

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-0.2	8.0	13.3	16.3	7.8	12.6	7.4
S&P/ASX 300 Accumulation Index	-0.8	6.4	9.6	17.3	7.4	10.4	6.0
Value Added (Detracted)	0.6	1.6	3.7	-1.0	0.4	2.2	1.4
Capital Growth	-0.2	6.7	9.4	7.3	0.4	5.6	0.8
Income Distribution	0.0	1.1	3.4	8.1	6.5	6.1	5.7
Net Performance ^{^^}	-0.2	7.8	12.8	15.4	6.9	11.7	6.5

*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, paid 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 31 January 2017):

AUD \$37 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 January 2017):

AUD \$7.1 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ Over the twelve months to January 2017, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.84%.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.8% per annum.
- ▶ The market eased slightly in January, with the S&P/ASX300 Accumulation Index (the Index) down 0.8%.

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 demonstrate superior dividend yield characteristics to the overall stock market.

Trust Performance

The Trust slightly fell 0.2% for January, outperforming the Index by 0.6%.

Global markets were mixed following their strong recent advances, with the S&P500 and Shanghai Composite both up 1.8%, while the FTSE100 (down 0.6%) and Nikkei 225 (down 0.4%) declined. Commodity prices diverged, with stronger metal prices seeing iron ore (up 3.0%), copper (up 8.0%) and gold (up 5.0%) all rising, while oil (down 2.0%), thermal coal (down 13.0%) and coking coal (down 26.0%) declined. The Reserve Bank of Australia (RBA) left the cash rate steady at 1.5%, while the Australian Dollar (AUD) finished the month strongly, up four cents at 76 US cents.

During January, the better performing sectors included metals & mining (up 6.8%), materials (up 4.8%) and healthcare (up 4.6%), while REITs (down 4.7%), industrials (down 4.4%), consumer discretionary (down 4.3%) and information technology (down 4.2%) lagged.

Trust holdings which performed strongly included resource companies Rio Tinto (up 11.3%) and BHP (up 6.3%), which rallied on continued iron ore price strength. Other strong performers included Event Hospitality & Entertainment (up 7.1%) as Australian box office takings continue to be strong and Orica (up 6.1%) on general positive sentiment towards the resources sector. Vocus Communications (up 4.4%) began clawing back some of its recent underperformance and AGL Energy (up 2.3%) continued to advance after finalising an agreement to continue to supply power to Alcoa's Portland smelter for 4 years. The continuation of demand from the smelter, combined with the announced closure of the Hazelwood power station should underpin electricity prices in Victoria, benefitting AGL.

The Trust also benefited from being underweight REITs, which underperformed on expectations of continuing increases in bond yields as well as not holding Brambles (down 16.0%), which fell sharply after delivering a profit warning during the month. We have long been wary of Brambles, given its full-valuation based on aggressive long-term return targets to be achieved beyond the tenure of the current management team. We are also pleased to have avoided many of the major earnings disappointments over recent times, including Aconex, Bellamy's, Estia and Sirtex, all of which have fallen dramatically.

Stocks which detracted from performance included Platinum Asset Management (down 5.5%), Scentre Group (down 5.2%), Stockland (down 5.0%), Wesfarmers (down 4.5%) and Lendlease (down 3.6%). These companies are all underpinned by strong balance sheets and we remain comfortable with the outlook for each.

Trust Activity

During the month, we exited our holding in Flight Centre. While we view the long-term outlook for this business positively, the company faces significant near-term headwinds due to the intensifying discounting in international airfares as airlines bring on additional capacity. Proceeds were predominantly used to establish a position in Caltex. This stock has been sold down in recent times due to concerns over the potential impact of the sale of Woolworths' petrol stations (to which Caltex currently supplies the fuel) to BP. While this will have a negative impact, we believe this is more than captured in the price, with the stock trading on an FY18 P/E (price to earnings ratio) of 12.5 times. Further, the company has a very strong balance sheet with significant surplus franking credits, providing optionality around either accretive acquisitions or capital management. At month end, stock numbers were 26 and cash was 2.7%.

Outlook

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.	8.8	9.3
Westpac Banking Corp	7.8	7.0
ANZ Banking Grp Ltd	6.8	5.7
BHP Billiton Limited	6.5	5.6
National Aust. Bank	6.5	5.3
Woodside Petroleum	5.0	1.5
AGL Energy Limited.	5.0	1.0
Telstra Corporation.	4.9	3.9
Event Hospitality	4.3	0.0
Suncorp Group Ltd	4.0	1.1

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.9	4.3
Materials	15.2	17.1
Industrials	0.0	6.5
Consumer Discretionary	8.3	5.0
Consumer Staples	3.6	6.8
Health Care	0.0	6.6
Financials-x-Real Estate	46.1	37.2
Real Estate	5.3	8.3
Information Technology	0.0	1.3
Telecommunication Services	6.8	4.4
Utilities	5.0	2.6
Cash & Other	2.7	-

Rounding accounts for small +/- from 100%.

For all other enquiries. please contact us on 1300 730 032
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