PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Monthly Report
30 June 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-3.5	0.7	-6.0	-6.0	6.5	9.5	6.5
S&P/ASX 300 Accumulation Index	-2.4	4.0	0.9	0.9	7.7	7.2	5.4
Value Added (Detracted)	**-1.1**	**-3.3**	**-6.9**	**-6.9**	**-1.2**	**2.3**	**1.1**
Capital Growth	-7.1	-3.3	-14.9	-14.9	-0.5	2.7	0.0
Income Distribution	3.5	3.7	8.3	8.3	6.2	6.0	5.7
Net Performance^^	-3.6	0.4	-6.6	-6.6	5.7	8.7	5.7

*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 2016):
AUD $39 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 June 2016):
AUD $9.1 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **Over the 12 months to June 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.8%.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.7% per annum.**
- **Markets declined in June, with the S&P/ASX300 Accumulation Index (the Index) down 2.4%.**

Trust characteristics

In line with the objective, 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.

Trust Performance

The Index declined in June, finishing the month down 2.4%. The Trust returned negative 3.5%, underperforming the market by 1.1%.

The 2016 financial year has been very difficult for true-to-label value investors such as Perennial Value, as investors have flocked to stocks with perceived earnings certainty such as infrastructure REITs and healthcare. This has pushed their valuations to very high levels and their dividend yields to very low levels. For example, CSL and Transubran – two stocks which we do not hold on valuation grounds – are currently trading on FY17 price to earnings (P/E) ratios of 24.3 times and 25.4 times and offering FY17 gross dividend yields of only 2.1% and 4.5% respectively. Not holding these and other similarly expensive stocks has impacted our performance over the past 12 months.

What is clear to us however, is that value as a style is a proven performer over the long term, as is our investment process. This is reflected in the fact that, in addition to delivering a 7.7% per annum pre-tax distribution yield, the Trust has also outperformed the benchmark by 1.1% per annum on a total return basis over its 10 year track record. There have been periods where we have seen value perform poorly in the past, however, on each occasion, we have remained disciplined, stayed true to our process and have been rewarded by subsequent strong outperformance. We have no reason to believe that this will not be the case going forward as relative market valuations inevitably normalise.

The initial turmoil in global markets following the unexpected Brexit decision subsided and there was some recovery at month end, with the S&P500 up 0.1%, FTSE100 up 4.4% and Shanghai Composite up 0.4% although the Nikkei 225 was very weak, down 9.6%. The Federal Reserve left rates unchanged and metal prices were strong, with iron ore (up 8.0%) and copper (up 2.7%), partially retracing last month's declines. Brent oil remained steady and the Australian Dollar firmed slightly to 74.5 US cents (up 3.0%).

Defensive industrial sectors outperformed with utilities (up 5.6%) and REITs (up 3.5%) standing out. Our underweight stance in these sectors worked against the Trust. The metals and mining sector (up 3.4%) was helped by higher metals prices and the gold sector (up 22.0%) rising sharply, reflecting a higher gold price (up 8.8%), likely due to the postponement of US interest rate rises and heightened economic uncertainty.

The strongest portfolio performers included Stockland Property Group (up 6.7%), Scentre Group (up 5.6%) and AGL Energy (up 3.8%) as the mindset of the market shifted in favour of defensive quality. Rio Tinto (up 1.8%) followed the iron ore price higher, while Harvey Norman (up 1.1%) also outperformed.

Financial stocks were the key detractors during the month given the cautious sentiment concerning global equity markets and concerns following Brexit. The major banks underperformed marginally (average return of negative 5.0%), QBE Insurance declined (down 16.2%) and other financial stocks were also weak, with AMP (down 8.5%) and Macquarie Group (down 8.0%) also falling. We are comfortable in the outlook for each of these companies.

Trust Activity

During the month we trimmed our holdings in the ANZ, NAB and Westpac following the payment of their interim dividends. At month end, stock numbers were 25 and cash was 6.8%.

Outlook

The Trust remains exposed to the theme of ongoing transition to the east coast economy through overweight positions in consumer discretionary, building and construction-related stocks. The Trust remains overweight in the large-cap, low-cost, financially-sound resources companies. We remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs. These sectors have become a crowded trade and valuations remain stretched as a result of historically low interest rates. The Trust continues to exhibit Perennial Value's true to label value characteristics, offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.5	9.1
Westpac Banking Corp	8.7	7.0
Telstra Corporation	8.7	4.8
ANZ Banking Group Limited	6.5	5.0
National Australia Bank	6.2	4.8
Wesfarmers Limited	5.5	3.2
BHP Billiton Limited	5.0	4.3
Event Hospitality	4.6	0.0
Woodside Petroleum	4.0	1.4
Stockland	3.7	0.8

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.0	4.1
Materials	12.4	14.1
Industrials	0.9	8.1
Consumer Discretionary	7.3	5.3
Consumer Staples	5.5	6.8
Health Care	0.0	7.2
Financials-x-Real Estate	44.7	35.4
Real Estate	7.4	9.6
Information Technology	0.0	1.2
Telecommunication Services	8.7	5.6
Utilities	2.3	2.7
Cash & Other	6.8	-

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