

# Perennial Value Shares for Income Trust

Monthly Report as at 31 October 2013

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception <sup>^</sup> % p.a.
Perennial Value Shares for Income Trust <sup>*</sup>	3.8	9.1	13.0	29.7	12.8	13.5	7.9
S&P/ASX 300 Accumulation Index	3.9	8.8	14.6	24.8	9.6	11.0	6.1
<b>Value Added (Detracted)</b>	<b>-0.1</b>	<b>0.2</b>	<b>-1.6</b>	<b>4.9</b>	<b>3.2</b>	<b>2.5</b>	<b>1.8</b>
Capital Growth	3.7	7.4	11.2	23.5	6.7	7.4	1.5
Income Distribution	0.0	1.4	1.5	5.2	5.3	5.3	5.5
Net Performance <sup>^^</sup>	3.7	8.8	12.8	28.7	12.0	12.6	7.0

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

- The Trust became entitled to dividends from retailers Harvey Norman and Premier Investments.
- During the month, we took profits and reduced our holdings in Crown Resorts, with the stock delivering a total return of 55% since it was added to the Trust in January 2013.
- The best performing stock in the Trust was Lend Lease (up 12.2%), which benefited from the improving sentiment towards the property market.

## 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.

## Dividend Activity

During September, the Trust became entitled to dividends from retailers Harvey Norman and Premier Investments.

## Trust Activity

October was a quiet month in terms of Trust activity, with no stocks added or removed. During the month, we took profits and reduced our holdings in Crown Resorts following its very strong performance. This has been a very pleasing investment for the Trust. We added this stock to the Trust in January 2013 at a cost of \$11.00 per share. At the month end share price of \$17.08, this stock has delivered a total return of 55% over the past 10 months. Proceeds were used to increase our holdings in ANZ and NAB, on the expectation of strong dividend payments at their upcoming results. We also reduced our holdings in CBA, Westfield Group and Treasury Wine Estates.

At month end, stock numbers were 33 and cash was 3.2%.

## 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<sup>\*</sup>.

**Portfolio Manager:**  
Stephen Bruce

**Risk Profile:**  
High

**Trust FUM (as at 31/10/13):**  
AUD70.8 million

**Income Distribution Frequency:**  
Quarterly

**Team FUM (as at 31/10/13):**  
AUD8.5 billion

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

**Trust Inception date:**  
December 2005

**APIR code:**  
IOF0078AU

<sup>\*</sup>Gross dividend yield

## Stock and Trust Performance

The S&P/ASX300 Accumulation Index (the Index) rose again in October, to close up 3.9%, with all sectors delivering positive returns, and both industrials (up 4.3%) and resources (up 2.5%) contributing positively. The best performing sectors in the month were financials (up 5.9%) followed by healthcare (up 4.5%) and telecommunications (up 4.2%). Metals & mining (up 3.5%) lagged slightly, followed by materials (up 3.4%) and REITs (up 2.6%). The worst performing sectors were energy (up 0.2%) and utilities (up 1.1%).

The Trust delivered a return of 3.8% for the month, underperforming the Index return by 0.1%. The Trust has delivered a very strong total return of 29.7% for the past 12 months, outperforming the Index return of 24.8% by

4.9%. Notwithstanding the yield focus of the Trust, it is pleasing to have outperformed the market during a period of such strong total returns.

US headlines continued to dominate global markets, with the US Government partially shut down until mid-month when a deal was made to avoid breaching the country's debt limit. Despite this uncertainty, the S&P500 finished up 4.5%. Global economic news was mixed, however on the positive side, China recorded third quarter GDP growth of 7.8%, the Euro Area PMI reading was the highest level since mid-2011 and the US ISM in September was solid. The FTSE finished up 4.2% while the Shanghai Composite and Nikkei 225 were down 1.5% and 0.9%, respectively.

Domestic data was upbeat with residential building approvals ahead 12.8% year on year, the NAB survey of business confidence for September reached a 3.5 year high and September unemployment fell 20 basis points to 5.6%. Unsurprisingly, the RBA left the cash rate unchanged and the Australian dollar finished relatively flat at \$0.95.

The best performing stock in the Trust was Lend Lease (up 12.2%), which benefited from the improving sentiment towards the property market. Tabcorp (up 9.8%) also performed well after its first quarter trading update showed good revenue growth. Other strong performers included Aristocrat Leisure (up 9.3%), Henderson Group (up 8.6%), Crown Resorts (up 8.5%), Macquarie Group (up 6.3%), Treasury Wine Estates (up 6.3%) and ASX (up 6.3%).

The major banks generally outperformed, with ANZ (up 9.9%), CBA (up 6.8%) and Westpac (up 4.8%), while NAB (up 2.9%) lagged slightly following its strong performance last month. ANZ and NAB reported their full year results during the month. The bank results continued to highlight the strength of their businesses, delivering record profit results, with earnings up 11% and 9%, respectively, in a subdued operating environment. A key feature of the results was the ongoing improvement in credit quality. Importantly for investors, dividends were increased by 13% and 6% respectively. This followed on from CBA's 9% dividend increase with its full-year result in August.

Performance of our resource-related holdings was mixed with BHP (up 5.4%) after a strong quarterly production report, with iron ore volumes up 23% and coking coal volumes up 14%. Orica (up 5.0%) also outperformed, while Woodside Petroleum (up 1.3%) lagged slightly. Iluka Resources (down 10.1%) was the worst performing stock in the Trust, falling due to a declining rutile price. We view

the dip in mineral sands prices achieved by Iluka to be temporary and expect pricing to recover on the back of improving demand and supply side discipline. Worley Parsons (down 9.3%) underperformed despite the company confirming its FY14 guidance at its AGM. Both of these stocks had delivered strong gains in the previous month.

Other stocks which underperformed included retailers Premier Investments (down 5.8%) and Myer (down 4.2%), Westfield Group (down 1.7%) and Asciano (down 0.2%).

#### Outlook

The new financial year has begun positively, with the Index up 14.6% 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.

**Top 10 Holdings** as at 31 October 2013

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	9.7	8.9
ANZ Banking Group Ltd	8.2	6.9
Westpac Banking Corp	7.9	7.9
National Aust. Bank	7.7	6.1
Telstra Corporation.	6.9	4.8
Commonwealth Bank.	6.8	9.1
Woodside Petroleum	3.7	1.8
Macquarie Group Ltd	3.2	1.3
Wesfarmers Limited Partially Protected	2.9	0.0
Suncorp Group Ltd	2.5	1.3

**Asset Allocation** as at 31 October 2013

Asset Class	Trust Weight %	Index Weight %
Energy	6.6	6.1
Materials	18.2	17.3
Industrials	3.4	6.7
Consumer Discretionary	9.0	4.7
Consumer Staples	4.7	8.2
Health Care	0.0	4.6
Financials-x-Real Estate	41.2	37.9
Real Estate	6.8	6.9
Information Technology	0.0	0.8
Telecommunication Services	6.9	5.2
Utilities	0.0	1.6
Other	3.25	-

Rounding accounts for small +/- from 100%.

Signatory of:



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