Perennial Value Shares Wholesale Trust

Monthly Report
31 July 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception ^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	0.3	-1.5	0.3	9.2	5.4	12.2	9.5
S&P/ASX 300 Accumulation Index	0.0	-2.5	0.0	7.0	5.1	10.7	7.6
Value Added (Detracted)	0.3	1.0	0.3	2.2	0.3	1.5	1.9
Capital Growth	0.3	-3.0	0.3	4.4	0.6	7.0	1.5
Income Distribution	0.0	1.2	0.0	3.8	3.9	4.2	7.2
Net Performance	0.3	-1.8	0.3	8.2	4.5	11.2	8.7

*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
AUD $1.0 billion

Distribution frequency:
Half yearly

Team FUM
AUD $6.7 billion

Minimum initial investment
$25,000

Trust inception date
June 2001

APIR code
IOF0206AU

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- **The Perennial Value Shares Wholesale Trust (the Trust) has delivered a solid total return of 9.2% over the past 12 months.**
- **Rising commodity prices lifted resource stocks in July, while the overall market finished flat.**
- **Companies with significant offshore earnings lagged during the month, as the Australian Dollar (AUD) rallied strongly.**

Market Review

Global markets were generally stronger in July, with the S&P500 up 1.9%, FTSE100 up 0.8% and Shanghai Composite up 2.5%, while the Nikkei 225 declined 0.5%. Commodity prices rallied strongly, with iron ore up 13.0%, thermal and coking coal were both up 20.0%, copper up 7.0%, oil up 10.0% and gold up 2.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the AUD finished the month up three cents at 80 US cents.

The S&P/ASX300 Accumulation Index (the Index) was flat over the month, with strong gains in resources offsetting a decline in industrials. The better performing sectors included metals and mining (up 6.4%), materials (up 3.5%), financials (up 1.2%), consumer staples (up 1.0%) and energy (up 0.6%). Defensive sectors tended to underperform, with healthcare (down 7.5%) the worst performing sector, while utilities (down 5.3%) and telecommunications (down 4.2%) also lagged.

Trust Review

The Trust delivered a return of 0.3% for July, resulting in a solid return of 9.2% for the last 12 months, which compares favourably to the Index return of 7.0%.

The better performing stocks in the Trust included BHP (up 11.0%) and Rio Tinto (up 4.0%), which benefitted from the rise in iron ore and other commodity prices. This aside, in our view, both of these stocks offer compelling medium term value as a result of their expected strong cash flow generation as capital expenditure is reduced and the existing suites of assets are worked harder. Further, this will drive an ongoing improvement in their already strong balance sheets, providing opportunities for significant returns of capital to investors. In this respect, we have high hopes for the performance of BHP under the guidance of incoming Chairman, Ken MacKenzie, who demonstrated strong capital discipline in his former role as CEO of Amcor. Ironically, it was poor capital allocation at Rio Tinto, which gave Amcor the opportunity to make the transformative acquisition of the Alcan packaging business at a bottom-of-the-cycle price in 2010.

Other strong performers included JB Hi-Fi (up 11.3%), which we added to the portfolio in May, believing it had been oversold on Amazon fears, Woolworths (up 4.5%), AMP (up 3.9%), Crown Resorts (up 3.6%) and Vocus Group (up 3.6%) which received a second indicative takeover offer. The Trust also benefited, in a relative sense, from the sell-off in healthcare and utilities, both sectors in which we hold underweight positions on the basis of valuation.

The major banks outperformed modestly, rising an average of 2.4%, after APRA's long-awaited changes to their capital requirements turned out to be more benign than expected. The Trust holds an underweight position in the banks on the basis that, while they are offering attractive dividend yields, they are fully-valued, with a challenged earnings growth outlook and potential downside risks.

As a result, we see better value opportunities elsewhere in the market.

Stocks which detracted from performance included Nufarm (down 12.1%) and Graincorp (down 7.8%) which both declined as seasonal conditions deteriorated due to a lack of rainfall. While these businesses are subject to seasonal variability, both are well-run companies, with highly-strategic assets in consolidating industries and we are comfortable with their outlook. Other holdings which underperformed included offshore earners Clydesdale Bank (down 7.6%), Amcor (down 5.4%) and Janus Henderson Group (down 4.3%), which were sold off on the back of the higher AUD.

Trust Activity

During the month, we took profits and reduced our holdings in Janus Henderson Group following its strong performance over the past six months. Proceeds were used to increase our holdings in good value opportunities such as Lendlease and Newcrest. At month end, stock numbers were 41 and cash was 2.9%.

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 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

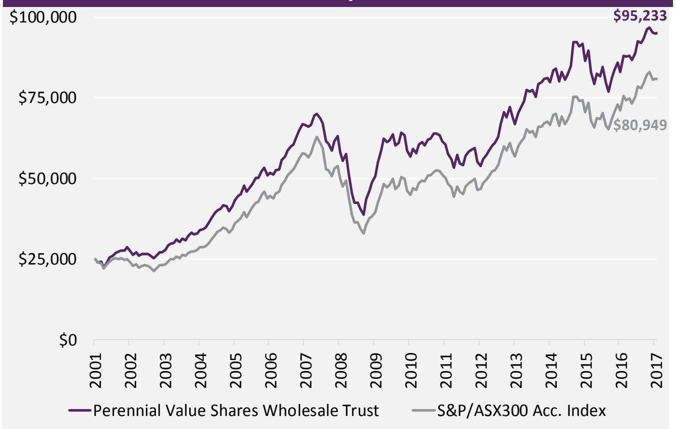
Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.6	9.3
BHP Billiton Limited	6.5	5.4
Westpac Banking Corporation	5.5	7.0
ANZ Banking Group Limited	4.1	5.6
National Australia Bank	4.1	5.2
Caltex Australia	4.0	0.5
Rio Tinto Limited	4.0	1.8
Telstra Corporation	3.9	3.1
Macquarie Group Limited	3.7	1.9
Suncorp Group Limited	3.6	1.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	8.0	4.1
Materials	22.2	16.6
Industrials	0.0	7.2
Consumer Discretionary	11.6	5.2
Consumer Staples	5.6	7.1
Health Care	0.0	6.9
Financials-x-Real Estate	39.5	37.4
Real Estate	4.4	8.3
Information Technology	0.0	1.5
Telecommunication Services	5.8	3.6
Utilities	0.0	2.2
Cash & Other	2.9	-

Rounding accounts for small +/- from 100%.

Growth of $25,000 since inception



Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Signatory of:

PRI Principles for Responsible Investment