PERENNIAL VALUE MANAGEMENT

Perennial Value Shares for Income Trust

Quarterly Report
30 June 2017

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-1.9	15.9	15.9	6.3	12.7	7.3
S&P/ASX 300 Accumulation Index	-1.6	13.8	13.8	6.6	11.6	6.1
Value Added (Detracted)	**-0.3**	**2.1**	**2.1**	**-0.3**	**1.1**	**1.2**
Capital Growth	-5.4	6.7	6.7	-1.9	5.3	0.5
Income Distribution	3.3	8.3	8.3	7.4	6.6	5.9
Net Performance^^	-2.1	15.0	15.0	5.5	11.9	6.4

*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:
AUD $35 million

Income distribution frequency:
Quarterly

Team FUM:
AUD $6.9 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

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#Gross dividend yield.

- **Over the twelve months to June 2017, the Perennial Value Shares for Income Trust (the Trust) has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.7%.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.9% per annum.**
- **The Trust has delivered a healthy total return of 15.9% for the 2017 financial year.**

Quarterly Distribution

The Trust paid a distribution of 3.7 cents per unit for the June quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 4.7 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 4.7%.

Market Review

Global markets were mixed over the June quarter, with the S&P500 up 2.3% and the Nikkei 225 up 5.1%, while the FTSE100 (down 0.8%) and the Shanghai Composite (down 0.6%) eased. Commodity prices were generally softer, with oil down 9.0%, iron ore down 21.0%, thermal coal down 8.0% and coking coal down 1.0%, while copper and gold were both flat. The US Federal Reserve raised rates by 25 basis points, lifting the target range to between 1.00% and 1.25%, while the Reserve Bank of Australia, left the cash rate steady at 1.5% and the Australian Dollar rose one cent to 77 US cents.

The better performing sectors over the quarter were industrials (up 8.7%), healthcare (up 7.1%), information technology (up 5.7%), consumer discretionary (up 1.3%) and utilities (up 1.3%). Telecommunications (down 8.0%), energy (down 5.7%), consumer staples (down 5.3%), financials (down 4.4%) and REITs (down 2.5%) lagged.

Trust Review

The Trust fell 1.9% for the June quarter following the S&P/ASX300 Accumulation Index (the Index) which also declined 1.6%.

Stocks which contributed positively over the quarter included Boral (up 19.0%), with its exposure to the strength of the US economy, where it now derives around 40.0% of its earnings. Orica (up 17.5%) rose after delivering a good first half result and Janus Henderson Group (up 13.9%) rallied after the completion of the merger and the transfer of its listing from the London to the New York Stock Exchange. Iluka Resources (up 13.9%) rose as pricing in its key mineral sands products firmed and Suncorp (up 12.2%) lifted on expectations that it will benefit from rising insurance premium rates. Caltex (up 7.2%) rallied on the back of strong refining margins and Rio Tinto (up 4.6%) performed well, despite the falling iron ore price, as investors focussed on its very strong balance sheet and cash flow generation. The Trust also benefitted, in a relative sense, from its underweight positions in both the major banks, which declined by an average of 9.4%, and the REIT sector, which we consider to be poor value and sensitive to any rises in bond yields.

Stocks which detracted from performance included Vocus Group (down 22.0%), which downgraded earnings due to issues integrating recent acquisitions before being subject to a takeover bid from private equity firm, KKR. In our view, while the company's recent performance has been disappointing, the offer clearly demonstrates the latent value which the market is not currently recognising. Other stocks which underperformed included Wesfarmers (down 11.0%) on softer retail spending data and Platinum Asset Management (down 9.7%).

Trust Activity

During the quarter, we took profits and sold out of our holding in AGL Energy. This stock has been a very strong performer, delivering a total return of 45.9% over the past twelve months, with its valuation now becoming full. We reduced our holdings in the major banks as, while they have attractive dividend yields, they currently face a number of headwinds and also reduced our holding in Event Hospitality & Entertainment on the back of an expected disappointing cinema performance. We exited our holdings in Harvey Norman and Stockland as the retail sales environment became tougher. Proceeds were used to establish a position in Janus Henderson Group as well to increase our holdings in BHP, Caltex, Rio Tinto, Macquarie Group and Suncorp. At quarter end, stock numbers were 23 and cash was 13.7%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG matters. We were pleased to learn that Lendlease, as contractor on Adelaide's Northern Connector project, has significantly exceeded its targets in terms of providing employment opportunities on the project for local people with barriers to employment, displaced automotive workers and Aboriginal and Torres Strait Islanders. They are also providing significant training to qualify people in civil construction. This further reinforces our positive view of the company as a high quality business.

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	7.8	9.3
BHP Billiton Limited	7.3	4.8
Westpac Banking Corporation	6.0	6.6
Macquarie Group Limited	4.9	1.9
Suncorp Group Limited	4.7	1.2
ANZ Banking Group Limited	4.6	5.4
Telstra Corporation	4.3	3.3
Rio Tinto Limited	4.3	1.7
National Australia Bank	4.2	5.1
AMP Limited	4.1	1.0

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.3	4.1
Materials	16.7	16.0
Industrials	0.0	7.4
Consumer Discretionary	5.8	5.2
Consumer Staples	2.9	7.1
Health Care	0.0	7.5
Financials-x-Real Estate	43.8	36.9
Real Estate	2.9	8.3
Information Technology	0.0	1.5
Telecommunication Services	6.9	3.8
Utilities	0.0	2.3
Cash & Other	13.7	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment