

	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-0.5	-0.5	7.9	6.5	10.8	9.3
S&P/ASX 300 Accumulation Index	0.8	0.8	9.0	7.1	9.9	7.5
<b>Value Added (Detracted)</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-0.6</b>	<b>0.9</b>	<b>1.8</b>
Capital Growth	-0.7	-0.7	3.2	1.7	5.8	1.4
Income Distribution	0.0	0.0	3.7	3.9	4.1	7.1
Net Performance	-0.7	-0.7	6.9	5.6	9.9	8.5

\*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

## Perennial Value Shares Wholesale Trust

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.

### Trust manager

John Murray

### Risk profile

High

### Trust FUM

AUD \$1.0 billion

### Distribution frequency:

Half yearly

### Team FUM

AUD \$5.2 billion

### Minimum initial investment

\$25,000

### Trust inception date

June 2001

### APIR code

IOF0206AU

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- ▶ The S&P/ASX300 Accumulation Index (the Index) rose over the September quarter, with the Index up 0.8%. Industrials rose 0.3% driven by healthcare and financials.
- ▶ Resources rallied strongly on the back of higher commodity prices, while industrials eased as defensive sectors underperformed.
- ▶ The highlight of the quarter was the August reporting season, which saw overall market earnings and dividend growth.

## Trust Performance

The Perennial Value Shares Wholesale Trust (the Trust) fell by 0.5% for the September quarter, bringing the Trust's total return for the last twelve months to 7.9%.

Global markets were stronger over the September quarter, with the S&P500 up 4.1%, Nikkei 225 up 0.7%, FTSE100 up 0.3% and the Shanghai Composite up 5.0%. Commodity prices were generally stronger, with oil up 20.0%, thermal coal up 23.0%, coking coal up 27.0%, copper up 9.0% and gold up 4.0%. Iron ore was the exception, declining 3.0%. The Reserve Bank of Australia, left the cash rate steady at 1.5% and the Australian Dollar rose 2 cents to 79 US cents.

The better performing sectors over the quarter were metals & mining (up 8.9%), energy (up 5.7%), materials (up 5.3%) and consumer staples (up 3.2%). Telecommunications (down 16.5%) was the worst performing sector, with utilities (down 7.7%), healthcare (down 7.5%), real estate investment trusts (down 1.0%) and information technology (down 0.4%) also lagging.

The highlight of the quarter was the August reporting season. Overall the results were sound, with a key feature being very strong profit growth from the resources sector on the back of higher commodity prices and good cost control. The performance of the industrials was mixed, with many strong results but also some notable disappointments, in particular from some of the more growth-oriented companies such as Domino's Pizza, Healthscope and James Hardie. These stocks have not been held in the Trust on the basis of overvaluation.

While the outlook statements continued to be generally subdued, we were pleased to note that overall, there was a rise in capital expenditure (capex) intentions, with many companies planning to lift the amount they reinvest into their businesses. In recent years, companies have returned an increasing proportion of earnings to shareholders in the form of higher dividends or buybacks. While dividends are very important, we believe that it is equally important for companies to continue to undertake measured investment to drive growth and defend their market positions. Further, increased capex by business has a positive benefit across the broader economy.

Stocks which contributed positively over the quarter included Lendlease (up 9.8%), as investors came to appreciate the value on offer in the stock, which is trading at a significant discount to the market. In our view, the market has placed far too much emphasis on its Australian apartment developments, relative to its investment management, global urban regeneration and infrastructure businesses. Clydesdale Bank (up 9.1%) rallied after delivering a strong trading update and on the prospect of interest rate increases in the UK which would lift its margins. Resource stocks outperformed on stronger commodity prices, with BHP (up 13.8%), Rio Tinto (up 8.3%) and Newcrest Mining (up 4.8%). Other strong performers included Star Entertainment (up 6.2%), Caltex (up 4.3%) and Macquarie Group (up 2.7%).

Stocks which detracted from performance included Vocus Group (down 29.1%), which fell as the two private equity bidders withdrew. This has been a frustrating investment, however, there is significant latent value in the network assets of this business and patience will be required to see this realised. Telstra (down 13.8%), also declined after lowering its future dividend payout policy as it reinvests to compete in the market. Agricultural stocks Nufarm (down 13.9%) and Graincorp (down 13.8%), both declined on weaker seasonal conditions, despite Nufarm delivering a solid full-year result. Financials, Suncorp (down 8.1%) and AMP (down 3.2%) also underperformed.

### Trust Activity

During the quarter, we took profits and reduced our holdings in a number of stocks which had performed strongly over recent months, including Boral, Janus Henderson and Macquarie Group. Proceeds were used to establish positions in Star Entertainment and Tabcorp, both stocks which we see as being relatively defensive but also having company-specific upside drivers. We also increased our holdings in BHP, Westfield Corp and Woodside Petroleum. At quarter end, stock numbers were 38 and cash was 3.8%.

### Environmental, Social and Corporate Governance (ESG)

Perennial Value Management remains alert and active in ESG matters. During the quarter, Perennial Value Management became a signatory to the United Nations Principles for Responsible Investment's statement welcoming an inquiry into establishing a Modern Slavery Act in Australia. The Act would improve transparency on how companies operating in Australia are managing modern slavery risks in their operations and supply chains.

### Outlook

The global growth outlook appears to be incrementally improving and markets continue to respond positively to the prospect of more pro-growth fiscal policies as opposed to ongoing monetary easing. Should this continue, the Trust will likely benefit from being overweight in the large-cap, low-cost, financially-sound resources companies as well as in a range of quality industrial and financial companies where we see attractive valuations. This would also see continued upwards pressure on interest rates which would benefit the Trust through its underweight position in the expensive defensive sectors such as healthcare and real estate investment trusts and infrastructure.

The Trust continues to exhibit Perennial Value's true to label value characteristics, with the Trust offering better value than the overall market on each of our four valuation characteristics: price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

### Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.3	8.5
BHP Billiton Limited	7.2	5.4
Westpac Banking Corporation	5.8	7.0
National Australia Bank	4.4	5.5
Caltex Australia	4.3	0.5
ANZ Banking Group Limited	4.2	5.6
Rio Tinto Limited	4.1	1.8
Woodside Petroleum	3.9	1.4
Telstra Corporation	3.8	2.7
Suncorp Group Limited	3.4	1.1

### Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.1	4.4
Materials	21.8	16.9
Industrials	0.0	7.5
Consumer Discretionary	12.9	5.0
Consumer Staples	4.4	7.2
Health Care	0.4	7.0
Financials-x-Real Estate	37.4	36.7
Real Estate	5.8	8.4
Information Technology	0.0	1.6
Telecommunication Services	5.4	3.1
Utilities	0.0	2.1
Cash & Other	3.8	-

Rounding accounts for small +/- from 100%.

**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.**



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