

	Quarter	FYTD	1 year	3 years	5 years	Since Inception*
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares Wholesale Trust*	-1.1	15.2	15.2	6.8	12.9	9.5
S&P/ASX 300 Accumulation Index	-1.6	13.8	13.8	6.6	11.6	7.6
Value Added (Detracted)	0.5	1.4	1.4	0.2	1.3	1.9
Capital Growth	-2.6	10.2	10.2	1.9	7.8	1.5
Income Distribution	1.3	4.0	4.0	4.0	4.2	7.2
Net Performance	-1.3	14.2	14.2	5.9	12.0	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

Income distribution frequency:

Half yearly

Team FUM:

AUD \$6.9 billion

Minimum initial investment:

\$25,000

Trust inception date:

March 2000

APIR code:

IOF0200AU

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- ▶ The Perennial Value Shares Wholesale Trust (the Trust) has delivered a healthy total return of 15.2% for the 2017 financial year.
- ▶ The market eased over the June quarter, with the S&P/ASX300 Accumulation Index (the Index) falling 1.6%.
- ▶ Both financials and resources declined over the quarter as banks were sold off and commodity priced fell to more sustainable levels.

Trust Performance

The Trust fell by 1.1% for the June quarter, outperforming the Index by 0.5%. This brings the Trust's return for the 2017 financial year to a very healthy 15.2%.

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.

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. 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. Suncorp (up 12.2%), rose on expectations that it will benefit from rising insurance premium rates and Amcor (up 7.6%) lifted after hosting an investor tour of its US operations, highlighting the potential future consolidation opportunities in that market. 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. Westfield (down 9.6%) fell as the retail environment became tougher and Newcrest (down 9.5%) and Woodside Petroleum (down 6.9%) declined on weaker gold and oil prices respectively.

Trust Activity

During the quarter, we took profits and reduced our holdings in a number of stocks which had performed strongly over recent months, including selling out of AGL Energy and Resmed and reducing our positions in Woolworths and Westfield. Proceeds were used to increase our positions in a number of stocks where we see very good medium-term value, including Caltex, Clydesdale Bank, Lendlease, Sky City Entertainment and Suncorp. At quarter end, stock numbers were 41 and cash was 6.4%.

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 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 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 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, 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.

Signatory of:



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Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.5	9.3
BHP Billiton Limited	5.8	4.8
Westpac Banking Corporation	5.3	6.6
National Australia Bank	4.0	5.1
Telstra Corporation	4.0	3.3
Caltex Australia	4.0	0.5
ANZ Banking Group Limited	4.0	5.4
Macquarie Group Limited	3.8	1.9
Suncorp Group Limited	3.7	1.2
Rio Tinto Limited	3.7	1.7

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.0	4.1
Materials	20.5	16.0
Industrials	0.0	7.4
Consumer Discretionary	10.2	5.2
Consumer Staples	5.6	7.1
Health Care	0.2	7.5
Financials-x-Real Estate	39.6	36.9
Real Estate	3.7	8.3
Information Technology	0.0	1.5
Telecommunication Services	5.8	3.8
Utilities	0.0	2.3
Cash & Other	6.5	-

Rounding accounts for small +/- from 100%.