

Perennial Value Shares for Income Trust

Monthly Report as at 31 December 2011

	1 Month %	3 Months %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Shares for Income Trust*	-0.1	3.2	-4.4	-5.4	8.5	-1.3	2.7
S&P/ASX 300 Accumulation Index	-1.4	2.1	-9.8	-11.0	7.7	-2.4	1.7
Value Added (Detracted)	1.3	1.1	5.4	5.6	0.8	1.1	1.0
Net Performance ^{^^}	-0.1	2.9	-4.8	-6.0	7.7	-2.1	1.9

*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.**

- The Trust outperformed the Index return by 1.3%.
- The Australian equities market was weaker in December.
- Better performing stocks included Graincorp (up 10.0%), Iluka Resources (up 6.2%), Tatts Group (up 6.1%) and Metcash (up 3.1%).

Trust Characteristics

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

Dividend Activity

During December, dividends were paid by Australand, Coal & Allied, Graincorp, Metcash and Stockland.

Trust Activity

During the month, we sold our holding in Coal & Allied into the takeover offer from the majority shareholders, Rio Tinto and Mitsubishi. The takeover price of \$125.00 per share included an \$8.00 per share fully-franked dividend. No other stocks were added or removed from the Trust during December.

At month end, stock numbers stood at 28 with cash at 2.9%.

Stock and Trust Performance

The focus for global markets continued to remain on the European debt issues. The S&P500 finished up 0.9%, assisted by the US unemployment rate falling to 8.6% - the lowest since March 2009. The FTSE and Nikkei 225 also finished up 1.2% and 0.2% respectively. However, the Shanghai Composite closed down 5.7%.

Domestic economic data releases remained soft, with building approvals and housing starts falling and the unemployment rate edging up 0.1% to 5.3%. A number of companies, particularly in the discretionary retail space, downgraded earnings expectations. The Reserve Bank of Australia continued to reduce interest rates, cutting the

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

**Trust FUM
(as at 31/12/11):**
AUD110.4 million

**Team FUM
(as at 31/12/11):**
AUD8.5 billion

Trust Inception date:
December 2005

Risk Profile:
High

**Income Distribution
Frequency:**
Quarterly

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

APIR code: IOF0078AU

*Gross dividend yield

cash rate by 25 basis points to 4.25% given a deteriorating global economic outlook. The Australian dollar weathered the rate cut, finishing flat at USD1.02.

The Australian equities market was weaker in December, with the S&P/ASX300 Accumulation Index (the Index) finishing down 1.4%. The better performing sectors during December were telecommunications (up 5.1%), utilities (up 3.8%) and healthcare (up 1.7%). Energy (down 5.1%), materials (down 4.1%) and consumer discretionary (down 3.9%) all underperformed. The Trust finished the month down 0.1%, outperforming the Index return by 1.3%.

The best performing stock in the Trust was Graincorp (up 10.0%), as solid progress was made harvesting this season's large wheat crop. Other strong performers included Iluka Resources (up 6.2%) which announced that it had negotiated selling price increases of 80-90% for its key titanium dioxide products in the coming half year. Defensive holdings Tatts Group (up 6.1%) and Metcash (up 3.1%) also outperformed. Telstra (up 5.4%) continued its strong performance. Telstra has delivered a total return of 29.4% over the past 12 months, outperforming the market by 40.4%, as investors have come to reward the business for its improving operating performance, defensive nature and attractive dividend yield. At the month end share price of \$3.33, the stock is still offering a FY12 gross yield of 12.0%.

Stocks which underperformed included Harvey Norman (down 12.6%) and Premier Investments (down 7.8%), as the retail sector was impacted by profit downgrades from several companies due to weak trading leading into Christmas. CSR (down 7.1%) was weaker, following poor housing start data and Woodside (down 6.6%) was softer, as the market speculated that the time frame for decisions regarding expansions may be pushed out.

The major banks generally outperformed with CBA (up 3.8%), ANZ (up 3.2%) and NAB (down 0.2%); while Westpac (down 2.8%) lagged. Macquarie Group (up 2.8%) also outperformed. While many European banks are under stress as a result of the sovereign debt issues and this has impacted funding markets, the Australian banks have significantly strengthened their balance sheets in recent years and reduced their reliance on offshore funding. As a result, they look well placed to weather these issues and are trading on attractive valuations, with FY12 P/Es of below 10x and very attractive and sustainable gross yields of over 10%.

Outlook

A range of macroeconomic issues have led to recent economic data and sentiment being increasingly negative both domestically and offshore. In particular, the European debt problems are leading to a slowing in global economic activity and placing stress on the global financial system. Longer-term, however, as economic growth resumes, company profits should grow and dividends paid to shareholders should also increase, providing a growing stream of reliable, tax-effective income to investors.

Top 10 Holdings as at 31 December 2011

Stock	Trust Weight %	Index Weight %
Commonwealth Bank.	8.2%	7.9%
Telstra Corporation.	8.1%	4.2%
National Aust. Bank	8.0%	5.3%
Westpac Banking Corp	7.9%	6.2%
ANZ Banking Grp Ltd	7.5%	5.5%
Wesfarmers Limited	3.9%	3.5%
Tatts Group Ltd	3.7%	0.3%
AMP Limited	3.6%	1.2%
Seven West Media Ltd	3.4%	0.1%
ASX Limited	3.0%	0.5%

Asset Allocation as at 31 December 2011

Asset Class	Trust Weight %	Index Weight %
Energy	2.5%	7.1%
Materials	12.3%	25.0%
Industrials	1.2%	7.2%
Consumer Discretionary	10.2%	3.9%
Consumer Staples	13.5%	8.0%
Health Care	0.0%	3.6%
Financials-x-Real Estate	40.8%	31.7%
Real Estate	3.9%	6.6%
Information Technology	0.0%	0.7%
Telecommunication Services	8.1%	4.5%
Utilities	1.9%	1.6%
Other	5.6%	-
Rounding accounts for small +/- from 100%.		