

# Perennial Value Shares for Income Trust

Quarterly Report as at 30 September 2013

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>^</sup> % p.a.
Perennial Value Shares for Income Trust*	8.9	29.1	12.1	9.0	7.4
S&P/ASX 300 Accumulation Index	10.3	23.6	8.9	7.1	5.6
<b>Value Added (Detracted)</b>	<b>-1.4</b>	<b>5.5</b>	<b>3.2</b>	<b>1.9</b>	<b>1.8</b>
Capital Growth	7.2	22.9	6.0	3.1	1.1
Income Distribution	1.5	5.1	5.3	5.1	5.5
Net Performance <sup>^^</sup>	8.7	28.0	11.3	8.2	6.6

\*Gross Performance. ^Since inception: December 2005. ^^This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

- Including franking credits, the gross (pre-tax) distribution for the quarter was 2.2 cents per unit.
- We established positions in a number of new stocks including Aristocrat Leisure, Henderson Group and QBE.
- The best performing stocks in the Trust included Henderson Group (up 34.4%), Crown (up 30.0%), Premier Investments (up 29.5%) and WorleyParsons (up 27.4%).

## Trust Characteristics

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

## Dividend Activity

During the quarter, the Trust became entitled to dividends from Amcor, Asciano, ASX, Bendigo and Adelaide Bank, BHP, Boral, Brambles, CBA, Crown, Fletcher Building, Henderson Group, Iluka Resources, QBE Insurance, Lend Lease, Myer, Suncorp, Tabcorp, Tatts Group, Telstra, Treasury Wine Estates, Wesfarmers, Westfield Group, WorleyParson and Woodside Petroleum.

## Quarterly Distribution

The Trust paid a distribution of 1.5 cents per unit for the September quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 2.2 cents per unit. Based on the unit price at the start of the year (\$1.03), this represents a pre-tax distribution yield for the quarter of 2.2%.

## Trust Activity

The September quarter was unusually busy in terms of Trust activity. We established positions in a number of new stocks including Aristocrat Leisure, a leading global maker and operator of gaming machines, Henderson Group, a UK-based fund manager, and global insurer, QBE. While we believe each of these companies is undergoing positive stock-specific developments, they also serve to increase the Trust's exposure to companies with offshore earnings.

Other stocks added were Asciano, with its high quality, infrastructure-like ports and rail businesses, Suncorp,

## Perennial Value Shares for Income Trust Facts:

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 30/09/13):**  
AUD68.3 million

**Income Distribution Frequency:**  
Quarterly

**Team FUM (as at 30/09/13):**  
AUD8.2 billion

**Minimum Initial Investment:**  
\$25,000

**Trust Inception date:**  
December 2005

**APIR code:** IOF0078AU

\*Gross dividend yield

whose strong capital position is likely to allow the continued payment of special dividends over the coming years and Origin Energy, the outlook for which is positive as competitive dynamics in the retail energy market stabilise after a period of disruption and the risks around the APLNG project diminish as it moves towards completion in 2015.

These positions were funded by exiting our holdings in AMP, GPT, Toll Holdings, Bendigo and Adelaide Bank and Tatts Group.

At month end, stock numbers stood at 33 with cash at 2.5%.

### Stock and Trust Performance

The Australian equities market had a strong quarter with the S&P/ASX 300 Accumulation Index (the Index) rising 10.3%. Resources was the strongest part of the market, with the more cyclical sectors generally outperforming. Metals and mining (up 18.9%) was the best performing sector over the quarter, followed by materials (up 16.4%), consumer discretionary (up 14.5%), energy (up 14.0%) and industrials (up 12.5%). Defensive sectors lagged, with REITs (up 0.1%) the worst performing sector, followed by consumer staples (up 5.2%), utilities (up 5.5%), healthcare (up 5.8%) and telecommunications (up 7.3%).

The Trust delivered a return of 8.9% for the quarter, underperforming the Index return by 1.4%. The main driver of this underperformance was the Trust's underweight position in resources. The Trust is underweight this sector on account of their generally lower dividend yields, however, we have been reducing the extent of this underweight over the past year. The Trust has delivered a very strong total return of 29.1% for the past 12 months, outperforming the Index return of 23.6% by 5.5%. Notwithstanding the yield focus of the Trust, it is pleasing to have outperformed the market during a period of such strong total returns.

