# Perennial Socially Responsive Shares Trust

**Monthly Report** as at 31 October 2013

| | Month % | 3 Months % | Financial YTD % | 1 Year % | 2 Years % p.a. | 3 Years % p.a. | 5 Years % p.a. |
|---|---|---|---|---|---|---|---|
| Perennial Socially Responsive Shares Trust* | 3.5 | 10.2 | 18.3 | 28.3 | 18.3 | 9.9 | 11.3 |
| S&P/ASX 300 Accumulation Index | 3.9 | 8.8 | 14.6 | 24.8 | 17.1 | 9.7 | 11.0 |
| **Value Added (Detracted)** | **-0.4** | **1.4** | **3.7** | **3.5** | **1.2** | **0.2** | **0.3** |
| Net Performance | 3.4 | 10.0 | 17.9 | 27.2 | 17.2 | 8.8 | 10.3 |

* Gross Performance. **Past performance is not a reliable indicator of future performance.**

- The Trust's positions in Lend Lease, Fortescue Metals Group, ANZ and Challenger contributed positively to performance in October.
- Within Europe, economic data continued to show tentative signs of improvement.
- The Australian Dollar appreciated against the US Dollar, rising 1.3% over the month to finish at $0.95.

## Perennial Socially Responsive Shares Trust

The Trust aims to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis, by investing in a selection of listed companies which also embrace and engender social performance in their corporate culture.

| | |
|---|---|
| **Trust Manager:**<br>Lee Mickelburough | **Risk Profile:**<br>High |
| **Trust FUM (as at 31/10/13):**<br>AUD51.4 million | **Income Distribution Frequency:**<br>Half yearly |
| **Team FUM (as at 31/10/13):**<br>AUD2.4 billion | **Minimum Initial Investment:**<br>$25,000 |
| **Trust Inception date:**<br>December 2001 | **APIR code:**<br>IOF0117AU |

## Trust Performance Overview

The Perennial Socially Responsive Shares Trust (the Trust) finished up 3.5%, underperforming the S&P/ASX300 Accumulation Index (the Index) return by 0.4%, with the Index finishing up 3.9% for the month.

Global monetary policy remains at historically accommodative levels, and communications from a range of central banks indicate that a long period of easy policy settings remains in store. These settings, along with a gradual loosening of fiscal austerity measures, should help underpin the modest global recovery currently underway. As this recovery gains traction we believe that increasing global interest rates, a stronger USD and a move away from yield focused investing will be some of the outcomes. In our view, companies offering growth and effective deployment of capital will be recognised by the market and outperform over the medium term. The Trust has been constructed to be a beneficiary of these themes and we believe it is positioned to capture above Index investment returns as a result.

The top performer during the month was Lend Lease Group (up 12.2%) due largely to positive comments at its annual Investor Day around recovery in residential property sales and confidence in the medium term earnings outlook. The investor day highlighted a record development pipeline of $37 billion, and reiterated an unchanged strategy focused on urban renewal, infrastructure and its differentiated integrated development model which spans development, construction, equity investment and funding solutions.

Also adding value during the month was the Trust's position in Fortescue Metals Group (up 9.7%). Fortescue continued its recent strong performance on the back of iron ore prices maintaining at high levels in China, a positive quarterly update and strong feedback from the site visit conducted during the month.

ANZ Banking Group (up 10.0%) also contributed positively during the month. The bank reported its full year results for 2013 largely meeting the expectations of the market with a slight surprise on the dividend. The strongest element of the result was its preparedness to include an explicit guidance for the next financial year, something its peers have been reluctant to do in recent years. In addition to detailed guidance for the coming year, ANZ provided longer term targets and discussed capital requirements. These signals are critical to our understanding of the intrinsic value of the company. On the result we saw good progress in most divisions, with the Australian retail banking business a highlight reporting above system growth in mortgages and supported by strong margins outcomes. The final key driver of the result, which will continue to support the profitability over the long-term, was the cost performance with productivity improvements across most of the region, particularly in New Zealand.

The Trust's position in Challenger (up 9.1%) contributed positively during October. The company provided a first quarter update which showed that retail annuity sales for the period were $714 million representing an increase of 48% on the pcp and implies potential upside to the company's growth target in that area of the business.

The Trust's biggest detractor to performance was Infigen Energy (down 13.3%). The company released its first quarter production and revenue report at the end of the month which showed group production up 7% on the pcp, and group revenue up 13% on the pcp. This followed annual group production and revenue increases in FY13 of 2% and 7%, respectively. The company's gearing level remains high, however net debt has been reducing and the company remains committed to further reducing gearing levels through available cash flow, which in time should result in greater ability to generate further growth.

WorleyParsons (down 9.3%) also detracted from performance. At its Annual General Meeting WorleyParsons confirmed the outlook from the full year results in August, for its "geographic and sector diversification to provide a solid foundation to deliver increased earnings in FY2014". Despite the unchanged guidance, the market focused on comments regarding the timing of project awards (i.e. heavy recent project wins) which would see profits skewed to the second half of the year. Subsequent discussions with management provided us with confidence that the normal profile of revenue ramp up on new contract awards will deliver this increased second half profit. We continue to be attracted to WorleyParsons' superior ROIC, exposure to offshore and unconventional oil sectors and recovering North American energy investment cycle.

