PERENNIAL VALUE MANAGEMENT

Perennial Value Australian Shares Trust

Quarterly Report as at 30 June 2012

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception^ % p.a.
Perennial Value Australian Shares Trust*	-8.4	-10.4	2.9	-3.3	9.9
S&P/ASX 300 Accumulation Index	-5.0	-7.0	5.6	-4.1	6.5
Value Added (Detracted)	**-3.4**	**-3.4**	**-2.7**	**0.8**	**3.4**
Net Performance	-8.6	-11.1	2.0	-4.1	9.1

* Gross Performance. ^Since Inception: March 2000. **Past performance is not a reliable indicator of future performance.**

- The divergence in the sectoral performances highlights the extent to which sharemarket investors shunned cyclicals in favour of defensives.
- Telstra Corporation Limited (up 12.2%) was the best performing stock in the Trust during the quarter.
- During the quarter, ASX Limited and Crown Limited were added to the Trust.

Global markets were weak in the June quarter as concerns over European sovereign debt, fears of a slow down in China, and anaemic economic conditions in the US reversed much of the gains experienced in the earlier part of the year. The Australian market was particularly weak with the S&P/ASX 300 Accumulation Index (the Index) down by 5.0%. The Perennial Value Australian Shares Trust (the Trust) finished the quarter down 8.4%, underperforming the Index return by 3.4%.

During the quarter, and particularly in the month of June, the ongoing macroeconomic focus of the market led to a significant disconnect between prevailing share prices and true underlying value in our view. In the Australian sharemarket context, this was played out through a major sell off in a number of cyclical stocks held in the Trust.

The Reserve Bank of Australia cut the cash rate by 75 basis points to 3.5% over the quarter as consumer and business sentiment measures remained weak. This led to a fall in the Australian dollar below parity with the USD, although it recovered slightly by the end of the quarter to close at USD1.024. The unemployment rate remained relatively steady at 5.1%.

The divergence in the sectoral performances highlights the extent to which sharemarket investors shunned cyclicals in favour of defensives. The best performing sectors were telecommunications (up 11.3%), REITs (up 8.6%), healthcare (up 4.3%) and utilities (up 1.1%). Energy (down 16.3%), and materials (down 14.4%) underperformed.

We are not at all comfortable with this flight to safety stance taken by investors. For example, infrastructure stocks have been highly prized due to supposedly strong dividend yields. Perennial Value's proprietary research indicates that the free cash flows generated by these businesses are not sufficient to sustain the supposed dividend yields which have led many investors to invest in these stocks. Thus, we do not hold companies such as Transurban Group, Sydney Airport, Duet Group and Envestra Limited. Further, as a value investor, we cannot justify investing in the healthcare sector on the basis that many of the stocks are very expensive. For example, CSL Limited trades on a prospective FY13 P/E of 18.7x, a 78% premium to the current market P/E of 10.4x. We do not hold this stock as, while it is a good business, in our view it simply does not represent value.

Telstra Corporation Limited (Telstra) (up 12.2%) was the best performing stock in the Trust during the quarter. Telstra is not a "default holding" for us as a value manager, however, we have held a significant position in this stock during the year and it has delivered significant

Perennial Value Australian Shares Trust Facts:

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 trust 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

Trust FUM (as at 30/06/12):
AUD1.8 billion

Team FUM (as at 30/06/12):
AUD7.3 billion

Trust Inception date:
March 2000

Risk Profile:
High

Income Distribution Frequency:
Half yearly

Minimum Initial Investment:
$25,000

APIR code: IOF0200AU

outperformance. Another positive contributor to the Trust has been GrainCorp Limited (up 1.2%). This stock has been a strong performer, outperforming the market by 29.1% over the past year. Treasury Wine Estates Limited (up 6.1%) has also outperformed strongly over both the quarter and year, and is a holding we received and subsequently increased following the Foster's Group demerger. Other strong performers included defensives Stockland (up 8.8%) and Tatts Group Limited (up 5.6%).

Stocks which detracted from performance over the quarter included Seven West Media Limited (Seven West Media) (down 55.4%), Billabong International Limited (Billabong) (down 51.4%), Aquarius Platinum Limited (Aquarius Platinum) (down 41.7%), Qantas Airways Limited (Qantas) (down 39.8%) and Sims Metal Management Limited (down 34.6%).

