

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	0.3	0.3	8.9	15.5	6.0	9.9
S&P/ASX 300 Accumulation Index	-0.6	-0.6	5.7	14.4	6.6	7.6
Value Added (Detracted)	0.9	0.9	3.2	1.1	-0.6	2.3
Capital Growth	0.1	0.1	4.3	9.9	1.3	1.4
Income Distribution	0.0	0.0	3.7	4.7	3.8	7.8
Net Performance	0.1	0.1	8.1	14.6	5.2	9.2

*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Perennial Value Shares Wholesale 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 September 2014):

AUD1.4 billion

Income distribution frequency:

Half yearly

Team FUM (as at 30 September 2014):

AUD7.6 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **The Trust returned 0.3% during the quarter, outperforming the Index by 0.9%.**
- ▶ **Global markets were volatile during the quarter as a gradually improving US economy generated debate.**
- ▶ **The best performing stock in the Trust over the quarter was Harvey Norman (up 17.1%).**

The benchmark S&P/ASX 300 Accumulation Index (the Index) was down 0.6% during the September quarter. The Perennial Value Australian Shares Trust (the Trust) returned 0.3% during the quarter, outperforming the Index by 0.9%.

The Trust has delivered a solid result for the year to 30 September, with the 8.9% return resulting in outperformance of 3.2% against the Index.

Global markets were volatile during the quarter as a gradually improving US economy generated debate as to the likely impacts of the US Federal Reserve's (the Fed) quantitative easing ending in the US, and the timing of any interest rate increase. At the same time the market grappled with unrest in the Middle East and Russia, concerns over a slowdown in China and a sluggish European economy. Despite this the S&P500 (up 0.6%), Nikkei 225 (up 6.7%) and Shanghai Composite (up 15.4%) finished higher at end of the quarter while the FTSE (down 1.8%) finished lower.

Both globally and domestically, macro data was mixed. In the US, second quarter GDP growth came in at 4.6% on an annualised basis and employment data continued to show improvement while other data was more underwhelming, particularly towards quarter end. In China, the latest round of data indicates that growth is falling short of the official target, which prompted the announcement of additional bank liquidity measures to help stimulate growth. In Europe, the European Central Bank (ECB) also announced additional stimulus measures as growth remains barely positive. Domestically the unemployment rate remained at 6.1% despite some intra-period volatility after touching 6.4% in August. Consumer and business confidence remained stable over the quarter despite some more positive signs in August. Building approvals data was strong. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% however hinted that it may be considering counter-cyclical credit controls to cool the strong housing market.

The AUD/USD weakened significantly over the quarter, ending the quarter at 87.2c down from 94.3c at the end of June.

The best performing sectors were healthcare (up 9.4%), telcos (up 5.4%), REITs (up 1.2%), IT (up 0.9%), industrials and consumer staples (both up 0.6%). The worst performing sector was metals and mining (down 3.8%) followed by materials (down 3.0%) and financials (down 2.5%).

Domestically, reporting season was the focus in August, with companies reporting results for the period to 30 June 2014. Overall, the results were well received, with many companies' share prices reacting positively. Several themes emerged from reporting season. Firstly, there was a continuation of the relatively subdued revenue growth environment of the past few years. However, there were some areas showing recovery, in particular the housing related sectors, which are experiencing strong demand conditions. Secondly, companies remain squarely focussed on self-help

initiatives (in the form of cost reductions and efficiency gains) to maintain margins and help offset inflationary pressures. Finally, cash flows were generally strong, leading to healthy balance sheets and allowing increased dividend payments. In terms of the outlook, management continued to be guarded in their statements, however, the majority of companies in the Trust indicated that they expect earnings to grow in the coming year.

