

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception [^] |
|---|-------------|------------|------------|-------------|------------|------------|------------------------------|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares Wholesale Trust* | 4.1 | 5.1 | 11.6 | 10.3 | 7.0 | 12.2 | 9.6 |
| S&P/ASX 300 Accumulation Index | 4.3 | 4.9 | 10.4 | 11.8 | 6.6 | 11.6 | 7.7 |
| Value Added (Detracted) | -0.2 | 0.2 | 1.2 | -1.5 | 0.4 | 0.6 | 1.9 |
| Capital Growth | 1.7 | 2.5 | 8.7 | 5.3 | 2.0 | 6.9 | 1.4 |
| Income Distribution | 2.4 | 2.4 | 2.5 | 4.1 | 4.0 | 4.4 | 7.4 |
| Net Performance | 4.1 | 4.9 | 11.2 | 9.4 | 6.0 | 11.3 | 8.8 |

*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 (as at 31 December 2016):

AUD \$1.1 billion

Income distribution frequency:

Half yearly

Team FUM (as at 31 December 2016):

AUD \$7.2 billion

Minimum initial investment:

\$25,000

Trust inception date:

June 2001

APIR code:

IOF0206AU

- ▶ The market rallied in December, with the S&P/ASX300 Accumulation Index (the Index) up 4.3%.
- ▶ Industrials led the market, rising 4.5%, while resources rose 3.7%.
- ▶ The Trust delivered a solid return of 4.1%.

Trust Performance

The Perennial Value Shares Wholesale Trust (the Trust) delivered a solid absolute return of 4.1% for December, marginally behind the Index return of 4.3%.

Global markets remained in a buoyant mood, with the S&P500 up 1.8%, Nikkei 225 up 4.4% and FTSE 100 up 5.3%, while the Shanghai Composite declined 4.5%. Commodity prices were generally stronger with oil up 10.0%, iron ore up 10.0% and thermal coal up 14.0%, while coking coal (down 25.0%), copper (down 4.0%) and gold (down 2.0%) declined. As widely expected, the Federal Reserve lifted rates for the first time since the Global Financial Crisis (GFC), raising the Federal Funds Rate by 25 basis points to 0.75%. The Reserve Bank of Australia (RBA) left the cash rate remaining steady at 1.5%, while the Australian Dollar (AUD) finished the month down two cents at 72 US cents.

During December, the better performing sectors included utilities (up 8.7%), REITs (up 6.8%), energy (up 6.1%) and financials (up 5.5%), while telecommunications (up 0.5%), healthcare (up 0.9%) and consumer staples (up 1.2%) lagged.

Trust holdings which performed strongly included QBE Insurance (up 11.2%) with its leverage to rising US interest rates, Graincorp (up 10.4%) as the current east coast grain harvest shapes up to be a record, Ansell (up 9.4%) with its exposure to improving global manufacturing activity and Suncorp (up 8.2%) on evidence of improving premium rates. Other strong performers included Brickworks (up 8.7%), Stockland (up 8.7%), Lend Lease (up 7.4%) and AMP (up 7.2%). The Trust also benefited from being underweight healthcare and infrastructure stocks, which underperformed as bond yields rose.

Stocks which detracted from performance included Vocus Communications (down 7.2%) which continued to fall after last month's disappointing FY17 earnings guidance, Flight Centre (down 6.3%) as heavy discounting continues in the airfare market as a result of new capacity additions, Crown Resorts (down 1.4%) and Event Hospitality and Entertainment (down 0.9%). These companies are all underpinned by strong balance sheets and we remain comfortable with the medium term outlook for each.

Trust Activity

During the month we took profits and sold out of our holdings in Aristocrat Leisure and Downer. Both of these stocks had been very strong performers for the Trust, having delivered total returns over the past 12 months of 54.3% and 75.8% respectively.

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 \$6.87. 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 \$5.23, the stock represents good long-term value, trading on a FY18 P/E (Price to earnings ratio) of 13.9 times and gross yield of 5.6%. The improving US economy is a key driver of markets at present and, in addition to our Boral position, the Trust is well exposed to this theme via its holdings in Ansell, Henderson Group, Lend Lease, Macquarie Group, NewsCorp and Westfield Corporation. At month end, stock numbers were 40 and cash was 6.7%.

Outlook

Markets have responded positively to the US election results and the prospect of this leading to more pro-growth fiscal policies as opposed to ongoing monetary easing. Should this eventuate, 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 REITs 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 % |
| Commonwealth Bank | 7.5 | 9.3 |
| Westpac Banking Corporation | 5.9 | 7.1 |
| BHP Billiton Limited | 5.7 | 5.3 |
| ANZ Banking Group Limited | 5.2 | 5.8 |
| National Australia Bank | 4.7 | 5.3 |
| Macquarie Group Limited | 3.6 | 1.9 |
| AGL Energy Limited | 3.5 | 1.0 |
| Woolworths Limited | 3.3 | 2.0 |
| Woodside Petroleum | 3.1 | 1.5 |
| Crown Resorts Limited | 2.7 | 0.3 |

| Asset Allocation | | |
|----------------------------|----------------|----------------|
| Sector | Trust weight % | Index weight % |
| Energy | 6.4 | 4.2 |
| Materials | 17.9 | 16.2 |
| Industrials | 0.0 | 6.7 |
| Consumer Discretionary | 6.3 | 5.2 |
| Consumer Staples | 6.6 | 6.8 |
| Health Care | 3.6 | 6.2 |
| Financials-x-Real Estate | 37.7 | 37.7 |
| Real Estate | 7.1 | 8.6 |
| Information Technology | 0.0 | 1.4 |
| Telecommunication Services | 4.0 | 4.4 |
| Utilities | 3.5 | 2.5 |
| Cash & Other | 6.8 | - |

Rounding accounts for small +/- from 100%.

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

Signatory of:



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