Billabong announced an earnings downgrade during the quarter driven by the extreme weakness in Europe. Additionally, the company announced a discounted capital raising via a six for seven non-renounceable rights issue at $1.02, proceeds of which will be used to repay debt. We took up our full entitlement at this issue price (versus a quarter end closing price of $1.075). While we had factored in weaker earnings from Europe, we were disappointed by the amount of capital raised as the company had only recently announced the 51.5% profitable sale of a portion of its Nixon business for a net $285 million. This transaction, coupled with the bids the company subsequently received in late February from private equity firm TPG further vindicates the value in Billabong's brands, which is one of the reasons we were attracted to this company initially. The largest shareholder, Gordon Merchant (who holds approximately 16%, is the founder of the company and remains a Non-Executive Director), rejected TPG's offers and thereafter went so far as to personally purchase $7.9 million of stock on market at an average price of $3.13, which we viewed positively. Needless to say we were wrong. We are monitoring our current position closely and are encouraged by the founder being more amenable to engaging with private equity.

We are cutting our losses in a number of holdings, including Aquarius Platinum, Seven West Media, Seven Group Holdings Limited and Qantas. We have acted decisively in selling down and the common theme here is that their underlying trading environments, and therefore profitability, are continuing to decline. We also reduced our weighting in BHP Billiton Limited. While the company is financially very strong, we believe that the commodity super cycle has peaked and find it difficult to see strong share price appreciation from here.

In terms of reinvesting share sale proceeds, the share price falls of a number of higher quality companies has seen their current valuations trading lower than long-term averages. This has presented us with the opportunity to introduce both ASX Limited (ASX) and Crown Limited (Crown) into the Trust. This valuation opportunity is highlighted by the fact that the Trust has never previously held either of these stocks.

ASX is a high return on capital, highly cash generative business with a monopoly position in its key divisions. While some competition has entered the equity execution business the impact has been muted to date. ASX has historically traded on a high earnings multiple given its underlying characteristics with a ten year average P/E of 18.9x and P/FCF 16.3x. The stock is currently trading on a P/E of 13.6x and P/FCF of 13.3x, some 28% and 18% below its long term average respectively, in an environment where market turnover, a key driver of earnings, is at cyclical lows.

Crown is Australia's premium casino operator and is currently completing a major capital refurbishment of its two Australian casinos in Melbourne and Perth. They are the key drivers of the company's earnings and this is complemented with a growing Asian presence, most notably to date in Macau. Crown will derive strong cash flows from its revitalised Australian casinos, enough to retire debt over the next three years excluding any further growth plans.

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. As discussed above in relation to Billabong, the Board and management have made several poor decisions recently including the rejection of a bid to acquire the company at $3.30 and a subsequent earnings downgrade and equity raising. During the quarter, we have taken an active approach and publicly voiced our concerns over the performance of the Board, including asking for both the Chairman and Gordon Merchant to stand down from the Board. The Chairman has subsequently announced that he will be retiring from the Board and we believe that this is a positive for the company.

At quarter end, stock numbers stood at 49 with cash at 2.4%.

Asset Allocation as at 30 June 2012

Asset Class	Trust Weight %	Index Weight %
Energy	4.9%	6.9%
Materials	25.8%	22.2%
Industrials	4.6%	7.1%
Consumer Discretionary	10.8%	3.7%
Consumer Staples	3.5%	8.3%
Health Care	0.0%	4.1%
Financials-x-Real Estate	33.9%	33.1%
Real Estate	5.0%	7.3%
Information Technology	0.0%	0.7%
Telecommunication Services	7.2%	4.9%
Utilities	0.6%	1.9%
Other	3.6%	-

Rounding accountsor small +/- from 100%.

Top 10 Holdings as at 30 June 2012

Stock	Trust Weight %	Index Weight %
ANZ Banking Grp Ltd	8.2%	5.9%
Commonwealth Bank.	7.8%	8.5%
National Aust. Bank	7.5%	5.3%
Telstra Corporation.	7.2%	4.6%
BHP Billiton Limited	7.2%	10.1%
Westpac Banking Corp	5.2%	6.5%
Rio Tinto Limited	4.2%	2.5%
Woodside Petroleum	3.6%	1.9%
Brambles Limited	2.9%	1.0%
Macquarie Group Ltd	2.8%	0.9%