The best performing stock in the Trust over the quarter was Harvey Norman (up 17.1%) which rallied after delivering a significantly improved profit result, lifting the dividend significantly and indicating that they may consider steps to return excess franking credits. Other strong performers included Lend Lease (up 13.1%), Aristocrat Leisure (up 11.0%), Amcor (up 10.9%) and QBE (up 8.6%). QBE announced a capital raising of \$810m during the quarter which was effectively a net raising of only \$310m given the portion being used to retire convertible debt. The company also announced the intended future sales of its agency businesses, a partial sale of Lenders Mortgage Insurance and the reinsurance of its medical malpractice reserves at book value with quality reinsurers. These actions will be of clear benefit to the balance sheet. QBE will also take the opportunity to gradually increase its exposure to risk assets (and therefore, return) in its shareholders' funds which are currently invested predominantly in short term fixed interest securities. The Trust participated in the capital raising via a share placement of \$10.10 per share. The market's response has been positive, with the share price closing the quarter at \$11.66. The above announcements could well represent a positive turning point in sentiment towards this institutionally under-owned Top 20 company.

The Trust benefitted from its positioning in the banking sector over the quarter. Having moved to a mild underweight in the banks some six months ago, we have continued to reduce the overall bank weightings in recent months to a more meaningful underweight. However, within the sector, NAB is our highest conviction holding. Our negative view on the sector has been driven by a number of factors, including ongoing regulatory intervention to increase capital levels and relatively less attractive yield relative to rising bond yields. The major banks declined an average of 4.3% over the quarter. NAB (down 0.7%) was the best performer, with the new CEO Andrew Thorburn taking over in August and moving quickly to change senior management, sell off non-performing UK loan portfolios and announce the intention to IPO their US operations.

Stocks which detracted from performance included Fairfax Media (down 12.2%) which gave back some of the recent outperformance despite delivering a solid full-year result. Henderson Group (down 10.6%) delivered a result below expectations, however this has been a very strong performer over the last 12 months and we have been trimming our holding in this stock as it has risen. Other weak performers included Crown (down 7.5%) on the back of weakness in Macau and AGL Energy (down 6.5%). Resource holdings BHP (down 3.8%), Orica (down 3.0%) and Iluka Resources (down 2.6%) also underperformed on weaker commodity prices.

In terms of portfolio activity, profits were taken in stocks including Amcor, Asciano, AWE (a mid cap oil and gas producer), Bluescope Steel, Harvey Norman, Lend Lease, Orora and Sims Group. In the case of both Amcor and CBA, we reduced our position for valuation reasons and indeed both holdings have been used as funding vehicles over the past year. Proceeds were reinvested into stocks offering better

value, primarily through increasing holdings in Aristocrat, BHP, Coca Cola Amatil, Downer EDI, Iluka Resources and RIO.

Ansell has been introduced into the Trust in recent months, following significant share price underperformance. It is a world leader in the manufacturing and marketing of healthcare solutions and provides defensive and geographically diverse revenue streams. Further, the more cyclical industrial division should benefit from any global economic recovery, in particular in the USA and EMEA (Europe, the Middle East and Africa), where it derives 42% and 35% of its revenue respectively.

Perennial Value Management (PVM) remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the Trust. We were pleased to see that in the 2014 financial year, Telstra invested \$217m in customer and community digital inclusion programs focussed on access, cyber safety and digital innovation and reached over 143,000 people with their "Everyone Connected" digital literacy programs.

At month end, stock numbers were 46 and cash was 1.3%.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	9.4	8.1
Westpac Banking Corp	7.6	7.4
National Aust. Bank	6.8	5.7
ANZ Banking Grp Ltd	6.5	6.3
Telstra Corporation.	5.8	4.9
Commonwealth Bank.	5.3	9.1
Woodside Petroleum	3.5	2.1
Rio Tinto Limited	3.1	1.9
Macquarie Group Ltd	3.1	1.4
QBE Insurance Group	3.0	1.2

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.3	6.4
Materials	23.8	16.4
Industrials	4.8	7.1
Consumer Discretionary	7.6	4.2
Consumer Staples	2.3	7.9
Health Care	3.1	5.1
Financials-x-Real Estate	36.5	37.4
Real Estate	6.9	7.2
Information Technology	0.0	1.0
Telecommunication Services	5.8	5.4
Utilities	1.7	1.8
Other	1.4	-

Rounding accounts for small +/- from 100%.

Signatory of:



Issued by: The Investment Manager, Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Managers: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, reference guides and application forms can be found on Perennial's website www.perennial.net.au.