

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Active Plus Shares Trust*	-0.5	-0.1	0.3	-	-	-	0.0
S&P/ASX 300 Accumulation Index	0.7	1.0	0.8	-	-	-	0.9
Value Added (Detracted)	-1.2	-1.1	-0.5	-	-	-	-0.9
Capital Growth	-0.5	-0.5	0.1	-	-	-	-0.4
Income Distribution	0.0	0.1	0.0	-	-	-	0.1
Net Performance	-0.5	-0.4	0.1	-	-	-	-0.3

*Gross Performance. ^Since inception: May 2017. Past performance is not a reliable indicator of future performance.

Perennial Value Active Plus Shares Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in a concentrated portfolio of Australian companies and to provide a total return that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio manager

Dan Bosscher

Risk profile

High

Trust FUM

AUD \$15 million

Distribution frequency

Half yearly

Team FUM

AUD \$6.7 billion

Minimum initial investment

\$25,000

Trust inception date

May 2017

APIR code

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- ▶ The ASX300 Accumulation Index (the Index) rose 0.7% in August, with resources stocks up strongly.
- ▶ Reporting season was solid, with many companies flagging increased capital investment.

Market Review

Global markets were mixed in August, with the S&P500 up 0.1%, FTSE100 up 0.8% and Shanghai Composite up 2.7%, while the Nikkei 225 declined 1.4%. Commodity price strength continued, with iron ore up 7.0%, thermal coal up 2.0%, coking coal up 16.0%, gold up 4.0% and copper up 7.0%, while oil declined by 1.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month flat at 80 US cents.

The Index was up 0.7% for the month, led by resources, with metals & mining (up 5.5%) and energy (up 5.2%) the best performers. Other positive sectors included consumer staples (up 5.2%), industrials (up 4.6%), materials (up 4.5%) and utilities (up 3.2%). Telecommunications (down 7.2%) was the worst performing sector, as Telstra cut its dividend, followed by financials (down 2.1%), with the major banks weaker and consumer discretionary (down 1.5%).

Trust Review

The Perennial Value Active Plus Shares Trust (the Trust) declined 0.5% in August.

The highlight of the month was the reporting season, which saw companies report their results for the 2017 financial year. 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 CBA result, as well as trading updates from the other major banks, showed modest growth, with their low bad debt charges highlighting the ongoing benign economic environment. 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 (down 18.2%), Healthscope (down 16.3%), James Hardie (down 7.7%) and Ramsay Healthcare (down 3.2%). 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.

The better performing stocks in the Trust included resource holdings BHP (up 5.9%) and Rio Tinto (up 5.2%), which both delivered dramatically higher profits, allowing them to increase their dividends by up 177% and up 144% respectively.

Their strong cash flow generation is seeing these companies rapidly de-gear their balance sheets and this is expected to lead to increasing returns to shareholders in the coming periods. Newcrest Mining (up 13.1%) rallied on the higher gold price as well as delivering a solid result.

However, in what has proved to be a very frustrating month for the Trust, some of our largest overweight holdings have been unduly harshly treated on the back of what were solid profit results. Suncorp (down 6.0%) and AMP (down 2.7%) delivered reasonable results, with earnings per share both up 5.0%. However, both were sold off after flagging higher investment into their businesses. As discussed above, we do not view this as a negative. The Trust was also impacted by our holding in Vocus Group (down 33.8%), which fell after it ended discussions with private equity firms. We think there is considerable value in this business, however patience will be required.

Trust Activity

During the month, we took profits and reduced our holdings in Lendlease following its strong performance over the past six months. Proceeds were used to increase our holdings in good value opportunities such as Stockland and Graincorp. At month end, stock numbers were 23 and cash was 9.1%.

Outlook

While growth in the domestic economy remains subdued and there remains a high level of political uncertainty, the global growth outlook appears to be incrementally improving. 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 which are trading on attractive valuations. This scenario 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 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.

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.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	9.3	5.7
Commonwealth Bank	7.8	8.5
Westpac Banking Corporation	5.7	6.9
Rio Tinto Limited	4.9	1.9
ANZ Banking Group Limited	4.7	5.6
Newcrest Mining	4.3	1.1
Telstra Corporation	4.3	2.8
Woodside Petroleum	4.2	1.4
Caltex Australia	4.0	0.6
National Australia Bank	4.0	5.2

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.2	4.3
Materials	18.5	17.3
Industrials	0.0	7.5
Consumer Discretionary	4.6	5.1
Consumer Staples	3.3	7.4
Health Care	0.0	6.9
Financials-x-Real Estate	38.2	36.3
Real Estate	11.4	8.3
Information Technology	0.0	1.5
Telecommunication Services	6.5	3.2
Utilities	0.0	2.2
Cash & Other	9.2	0.0

Rounding accounts for small +/- from 100%.

Signatory of:



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