Karoon Gas (down 13.8%) also detracted from performance. Over the month the energy sector in general underperformed the Index driven predominantly by the continued decline in the WTI Oil spot price. As a result, Karoon was an underperformer given concerns that they have not been able to farm down the Grace exploration well. While it is not preferable for an exploration company to carry high levels of equity into the expensive drilling phase (approximately AUD100 million per well) given the low chance of success, we agree that this prospect is interesting and therefore deserves some risk capital to be spent on it. We believe that the share price underperformance during the month has more than capitalised the maximum expenditure for the block and that the current share price does not reflect the value in either the Kangaroo or Poseidon discovery.

## Market Overview

Within the domestic equity market all sectors finished in positive territory with the strongest performance coming from financials (up 5.5%), healthcare (up 4.5%) and telecommunications (up 4.2%). The weakest performing sectors were energy (up 0.2%), utilities (up 1.1%) and industrials (up 1.8%).

Most equity markets started the month nervously and finished it with gains after the US government reached a last-minute deal to avoid breaching the country's debt ceiling. This followed a partial government shutdown which had threatened to dull the momentum of the economic recovery and has resulted in market expectations for the likely start of tapering of US quantitative easing being pushed into 2014. Most equity indices gained over the month, with the US S&P500 (up 4.5%), the UK's FTSE100 (up 4.2%) and Hong Kong's Hang Seng (up 1.5%) all rising. China's Shanghai Composite (down 1.5%) and Japan's Nikkei (down 0.9%) were the laggards.

While political wrangling and uncertainty in the US dominated headlines, US economic data was mixed during the month. Non-farm payrolls increased by a lower than expected 148,000 in September and the unemployment rate fell to 7.2%, the lowest level since November 2008. The ISM manufacturing purchasing manager's index for August rose to 56.2, a two and a half year high. Retail sales for September fell 0.1% month on month, while measures of consumer confidence weakened. Evidence of the economic impact of the government shutdown is yet to come through fully and there is a likelihood that economic data over the coming quarter will be adversely impacted, with the debt ceiling likely to become an issue once again in early 2014 as a new round of negotiations begins.

Chinese data was mostly positive, with year on year GDP to September coming in at 7.8% and the September manufacturing PMI increasingly marginally from the prior month to 51.1. Inflation data for September increased to an annualised rate of 3.1% and will be keenly monitored by authorities to ensure that is does not become problematic.

Within Europe economic data continued to show tentative signs of improvement, with the September manufacturing PMI coming in at an expansionary 51.1 and August retail sales increasing 0.7% month on month. Stubbornly high unemployment remains one of the region's biggest challenges, with data for September showing the unemployment rate to be 12.2%.

Domestically, the AGM season began, with a number of companies providing relatively cautious commentary. The unemployment rate for September fell to 5.6% following an increase of 9,100 in the number of jobs along with a fall in the participation rate to the lowest level since 2006. Retail sales for August increased 0.4% month on month. The Reserve Bank of Australia elected to keep rates steady at 2.5%.

The Australian Dollar appreciated against the US Dollar, rising 1.3% over the month to finish at $0.95. Commodity markets were mostly stronger with nickel (up 4.7%), aluminium (up 0.8%), Brent Crude (up 0.4%) and iron ore (up 0.4%) rising, and copper (down 0.7%) falling. The gold spot price fell 0.4% to finish the month at $1,323 an ounce.

### Top 10 Holdings as at 31 October 2013

| Stock Name | Trust Weight % | Index Weight % |
|---|---|---|
| ANZ Banking Group Ltd | 9.8 | 6.9 |
| National Aust. Bank | 9.3 | 6.1 |
| Commonwealth Bank. | 7.4 | 9.1 |
| Westpac Banking Corp | 7.2 | 7.9 |
| CSL Limited | 4.8 | 2.5 |
| QBE Insurance Group | 3.8 | 1.3 |
| Lend Lease Group | 3.3 | 0.4 |
| Caltex Australia | 3.2 | 0.2 |
| Challenger Limited | 3.1 | 0.2 |
| WorleyParsons Ltd | 3.0 | 0.4 |

### Asset Allocation as at 31 October 2013

| Sector | Trust Weight % | Index Weight % |
|---|---|---|
| Energy | 14.6 | 6.1 |
| Materials | 9.9 | 17.3 |
| Industrials | 9.0 | 6.7 |
| Consumer Discretionary | 0.0 | 4.7 |
| Consumer Staples | 0.0 | 8.2 |
| Health Care | 9.2 | 4.6 |
| Financials-x-Real Estate | 43.5 | 37.9 |
| Real Estate | 4.7 | 6.9 |
| Information Technology | 0.0 | 0.8 |
| Telecommunication Services | 2.7 | 5.2 |
| Utilities | 3.1 | 1.6 |
| SPI Futures | 2.4 | - |
| Cash | 1.0 | - |

Rounding accounts for small +/- from 100%.