

|   | Month       | Quarter     | FYTD        | 1 year      | 3 years     | 5 years    | Since Inception <sup>^</sup> |
|---|-------------|-------------|-------------|-------------|-------------|------------|------------------------------|
|   | %           | %           | %           | %           | % p.a.      | % p.a.     | % p.a.                       |
| Perennial Value Shares Wholesale Trust* | -0.3        | -0.1        | 0.1         | 9.1         | 5.0         | 11.5       | 9.4                          |
| S&P/ASX 300 Accumulation Index          | 0.7         | 1.0         | 0.8         | 9.5         | 5.2         | 10.4       | 7.6                          |
| <b>Value Added (Detracted)</b>          | <b>-1.0</b> | <b>-1.1</b> | <b>-0.7</b> | <b>-0.4</b> | <b>-0.2</b> | <b>1.1</b> | <b>1.8</b>                   |
| Capital Growth                          | -0.4        | -1.7        | -0.1        | 4.3         | 0.2         | 6.4        | 1.5                          |
| Income Distribution                     | 0.0         | 1.3         | 0.0         | 3.8         | 3.9         | 4.2        | 7.1                          |
| Net Performance                         | -0.4        | -0.4        | -0.1        | 8.1         | 4.1         | 10.6       | 8.6                          |

\*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 Index rose 0.7% in August, with resources stocks up strongly.**
- ▶ **Reporting season was solid, with many companies flagging increased capital investment.**
- ▶ **The Perennial Value Wholesale Shares Trust (the Trust) has delivered a solid total return of 9.1% over the past twelve months.**

## Market Review

Global markets were mixed in August, with the S&P500 up 0.1%, FTSE100 up 0.8% and Shanghai Composite up 2.7%, while the Nikkei 225 declined 1.4%. Commodity price strength continued, with iron ore up 7.0%, thermal coal up 2.0%, coking coal up 16.0%, gold up 4.0% and copper up 7.0%, while oil declined slightly down 1.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month flat at 80 US cents.

The ASX300 Accumulation Index (the Index) was up 0.7% for the month, led by resources, with metals & mining (up 5.5%) and energy (up 5.2%) the best performers. Other positive sectors included consumer staples (up 5.2%), industrials (up 4.6%), materials (up 4.5%) and utilities (up 3.2%). Telecommunications (down 7.2%) was the worst performing sector, as Telstra cut its dividend, followed by financials (down 2.1%), with the major banks weaker and consumer discretionary (down 1.5%).

## Trust Review

The Trust delivered a solid return of 9.1% for the last twelve months, whilst declining in August by 0.3%.

The highlight of the month was the reporting season, which saw companies report their results for the 2017 financial year. 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 CBA result, as well as trading updates from the other major banks, showed modest growth, with their low bad debt charges highlighting the ongoing benign economic environment. 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 (down 18.2%), Healthscope (down 16.3%), James Hardie (down 7.7%) and Ramsay Healthcare (down 3.2%). 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.

The better performing stocks in the Trust included resource holdings BHP (up 5.9%) and Rio Tinto (up 5.2%), which both delivered dramatically higher profits, allowing them to increase their dividends by 177% and 144% respectively.

Their strong cash flow generation is seeing these companies rapidly de-gear their balance sheets and this is expected to lead to increasing returns to shareholders in the coming periods. Newcrest Mining (up 13.1%) rallied on the higher gold price as well as delivering a solid result.

Orora (up 12.3%), rallied after delivering a solid result and highlighting the ongoing acquisition opportunities in the US and Clydesdale Bank (up 8.0%), rose after delivering a positive third quarter trading update, showing its operational turnaround is progressing well. Gateway Lifestyle (up 8.0%) rallied after delivering a result in line with recent guidance and highlighting its long-term development pipeline and growing annuity revenue streams. Caltex (up 7.2%) delivered a solid result, with a further cost-out program announced. Importantly, they have largely filled the expected earnings hole from the loss of the Woolworths contract. Longer-term, this company has a significant opportunity to grow earnings by developing the convenience retail offering at their extensive network of service stations. Other strong performers included Iluka Resources (up 5.7%), Nufarm (up 5.5%), Amcor (up 5.0%), Janus Henderson (up 4.9%) and Star Entertainment Group (up 4.9%).

