.0
Wesfarmers Limited	3.2	3.1
Woolworths Limited	3.2	2.2
AGL Energy Limited	2.6	0.8

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	3.2	4.4
Materials	13.0	12.3
Industrials	2.0	8.2
Consumer Discretionary	11.6	4.8
Consumer Staples	8.4	6.8
Health Care	0.0	7.0
Financials-x-Real Estate	44.5	39.5
Real Estate	5.1	8.3
Information Technology	0.0	1.1
Telecommunication Services	6.4	5.3
Utilities	2.6	2.3
Cash & Other	3.3	

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