

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	3.7	-1.2	3.7	8.4	18.0	9.5	10.3
S&P/ASX 300 Accumulation Index	4.3	-0.8	4.3	5.5	14.8	9.4	8.0
Value Added (Detracted)	-0.6	-0.4	-0.6	2.9	3.2	0.1	2.3
Capital Growth	3.6	-3.5	3.6	3.2	12.5	4.4	1.8
Income Distribution	0.0	2.1	0.0	4.3	4.6	4.2	7.7
Net Performance	3.6	-1.4	3.6	7.5	17.1	8.6	9.5

*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 2015):

AUD1.4 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 July 2015):

AUD8.4 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ **Domestically, Index performance was driven by large cap defensives with underperformance largely coming from the resources sector.**
- ▶ **The most significant portfolio news related to Asciano after the company received an indicative takeover proposal from the Canadian infrastructure giant, Brookfield.**
- ▶ **Strong Trust performers included Asciano (up 22.3%), BlueScope Steel (up 21.0%) and Boral (up 13.5%).**

The Perennial Value Shares Wholesale Trust (the Trust) delivered a strong absolute return of 3.7% for the month. The benchmark S&P/ASX 300 Accumulation Index delivered a return of 4.3%, resulting in the Trust underperforming by 0.6%. Index performance was driven by large cap defensives with underperformance largely coming from the resources sector.

Globally, despite the ongoing drama in Greece and China, major markets were up with the S&P 500 up 2.0%, FTSE up 2.7% and Nikkei 225 up 1.7%. In China, share prices fell with the Shanghai Composite down 14% despite the efforts of the authorities to stem the fall. China's economic data had improved, continuing the apparent dislocation between activity and markets albeit the Shanghai Composite is still up over 60% in the last year. Elsewhere, the US Federal Reserve edged closer to the first tightening as the economy continued to heal, and Europe's data remained solid, despite the tremors emanating from Greece.

In Australia, the economic data was mixed with another upbeat reading on employment, which means the jobless rate is now actually below its level of a year ago. Retail spending and consumer confidence though, remained weak while business confidence found fresh highs. The housing markets in Sydney and Melbourne continued to strengthen. At the behest of regulators, the Australian banks introduced further measures towards month end to curb lending to investors in an effort to restrain the strong housing markets. Commodity prices were extremely weak with the Brent oil price down 17.9%, copper down 8.8% and iron ore down 11.5%. There was a flow-on impact on the Australian dollar which fell from US\$0.77 to 0. US\$73 over the month. The Reserve Bank of Australia (RBA) left interest rates unchanged.

Strong Trust performers included Asciano (up 22.3%), BlueScope Steel (up 21.0%), Boral (up 13.5%), Aristocrat (up 12.0%) and Crown Resorts (up 11.7%).

The most significant Trust news related to Asciano after the company received an indicative cash/scrip takeover proposal from the Canadian infrastructure giant, Brookfield, for an implied value of \$9.05 per share in scrip and cash. The share price rallied strongly over the month to close at \$8.13. Whilst we trimmed our position, Asciano remains a significant holding as we believe that the indicative bid price undervalues the longer-term value of the asset base, the company is about to enter a robust free cash flow phase as capex requirements reduce significantly, we rate management highly and there is significant potential for franking credits to be released

Boral (up 13.5%) announced a profit upgrade during the month on the back of a number of factors, including stronger trading in June and higher than expected property sales. Aristocrat (up 12.0%) continued its very strong run over the past year as both its Australian and US operations continued to strengthen.

In the banking sector, as widely expected following the Financial Services Inquiry, Australian Prudential Regulation Authority (APRA) announced that it would require the major banks to hold more capital against their mortgage portfolios effective 1 July 2016. The banks moved quickly to begin to offset the negative impact this would have on returns and profitability by lifting the interest rates they charge on investor and interest only loans. This suggests that the banks will largely be able to maintain current levels of profitability whilst holding the higher levels of capital required.

The weakest sectors for July were Resources (down 2.0%) and Energy (up 0.1%) due to lower commodity prices. The best performing sectors were Healthcare (up 9.4%), Consumer Staples (up 7.5%), Industrials (up 6.3%) and Consumer Discretionary (up 6.3%).

Notwithstanding the strong performance of a number of individual holdings, these sector moves explain the source of underperformance for the month. The Trust is underweight a number of the more expensive large cap defensives eg. CSL, which trades on a prospective FY16 P/E of 23.9x and paltry gross yield of 1.9%, and overweight resources. Despite the prevailing very negative sentiment towards resources, we do see contrarian opportunities in this sector. Importantly, we hold only a select handful of resource companies which

demonstrate the key characteristics of strong balance sheets and having their key commodities operating at the lower end of their global cost curves.

Newcrest (down 13.4%) was the weakest performer for the month, largely on the back of a weaker USD gold price. The company released a strong June quarterly production report, particularly with regards the two most important assets, Cadia, NSW and Lihir, PNG, and the current CEO, Sandeep Biswas, continues to bring increased disciplines into the business.

In terms of portfolio changes, we sold out of Ansell largely on valuation grounds. Having bought in at an average price of around \$18.60 in mid-calendar 2014, we realised good gains in selling at an average price of \$25.00. We took profits and reduced our holding in Henderson Group. This has proven to be a very good investment for the portfolio, having risen 33.4% in the past year. Their half year profit to 30 June 2015 was strong, with the share price up 11.7% for the month. The stock is institutionally very well owned, which can sometimes be a precursor to share price weakness in the event of any disappointment.

Proceeds were reinvested into existing holdings including ANZ, CBA, Westpac and Woolworths. With regards to the banks, the APRA announcement removed some uncertainty around capital requirements. Recent weakness in the sector has led to the bank sector trading on a forecast FY16 gross yield of 8.1%, which we believe offers good value.

At month end, stock numbers were 45 and cash was 2.4%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.3	7.5
Commonwealth Bank.	8.2	9.6
National Aust. Bank	8.0	6.1
Telstra Corporation.	6.5	5.4
ANZ Banking Grp Ltd	6.4	6.2
BHP Billiton Limited	6.2	5.7
Macquarie Group Ltd	3.3	1.9
AMP Limited	3.0	1.3
QBE Insurance Group	2.8	1.4
Woodside Petroleum	2.7	1.7

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.5	4.8
Materials	18.9	14.0
Industrials	4.3	7.4
Consumer Discretionary	9.8	4.4
Consumer Staples	5.2	6.7
Health Care	0.0	6.3
Financials-x-Real Estate	40.9	39.5
Real Estate	4.0	8.0
Information Technology	0.0	1.0
Telecommunication Services	6.5	5.9
Utilities	2.6	2.1
Other	2.4	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
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Signatory of:



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