



July 2015

# Perennial Growth High Conviction Shares Trust

We believe that growing companies generate the most value for shareholders. These companies tend to attract management interested in building businesses rather than merely managing them.

## About the Trust

The Trust is an actively managed concentrated portfolio of listed (or soon to be listed) 'growth oriented' Australian shares.

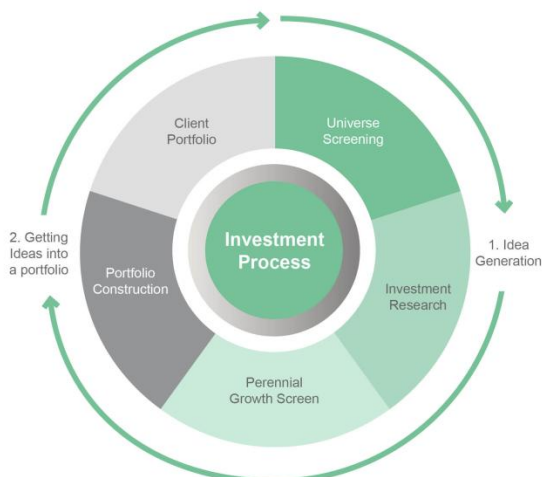
## Description of the Trust

Perennial Growth seeks to invest in companies that offer sustainable and profitable growth prospects at attractive prices. Perennial Growth believes that growing companies generate the most value for shareholders and seeks to value this future growth through a combination of internally generated bottom-up stock research and quantitative modelling. Only companies with which Perennial Growth has a high conviction are included in the Trust.

As the Trust is concentrated, the portfolio holds between 15 and 30 securities, typically holding around 20 securities.

The Trust has a maximum cash exposure, not exceeding 20% for any length of time.

## Investment process



## Objective

The aim of the Trust is to grow the value of your investment over the long-term through a combination of capital growth and income by investing in a concentrated selection of 'growth orientated' shares. Although the portfolio is benchmark unaware in portfolio construction, the Trust will aim to provide a total return (before fees) that exceeds the S&P/ASX 200 Accumulation Index by 4% p.a. measured on a rolling five-year basis.

## Investment philosophy

We seek to invest in companies that offer profitable growth prospects at attractive prices. We believe that growing companies generate the most value for shareholders and seeks to value this future growth through a combination of internally generated bottom-up stock research and quantitative modelling.

Perennial Growth focuses on:

1. **Profitable Growth.** We seek to identify companies that grow profitably, rather than grow their businesses for growth's sake. To do this we focus on the drivers of profitable growth.
2. **Lifecycle Valuation Approach.** We aim to avoid long-term valuation risks. This approach helps us avoid the typical "growth trap" of paying for blue-sky expectations, commonly built into company valuations. This often occurs because investors underestimate the increase in competition as an industry matures.
3. **Original Research.** This is the cornerstone of Perennial Growth's investment process. We value non-broker, independent research. The combination of knowing what the market does and does not know is the basis for assessing growth and valuation.

## Stock selection process

The process used to analyse and assess investment opportunities focuses on answering four key questions.

1. Opportunity. Can the company grow?
2. Execution. Can the company execute on these opportunities?
3. Profitable Growth Test. Is the growth profitable?
4. Lifecycle Valuation Approach. What should we pay for this growth?

Investment opportunities are those companies which pass all of these tests.

We then use six key measures to rank investment opportunities:

1. Growth in cash earnings - an indication of true underlying growth.
2. Return on investment (ROI) - a measure of profitability, and the change in ROI.
3. Management - the right personnel employing the right strategy.
4. ESG – assessment of the company's ESG attributes or risks.
5. Industry - what is the company's positioning, the industry structure and outlook.
6. Lifecycle Valuation Approach - what should we pay given the long-term valuation risks.

The largest holdings in the Trust will be those that have superior sustainability and are the most attractively priced. Where Perennial Growth has the greatest conviction, these stocks will normally have a portfolio holding of 6% to 8%. Other high conviction stocks will have a portfolio holding of 2% to 6%.

### Investment guidelines summary

|  |               |
|--|---------------|
| Cash – minimum/maximum   | 0 to 20%      |
| Number of stocks – minimum/maximum                               | 15 to 30      |
| Minimum market capitalisation                                    | \$100 million |
| Maximum investment in any one stock                              | 20%           |
| Listed ex-benchmark stocks permitted                             | Yes           |
| Maximum/minimum investment per GICS sector relative to benchmark | N/A           |
| Tracking error range ex-ante (soft)                              | N/A           |
| Typical stock weight (absolute)                                  | 2 to 8%       |

### Investment team

#### Lee Mickelborough

Head of Perennial Growth  
Years with Perennial: 13  
Years in the Industry: 27

#### Andrew Sutherland

Partner  
Years with Perennial: 13  
Years in the Industry: 23

#### Paul Phillips

Resource Analyst  
Years with Perennial: 3  
Years in the Industry: 12

#### Nicholas Sladen

Partner  
Years with Perennial: 7  
Years in the Industry: 14

#### David Rosenbloom

Portfolio Manager  
Years with Perennial: 3  
Years in the Industry: 29

#### James Drohan

Equities Analyst  
Years with Perennial: 1  
Years in the Industry: 8

For further information contact  
us on 1300 730 032 or visit  
[www.perennial.net.au](http://www.perennial.net.au).

### Trust summary

|  |             |
|--|-------------|
| APIR Code                                  | IOF0089AU   |
| Inception date                             | March 2007  |
| Risk/return profile                        | High        |
| Income distribution                        | Half yearly |
| Minimum recommended investment period      | 5 years     |
| Investment management fee % p.a.           | 1.05        |
| Performance fee                            | No          |
| Buy/sell spread %                          | 0.60        |
| Unit pricing, applications and redemptions | Daily       |

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