

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	5.9	5.4	5.9	-1.1	8.7	9.7	9.5
S&P/ASX 300 Accumulation Index	6.4	7.0	6.4	2.9	8.1	9.4	7.6
Value Added (Detracted)	-0.5	-1.6	-0.5	-4.0	0.6	0.3	1.9
Capital Growth	5.8	3.5	5.8	-5.6	3.7	4.4	1.3
Income Distribution	0.0	1.6	0.0	3.6	4.0	4.4	7.4
Net Performance	5.8	5.1	5.8	-2.0	7.7	8.8	8.7

*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 31 July 2016):

AUD \$1.1 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 July 2016):

AUD \$9.4 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **Markets rebounded in July, with the S&P/ASX300 Accumulation Index (the Index) up 6.4%.**
- ▶ **Resources stocks slightly outperformed the strongly rebounding industrial stocks.**
- ▶ **The Trust returned 5.9%, underperforming the Index by 0.5%.**

Market Activity

The markets recovered from June's post-Brexit sell-off, to finish July strongly, with the S&P500 up 3.6%, FTSE100 up 3.4%, Nikkei 225 up 6.4% and the Shanghai Composite up 5.3%. Metal prices remained firm with nickel up 13.0%, iron ore up 6.6% and gold up 2.5% on the month while oil fell 12.9% as gasoline inventories swelled and the US rig count increased. The Federal Reserve left rates unchanged as did the Reserve Bank of Australia with the Australian Dollar finishing up 2.0% for the month at 0.76 US Cents.

The Australian market was strong across the board, with all sectors delivering positive returns for the month. Metals and mining (up 9.1%) was the best performing sector on the back of higher metal prices. Consumer discretionary (up 8.9%) was also strong, while consumer staples (up 8.5%) rallied, largely on Woolworth's restructuring plans. Materials (up 7.8%), industrials (up 7.2%), utilities and healthcare (both up 7.0%) also delivered strong results. The energy sector (up 0.2%) was the worst performer on weaker oil prices.

Trust Performance

The Perennial Value Shares Wholesale Trust (the Trust) delivered a return of 5.9% for July, underperforming the Index by 0.5%.

The better performing stocks in the Trust for the month included Myer (up 19.2%) after the David Jones result provided a positive read-through, Aristocrat Leisure (up 15.5%) with continuing strong product performance and survey data, News Corp (up 13.0%) and Resmed (up 10.8%) after delivering a solid FY16 result. Woolworths (up 12.1%) rallied following a restructuring announcement which showed management moving decisively to improve operating performance, in particular slimming down the head office function. As part of the operating model review, Woolworths announced that it would be introducing sales per square metre and return on funds employed as key long term performance indicators. It was encouraging to see this change as these metrics will be key drivers of future performance as we had encouraged the company to adopt these metrics for the long term incentive plan as part of our engagement with the company in recent times.

Financials, AMP (up 12.6%), Macquarie Group (up 8.0%) and Clydesdale Bank (up 7.0%) rebounded from their post Brexit sell-offs while Rio Tinto (up 8.9%) and Newcrest (up 8.7%) rallied on the back of higher iron ore and gold prices respectively.

Stocks which detracted from performance included Graincorp (down 1.7%) which was sold off after Archer Daniels Midland (ADM) unsuccessfully attempted to sell down their 19.9% shareholding (likely following the election result which reduced the probability of the Government allowing them to make a takeover offer for the company). Woodside (down 1.2%) fell on declining oil prices and lower quarterly revenues, while Gateway (flat), Westfield Holdings (up 0.3%) and Event Hospitality & Entertainment (up 1.5%) also underperformed. We remain comfortable with each of these holdings.

Trust Activity

During the month we added Caltex to the portfolio. Caltex has restructured its business to reduce its refining exposure by converting the high cost Kurnell refinery into a receiving terminal and lowering costs at its smaller refinery at Lytton, Queensland. This move has reduced the volatility of earnings while maintaining its position as Australia's leading fuel distributor. The company has a strong balance sheet which gives optionality around acquisitions or capital management. We also increased our holdings in Clydesdale Bank and Macquarie Group, taking advantage of opportunities driven by post Brexit weakness, as well as Rio Tinto. This was funded by further trimming our holdings in the banks. At month end, stock numbers were 46 and cash was 3.6%.

Outlook

In recent months, we have become more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. Further, the close election result is unfavourable given the policy uncertainties this creates. The portfolio remains overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight given that sector's high leverage at a time of historically low interest rates. The Trust continues to exhibit Perennial Value's true to label value characteristics, with the portfolio 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.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.4	8.9
Westpac Banking Corporation	6.0	6.9
Telstra Corporation	5.8	4.7
ANZ Banking Group Limited	5.5	5.0
BHP Billiton Limited	5.5	4.2
National Australia Bank	4.9	4.7
Wesfarmers Limited	4.3	3.2
Macquarie Group Limited	3.2	1.7
Woolworths Limited	3.2	2.0
Rio Tinto Limited	2.8	1.4

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.7	3.9
Materials	13.8	14.3
Industrials	1.1	8.1
Consumer Discretionary	9.6	5.4
Consumer Staples	8.6	6.9
Health Care	2.7	7.3
Financials-x-Real Estate	36.9	35.3
Real Estate	8.1	9.5
Information Technology	0.0	1.2
Telecommunication Services	6.8	5.5
Utilities	2.1	2.7
Cash & Other	3.7	-

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:



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