

Perennial Value Australian Shares Trust

Monthly Report as at 31 August 2010

	1 Month %	3 Months %	Financial YTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception [^] % p.a.
Perennial Value Australian Shares Trust*	-2.4	-1.4	1.9	-0.7	-3.8	5.9	12.4
S&P/ASX 300 Accumulation Index	-1.1	0.6	3.4	2.1	-7.1	4.2	7.6
Value Added (Deducted)	-1.3	-2.0	-1.5	-2.8	3.3	1.7	4.8
Net Performance	-2.5	-1.6	1.7	-1.5	-4.6	5.0	11.5

[^]March 2000 * Gross Performance Past performance is not a reliable indicator of future performance

- The Index ended the month down 1.1%, the Trust fell 2.4%, underperforming the Index return by 1.3%.
- Company reporting season was a major focus during August, with resource stocks generally fairing best.
- The better performing stocks included Graincorp (up 21.6%), Whitehaven Coal (up 10.3%) and Aristocrat (up 9.7%).

The market struggled to hold the gains of the previous month, with the S&P/ASX300 Accumulation Index (the Index) ending August down 1.1%. The Perennial Value Australian Shares Trust (the Trust) fell 2.4%, underperforming the Index by 1.3%.

Uncertainty, both domestically and offshore, was the dominant theme in August. There was continued focus on the potential for a 'double dip' recession in the US, with limited insight provided by companies on near-term trading conditions during the domestic company reporting season. The outcome of the Australian Federal election also remained uncertain.

Australian economic data showed the economy moderated, although employment growth remained strong. The Reserve Bank of Australia left interest rates unchanged at 4.5%. The Australian Dollar followed equity markets lower, finishing August at 88 US cents, down 1.7 cents.

A major focus of the market during August was company reporting season. Results were broadly in line with expectations, with Resource stocks (driven by higher commodity prices), generally faring best. Industrial stocks were yet to see significant improvement in operating conditions. Interestingly, in many cases, the management teams of Industrial stocks remained positive about how well its businesses are positioned to capitalise on a recovery when it does materialise.

Perennial Value Australian Shares Trust Facts:

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.

Portfolio Manager:
John Murray

**Trust FUM
(as at 31/08/10):**
AUD \$6.3 billion

**Team FUM
(as at 31/08/10):**
AUD \$8.8 billion

Fund Inception date:
March 2000

Risk Profile:
High

**Income Distribution
Frequency:**
Half yearly

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

APIR code: IOF0200AU

Did you know?

Billabong started in the Gold Coast in 1973, with the founders designing board shorts from their kitchen table. They now own numerous fashion brands including Element, Von Zipper and Tigerlily. Today Billabong has 4500 employees worldwide and their products can be found in over 10,000 stores across the globe.

The ongoing focus by the market on negative news flow resulted in the continued outperformance of defensive stocks versus more cyclical stocks. As readers will recall, the Team have felt for some months that the real value in the stockmarket lies in the latter category. For example, stocks such as Fairfax and Fletcher Building are currently trading on prospective FY12 P/E's of 9.6x and 10x and gross dividend yields of 7.3% and 8.7% respectively. This compares to defensives such as Woolworths and Westfield trading on 15x and 14x P/E and dividend yields of 6.7% and 5.7% respectively. Whilst Perennial Value's cyclical tilt is detracting from short term performance, the value differentials are such that, on a two to three year view, the Team believes this is where outperformance will come from.

The better performing stocks in the Trust included Graincorp (up 21.6%), Whitehaven Coal (up 10.3%) and Aristocrat (up 9.7%). Graincorp rallied on a strong outlook for the domestic wheat crop, while Whitehaven Coal rallied on rumoured corporate activity.

Stocks in which the Trust holds an overweight position that detracted from performance included Telstra (down 10.2%), Bluescope Steel (down 9.7%) and NAB (down 7.7%). The underperformance of the Trust was also driven by not holding several top 20 stocks including Woolworths, Westfield, QBE, and CSL. The Team continue to believe these large defensive stocks are overvalued, as discussed above.

During August, Perennial Value introduced Billabong to the Trust. The stock has fallen some 37% from its recent high of \$12, down to \$7.60 over concerns about the outlook for consumption in its key markets. The Team believe this to be a quality company with a valuable stable of brands and strong management. It is in a strong financial position, with low debt levels and net interest cover of 9.7x. Whilst the stock price may not rally in the short term given the negative sentiment, Perennial Value believes the recent correction provides a very good entry price from a longer term perspective.

As at month end, stock numbers stood at 54 with cash at 1.5%.

Asset Allocation as at 31 August 2010

Asset Class	Trust Weight %	Index Weight %
Energy	4.0	7.2
Materials	31.8	25.5
Industrials	4.2	6.6
Consumer Discretionary	9.8	4.2
Consumer Staples	4.1	9.3
Health Care	0.2	3.6
Financials-x-Real Estate	33.7	31.4
Real Estate	2.9	6.8
Information Technology	1.2	0.7
Telecommunication Services	4.5	3.3
Utilities	2.1	1.4
Other	1.5	-

Rounding accounts for small +/- from 100%.

Top 10 Holdings as at 31 August 2010

Stock	Trust Weight %	Index Weight %
BHP Billiton Limited	10.3	11.8
Commonwealth Bank.	6.8	7.4
ANZ Banking Grp Ltd	6.6	5.5
National Aust. Bank	6.5	4.7
Westpac Banking Corp	5.0	6.2
Telstra Corporation.	4.5	2.9
RIO Tinto Limited	3.9	2.9
Arcor Limited	3.5	0.8
Woodside Petroleum	2.5	2.0
Macquarie Group Ltd	2.5	1.2