Global equity markets were driven for the most part by news flow out of the US. The US Federal Reserve began to discuss the potential for it to begin tapering its stimulus program as the US economy continues to show signs of a recovery. The S&P500 was up 4.7% for the quarter with the FTSE up 4.0% and Nikkei 225 up 5.7% also strong. The Shanghai Composite rebounded strongly, up 9.9% following several economic indicators pointing to a stabilisation in the economic growth rate in China above the key 7% level. Domestically, a pickup in the housing market has begun to unfold, spurred on by the Reserve Bank of Australia's decision in August to reduce the cash rate by 25 basis points to a record low of 2.5%. House prices, finance approvals and residential construction have all seen growth, although non-residential construction remains weak. The Australian dollar (AUD) ended the quarter at USD0.93, up 3.3 cents.

The September quarter includes the traditionally busy August reporting season period and the overall rise in the market during, and subsequent to, reporting season indicates that investors in general viewed company profits positively. Reported overall profits were broadly flat, with financials up, resources down and industrials flat. Capital management in the form of higher dividend payments was a feature of this reporting season. From a dividend point of view, stocks accounting for 69% of the Trust increased their dividends, 20% of the Trust held their dividends flat and only 11% of the Trust reduced their dividends.

The best performing stocks in the Trust included Henderson Group (up 34.4%) following positive

momentum in European fund equity inflows and signs of an improving European economic environment and Crown (up 30.0%) after reporting a full-year result in August which highlighted to the market the rapidly growing earnings contribution from its investments in Macau. We continue to believe that these investments in Asia will drive significant growth in group earnings over the years to come. Premier Investments (up 29.5%) and WorleyParsons (up 27.4%) also performed strongly.

Poorer performing stocks in the Trust included Treasury Wine Estates (down 22.9%), after announcing the departure of its CEO, effective immediately with the Board attributing the decision to the poor recent performance and write-downs in the US business which were announced earlier in the quarter. We remain of the view that Treasury Wine Estates has significant value within its winery and vineyard asset base and that its portfolio of brands should allow it to increase earnings from the sale of its growing level of high quality long-term wine inventory. Orica (down 2.9%) ended lower, although by the end of the quarter had recovered a significant proportion of the share price decline that followed its earnings guidance downgrade in July as demand for its services and explosives reduced. Brambles (down 1.0%) announced a slightly weaker than expected result and the stock struggled to keep pace with the market following significant outperformance over recent quarters. We reduced our holding in the stock during the quarter following these recent gains.

### ESG

We remain alert to environmental, social and corporate governance (ESG) issues in the Trust. During the quarter, the carbon price mechanism came back into focus as the Coalition led by Tony Abbott won the federal election. A key policy platform that the Coalition ran through the election was an intention to repeal the current carbon tax legislation. A review of our Trust, in conjunction with Citigroup research on the likely impacts on the major ASX-listed stocks, highlights the sectors most likely to be impacted include utilities and building materials. We used our post-result meetings with the CEO of Origin to discuss the carbon tax repeal and conclude that it will be positive for the business.

### Outlook

The new financial year has begun positively, with the Index up 10.3% over the past three months. However, the level of macroeconomic uncertainty remains high and ongoing volatility is likely. Longer-term, however, as economic growth resumes, company profits should grow and dividends paid to shareholders should increase, providing a growing stream of reliable, tax-effective income to investors.

**Asset Allocation** as at 30 September 2013

Asset Class	Trust Weight %	Index Weight %
Energy	6.4%	6.3%
Materials	18.5%	17.4%
Industrials	3.5%	6.8%
Consumer Discretionary	10.5%	4.8%
Consumer Staples	5.0%	8.3%
Health Care	0.0%	4.6%
Financials-x-Real Estate	39.5%	37.2%
Real Estate	7.4%	6.9%
Information Technology	0.0%	0.8%
Telecommunication Services	6.9%	5.2%
Utilities	0.0%	1.7%
Other	2.5%	-

Rounding accounts for small +/- from 100%.

**Top 10 Holdings** as at 30 September 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	9.3%	8.8%
Commonwealth Bank.	8.2%	8.8%
National Aust. Bank	7.0%	6.2%
Westpac Banking Corp	6.9%	7.8%
Telstra Corporation.	6.9%	4.8%
ANZ Banking Grp Ltd	6.5%	6.5%
Woodside Petroleum	3.8%	1.8%
Crown Limited	3.4%	0.5%
Macquarie Group Ltd	3.1%	1.3%
Wesfarmers Limited Partially Protected	2.9%	0.0%

Signatory of:



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