Perennial Value Shares for Income Trust

Monthly Report
31 December 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	3.4	6.3	-2.5	3.2	11.0	10.1	7.2
S&P/ASX 300 Accumulation Index	2.7	6.5	-0.4	2.8	9.0	6.7	5.5
Value Added (Detracted)	0.7	-0.2	-2.1	0.4	2.0	3.4	1.7
Capital Growth	2.6	3.2	-7.5	-4.6	4.6	3.8	0.8
Income Distribution	0.8	3.1	4.8	7.1	5.6	5.5	5.6
Net Performance^^	3.4	6.3	-2.7	2.5	10.2	9.3	6.4

*Gross Performance. ^Since inception: December 2005. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:
Stephen Bruce

Risk profile:
High

Trust FUM (as at 31 December 2015):
AUD 44 million

Income distribution frequency:
Quarterly

Team FUM (as at 31 December 2015):
AUD 6.7 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **In December 2015, the Trust delivered a return of 3.4%, outperforming the index by 0.7%.**
- **Over the 12 months to December 2015, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 9.2%. This compares favourably to twelve month term deposit rates of 3.2% available over the same period.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.6% per annum.**

Trust characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Trust Performance

Over the 12 months to December 2015 (date of the last quarterly distribution), the Trust has delivered a pre-tax distribution yield (i.e. including franking credits and after fees) of 9.2%. This compares very favourably to the gross yield of the index of 6.2% and to 12 month term deposit rates of 3.2% available over the period (Source: Reserve Bank of Australia (RBA)).

Following a mid-month sell-off, the market rallied into the end of December 2015, with the S&P/ASX300 Accumulation Index finishing the month up 2.7%. The Trust delivered a return of 3.4%, outperforming the index by 0.7%.

Globally, markets were dominated by the US Federal Reserve's decision to finally lift interest rates by 0.25%. Markets were generally softer with the S&P 500 down 1.8%, FTSE 100 down 1.8% and Nikkei 225 down 3.6%, while the Shanghai Composite (CSI300) rose 2.7%. In Australia, strong job growth continued, with 71,000 jobs created in November and the unemployment rate falling to 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The RBA left the cash rate steady at 2% and the Australian dollar (AUD) drifted slightly higher over the month to close at 72.9 US cents.

Better performing sectors over the month included consumer staples (up 7.1%), consumer discretionary (up 6.3%), telecommunications (up 4.3%), REITs (up 4.0%) and financials (up 3.6%), while energy (down 7.5%), industrials (down 0.5%), healthcare (up 0.6%) and metals and mining (up 0.9%) lagged.

Stocks which contributed positively to performance included Lend Lease (up 11.8%) after announcing the sale of a stake in Tower 1 at Barangaroo to a major international investor. Tourism stocks Flight Centre and Event Hospitality and Entertainment (formerly known as Amalgamated Holdings) both rallied (up 10.9% and 9.3% respectively) on a generally more positive consumer spending outlook as did Wesfarmers (up 9.2%). AGL Energy (up 9.2%) also performed well, as did the major banks, up an average of 4.4%, with their attractive sector average FY16 gross yield of 8.6%.

The Trust also benefited from not holding stocks such as Aurizon (down 21.4%) which fell after issuing a surprise profit warning, as well as Primary Healthcare (down 27.1%) and Sonic Healthcare (down 12.1%) which both fell after the government unexpectedly cut the bulk-billing rebate. We have previously highlighted the funding risks associated with this sector and the current Medicare review suggests that this may be an ongoing theme.

Stocks which detracted from performance included Woodside Petroleum (down 4.6%) on the back of lower oil prices and Suncorp (down 9.3%) after downgrading earnings expectations due to rising claims costs as a result of higher than usual level of weather events in 2015 as well as the lower AUD. While this is disappointing, on the positive, the premium pricing environment appears to be stabilising and the company remains strongly capitalised, supporting an attractive level of dividends.

Trust Activity

In terms of Trust activity, we sold out of our holding in Aristocrat Leisure. This stock has been a great contributor to the Trust, up 58.2% over the past 12 months. We also took profits and reduced our holdings in Macquarie Group which has returned 48.2% over the past 12 months. Proceeds were used to add to a number of existing holdings where we see attractive value including Wesfarmers (FY16 gross yield 7.0%), Stockland (5.9%) and Suncorp (9.0%). At month end, stock numbers were 24 and cash was 3.9%.

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Trust is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	9.6	10.3
Westpac Banking Corp.	8.7	7.9
Telstra Corporation	8.2	4.9
ANZ Banking Grp Ltd.	8.1	5.8
National Aust. Bank	7.1	5.6
BHP Billiton Limited	5.5	4.1
Event Hospitality	5.3	0.0
AGL Energy Limited	5.3	0.9
Woodside Petroleum	4.3	1.4
Wesfarmers Limited	4.2	3.3

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.3	4.0
Materials	12.2	12.1
Industrials	0.8	7.9
Consumer Discretionary	9.4	5.0
Consumer Staples	4.2	7.2
Health Care	0.0	6.8
Financials-x-Real Estate	45.7	39.9
Real Estate	6.0	8.3
Information Technology	0.0	1.2
Telecommunication Services	8.2	5.4
Utilities	5.3	2.3
Cash & Other	3.9	-

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:

PRI Principles for Responsible Investment