However, in what has proved to be a very frustrating month for the Trust, some of our largest overweight holdings have been unduly harshly treated on the back of what were solid profit results. For example, Crown Resorts (down 8.8%) was sold off on the back of the slowdown in the high-roller market and some softness in their Perth casino due to the weak Western Australia economy. Both of these issues were well known to the market and will likely prove transient. Suncorp (down 6.0%) and AMP (down 2.7%) also delivered reasonable results, with earnings per share for both at 5.0%. However, both were sold off after flagging higher investment into their businesses. As discussed above, we do not view this as a negative. The Trust was also impacted by our holding in Vocus Group (down 33.8%), which fell after it ended discussions with private equity firms. We think there is considerable value in this business, however patience will be required.

### Trust Activity

During the month, we took profits and reduced our holdings in Boral following its strong performance over the past six months and exited our holding in Soul Pattinson following its recent rally. Proceeds were used to increase our holdings in good value opportunities such as BHP, Nufarm and Star Entertainment Group. At month end, stock numbers were 40 and cash was 3.5%.

### Outlook

While growth in the domestic economy remains subdued and there remains a high level of political uncertainty, the global growth outlook appears to be incrementally improving. 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 scenario 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.**

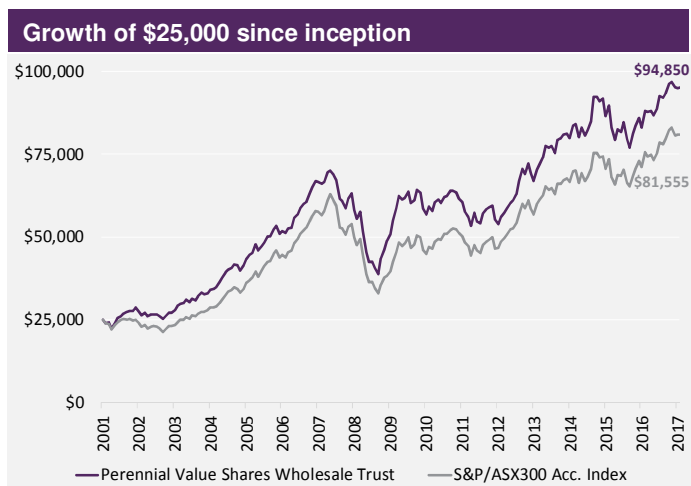
### Top 10 Holdings

| Stock name                  | Trust weight % | Index weight % |
|-----------------------------|----------------|----------------|
| BHP Billiton Limited        | 7.6            | 5.7            |
| Commonwealth Bank           | 7.1            | 8.5            |
| Westpac Banking Corporation | 5.3            | 6.9            |
| Caltex Australia            | 4.3            | 0.6            |
| National Australia Bank     | 4.2            | 5.2            |
| Rio Tinto Limited           | 4.2            | 1.9            |
| ANZ Banking Group Limited   | 4.1            | 5.6            |
| Macquarie Group Limited     | 3.8            | 1.9            |
| Telstra Corporation         | 3.5            | 2.8            |
| Newcrest Mining             | 3.4            | 1.1            |

### Asset Allocation

| Sector                     | Trust weight % | Index weight % |
|----------------------------|----------------|----------------|
| Energy                     | 7.6            | 4.3            |
| Materials                  | 23.6           | 17.3           |
| Industrials                | 0.0            | 7.5            |
| Consumer Discretionary     | 11.3           | 5.1            |
| Consumer Staples           | 5.6            | 7.4            |
| Health Care                | 0.4            | 6.9            |
| Financials-x-Real Estate   | 38.6           | 36.3           |
| Real Estate                | 4.6            | 8.3            |
| Information Technology     | 0.0            | 1.5            |
| Telecommunication Services | 4.7            | 3.2            |
| Utilities                  | 0.0            | 2.2            |
| Cash & Other               | 3.6            | -              |

Rounding accounts for small +/- from 100%.



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:



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