

| | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception [^] |
|--|------------|------------|-------------|------------|------------|------------------------------|
| | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares for Income Trust* | 6.8 | 13.5 | 9.4 | 6.8 | 13.3 | 7.4 |
| S&P/ASX 300 Accumulation Index | 4.9 | 10.4 | 11.8 | 6.6 | 11.6 | 6.1 |
| Value Added (Detracted) | 1.9 | 3.1 | -2.4 | 0.2 | 1.7 | 1.3 |
| Capital Growth | 5.5 | 9.6 | 0.8 | -0.6 | 6.4 | 0.8 |
| Income Distribution | 1.1 | 3.5 | 7.7 | 6.5 | 6.1 | 5.8 |
| Net Performance ^{^^} | 6.6 | 13.1 | 8.5 | 5.9 | 12.5 | 6.6 |

*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.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, paid 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

Risk profile:

High

Trust FUM (as at 31 December 2016):

AUD \$37 million

Income distribution frequency:

Quarterly

Team FUM (as at 31 December 2016):

AUD \$7.2 billion

Minimum initial investment:

\$25,000

Trust inception date:

December 2005

APIR code:

IOF0078AU

*Gross dividend yield.

- ▶ Over the twelve months to December 2016, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.2%.
- ▶ Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.8% per annum.
- ▶ Markets rallied over the December quarter, with the S&P/ASX300 Accumulation Index (the Index) up 4.9%.

Trust Characteristics

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

Quarterly Distribution

The Trust paid a distribution of 1.2 cents per unit for the December quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 1.7 cents per unit. Based on the unit price at the start of the financial year (\$1.01), this represents a pre-tax distribution yield for the quarter of 1.6%.

Trust Performance

The Index rallied, finishing the quarter up 4.9%. The Trust returned 6.8%, outperforming the Index by 1.9%.

Global markets were positive, with the S&P500 up 3.3%, Nikkei 225 up 16.2%, FTSE100 up 3.5% and the Shanghai Composite up 3.3% all advancing over the quarter. Commodity prices were up strongly with oil up 13.0%, iron ore up 41.0%, thermal coal up 31.0%, coking coal up 8.0% and copper up 14.0%, while gold declined 13.0%. The highlights of the quarter were the result of the US election and the Federal Reserve's decision to lift the Federal Funds rate by 25 basis points – the first US rate hike since the Global Financial Crisis (GFC). The Reserve Bank of Australia (RBA), however, left the cash rate steady at 1.5% and the Australian Dollar (AUD) fell five cents to 72 US cents.

During the December quarter, the more cyclical parts of the market continued to outperform, led by financials (up 12.7%), metals and mining (up 8.4%), energy (up 7.4%) and materials (up 7.4%). By contrast, the "expensive defensives" such as healthcare (down 8.8%) and REITs (down 0.7%) underperformed. This continued the trend, beginning in the September quarter, which has seen a rotation into more cyclical stocks at the expense of the defensive "bond proxy" sectors, which had rallied strongly over FY16.

With this backdrop, stocks which contributed positively over the quarter included resources holdings, Rio Tinto (up 16.1%), BHP (up 12.0%) and Woodside Petroleum (up 8.9%) as well as mining services companies Orica (up 18.2%) and Downer (up 13.0%). Financials also performed well, with QBE Insurance (up 33.7%) with its leverage to rising US interest rates and Macquarie Group (up 8.6%). Other strong performers included AGL Energy (up 16.0%) as electricity prices strengthened and Suncorp (up 11.6%) on evidence of premium increases.

The Trust also benefitted in a relative sense from the declines in many of the “expensive defensives” which we do not hold on valuation grounds. Examples include Ramsay Healthcare (down 13.7%), Sydney Airport (down 11.8%), Transurban (down 7.0%) and CSL (down 6.2%). While these stocks are all down significantly from their highs, they are still trading on expensive valuations, with an average FY17 P/E (Price to earnings ratio) of over 30 times, meaning there is further potential downside should interest rates continue to rise. We also avoided many of the recent disasters, such as Estia Health, TPG Telecom, Bellamy’s and Blackmores – all popular stocks which have failed to live up to expectations.

Holdings which detracted from performance included Vocus Communications (down 37.9%) which fell after issuing disappointing FY17 earnings guidance, Flight Centre (down 14.0%) with ongoing airfare discounting and Crown Resorts (down 11.7%) on a decline in VIP business following arrests in China. These companies are all underpinned by strong balance sheets and we remain comfortable with the medium-term outlook for each.

Trust Activity

During the quarter we took profits and sold out of our holding in Downer. This stock had been a very strong performer for the Trust, having delivered total return over the past twelve month of 75.8%. We also reduced our holdings in Telstra, Harvey Norman and Event Hospitality and Entertainment.

Proceeds were predominantly used to establish a position in Boral. We had previously sold out of this stock in October at an average price of \$6.43. The stock subsequently sold off sharply after announcing the acquisition of US building materials company, Headwaters, funded by a \$2.1 billion capital raising. Following the acquisition, Boral will generate nearly 40.0% of its revenue from the US and is one of the few stocks which give exposure to the improving US housing and construction cycle, which is expected to have a significant time to run. At our entry price of \$5.16, the stock represents good long-term value, trading on a FY18 P/E of 13.7 times and gross yield of 5.6%.

At quarter end, stock numbers were 27 and cash was 2.5%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG matters. During the quarter we engaged with Clydesdale Bank in relation to their remuneration policies. We were please by both the approach being taken to executive remuneration which centred on a balanced scorecard of “risked” measures as opposed to simple earnings per share or total shareholder return metrics as well as the way it is proactively seeking out shareholder feedback prior to finalising the remuneration structure. While this stock is not held in the Shares for Income Trust (on account of its low dividend yield) we believe this approach should set an example for other companies.

Signatory of:



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Outlook

The Trust continues to exhibit Perennial Value’s true to label value characteristics, 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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

| Stock name | Trust weight % | Index weight % |
|----------------------|----------------|----------------|
| Commonwealth Bank. | 8.8 | 9.3 |
| Westpac Banking Corp | 8.0 | 7.1 |
| ANZ Banking Grp Ltd | 7.0 | 5.8 |
| National Aust. Bank | 6.5 | 5.3 |
| BHP Billiton Limited | 6.1 | 5.3 |
| Telstra Corporation. | 4.9 | 4.0 |
| Woodside Petroleum | 4.9 | 1.5 |
| AGL Energy Limited. | 4.8 | 1.0 |
| Macquarie Group Ltd | 4.3 | 1.9 |
| Suncorp Group Ltd | 4.1 | 1.1 |

Asset Allocation

| Sector | Trust weight % | Index weight % |
|----------------------------|----------------|----------------|
| Energy | 6.9 | 4.2 |
| Materials | 14.0 | 16.2 |
| Industrials | 0.0 | 6.7 |
| Consumer Discretionary | 8.6 | 5.2 |
| Consumer Staples | 3.8 | 6.8 |
| Health Care | 0.0 | 6.2 |
| Financials-x-Real Estate | 47.0 | 37.7 |
| Real Estate | 5.5 | 8.6 |
| Information Technology | 0.0 | 1.4 |
| Telecommunication Services | 6.8 | 4.4 |
| Utilities | 4.8 | 2.5 |
| Cash & Other | 2.6 | - |

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032
or visit www.perennial.net.au.

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