Perennial Value Active Plus Shares Trust

Quarterly Report
30 September 2017

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Active Plus Shares Trust*	-0.1	-0.1	-	-	-	-0.3
S&P/ASX 300 Accumulation Index	0.8	0.8	-	-	-	1.0
Value Added (Detracted)	**-0.9**	**-0.9**	**-**	**-**	**-**	**-1.3**
Capital Growth	-0.4	-0.4	-	-	-	-0.9
Income Distribution	0.0	0.0	-	-	-	0.1
Net Performance	-0.4	-0.4	-	-	-	-0.8

*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 $5.2 billion

Minimum initial investment
$25,000

Trust inception date
May 2017

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WPC6780AU

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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 Active Plus Shares Trust (the Trust) fell by 0.1% for the September quarter.

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 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 stock Graincorp (down 13.8%), declined on weaker seasonal conditions. In 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 Lendlease, Janus Henderson and Macquarie Group. Proceeds were used to establish positions in Event Hospitality and Tabcorp, both stocks which we see as being relatively defensive but also having company-specific upside drivers. We also increased our holdings in Graincorp, Westfield Corporation and Commonwealth Bank. At quarter end, stock numbers were 22 and cash was 7.4%.

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 Responsbile 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 peach 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	11.0	8.5
BHP Billiton Limited	8.5	5.4
Westpac Banking Corporation	5.8	7.0
Rio Tinto Limited	4.8	1.8
Telstra Corporation	4.5	2.7
Caltex Australia	4.5	0.5
Lendlease Group	4.5	0.7
Woodside Petroleum	4.3	1.4
National Australia Bank	4.2	5.5
ANZ Banking Group Limited	4.2	5.6

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.8	4.4
Materials	17.4	16.9
Industrials	0.0	7.5
Consumer Discretionary	7.8	5.0
Consumer Staples	3.6	7.2
Health Care	0.0	7.0
Financials-x-Real Estate	38.0	36.7
Real Estate	10.2	8.4
Information Technology	0.0	1.6
Telecommunication Services	6.8	3.1
Utilities	0.0	2.1
Cash & Other	7.5	0.0

Signatory of:

PRI Principles for Responsible Investment