Perennial Value Shares Wholesale Trust

MONTHLY REPORT OCTOBER 2018

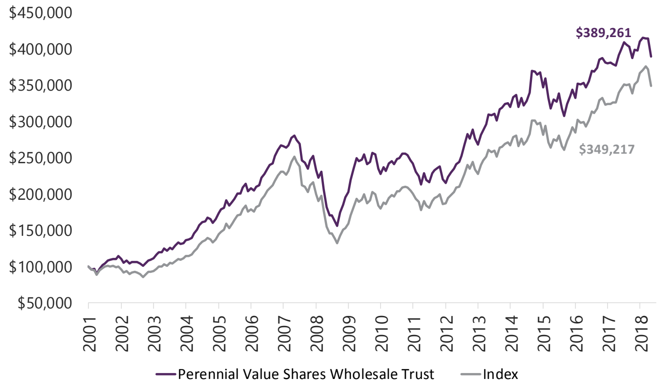
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares Wholesale Trust*	-6.1	-6.2	-4.9	0.3	6.5	5.6	9.0
S&P/ASX300 Accumulation Index	-6.2	-6.0	-4.7	2.9	8.2	6.0	7.5
Value Added (Detracted)	**0.1**	**-0.2**	**-0.2**	**-2.6**	**-1.7**	**-0.4**	**1.5**
Capital Growth	-6.1	-6.4	-5.3	-3.7	2.0	1.0	1.3
Income Distribution	0.0	0.0	0.0	3.1	3.6	3.7	6.8
Net Performance	-6.1	-6.4	-5.3	-0.6	5.6	4.7	8.2

*Gross Performance. ^Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Overview

- Rising interest rates and increasing trade tensions saw global markets sold off in October, with the S&P500 -6.9%, FTSE 100 -5.1%, Nikkei 225 -9.1% and Shanghai Composite -7.7%.
- The Australian market fell in line with offshore markets, to finish the month down -6.2%, bringing the total return for the last 12 months to +2.9%.
- The sell-off was broad-based, with all sectors of the market delivering negative returns. However, many of the more expensive parts of the market such as Healthcare and IT, which we avoid on the basis of overvaluation, were hit particularly hard.
- Following the decline, the market is now trading in line with its long-term average forward P/E ratio of 14.6x and offering an attractive gross dividend yield of over 6.0%, with many very good value opportunities available.

Growth of $100,000 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.

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.

Portfolio Manager
John Murray

Trust FUM
AUD $840 million

Distribution Frequency
Half Yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

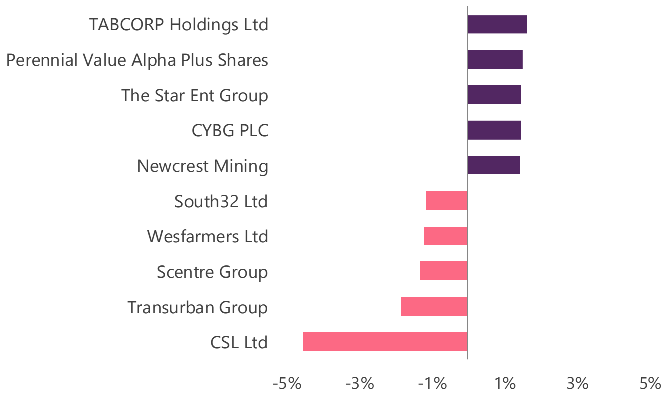
APIR Code
IOF0206AU

Portfolio Characteristics – FY19	Trust	Index
Price to Earnings (x)	13.7	14.6
Price to Free Cash Flow (x)	12.0	14.2
Gross Yield (%)	6.3	6.2
Price to NTA (x)	1.9	2.2

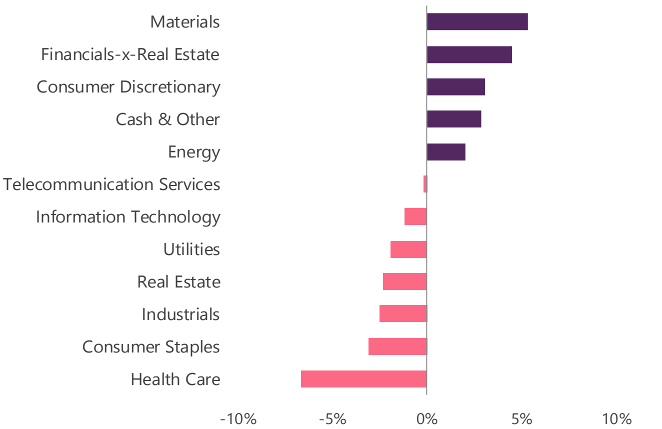
Source: Perennial Value Management. As at 31 October 2018.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Top 5 Over / Underweight Positions



Sector Active Exposure



Trust Review

The broad-based, global macro nature of the sell-off in October saw both Industrials (-6.1%) and Resources (-6.5%) decline by a similar amount. However, the risk-off environment saw strong performances from our holdings in gold stocks Evolution Mining (+12.5%) and Newcrest (+6.2%), which rallied as investors sought the safety of gold.

Other holdings which delivered positive returns over the month included Vocus Communications (+4.6%) as the market continues to gain confidence in the turnaround strategy, Graincorp (+4.3%) as investors began to focus on the seasonal conditions returning to normal and QBE (+1.8%), with its leverage to rising interest rates.

Other holdings which outperformed included Newscorp (-0.3%), Ausdrill (-1.1%), Brambles (-2.6%), Amcor (-2.8%), Rio Tinto (-3.0%), Suncorp (-3.1%) and Link Administration (-3.6%).

The Trust also benefited from being underweight on valuation grounds in a number of expensive growth stocks including REA Group (-16.7%), Seek (-14.0%), Treasury Wines (-13.6%) and Cochlear (-11.5%). The Trust also benefited from not holding AMP (-22.6%) which fell sharply after announcing the sale of its life business for a price which disappointed the market.

The major banks performed in line with the market, delivering an average return of -6.1%. Sentiment towards the sector is still negative due to the combination of the Royal Commission and concerns around the outlook for the housing market. However, while the growth outlook for the banks is definitely very muted, they are trading on attractive valuations and offering compelling dividend yields, justifying a position in the Trust.

The main detractors from performance were Boral (-18.8%) which fell on negative sentiment to the US housing market and Clydesdale Bank (-18.1%) which declined due to Brexit concerns. Energy stocks Origin (-11.7%) and Woodside (-9.7%) also fell on a weaker oil price. However, we view this as temporary and have a positive medium-term view on oil and LNG prices and the outlook for both of these companies.

Trust Activity

During the month, we took profits and trimmed our holding in a number of stocks which had performed strongly over recent times including Vocus Communications and Woodside Petroleum as well as reducing our position in Boral. Proceeds were used to increase our holdings in a number of good value opportunities including Aristocrat Leisure, IAG and Westpac. At month end, stock numbers were 65 and cash was 2.9%.

Outlook

Following the recent sell-off, the market is now trading in line with its long-term average, with a one year forward P/E of 14.6x and offering an attractive gross dividend yield of over 6.0%.

Within the overall market, we are currently finding many good value investment opportunities. Across both the industrial and resources sectors, we are seeing many quality companies trading on attractive valuations which should deliver solid returns to investors from these levels.

By contrast, there remain large pockets of expensive growth and momentum style stocks which present significant de-rating risks both as interest rates rise and if the lofty growth rates implied in their valuations are not able to be met. We do not hold these types of stocks as they do not meet our value criteria.

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.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-6.2
Energy	-10.3
Materials	-5.2
Industrials	-5.3
Consumer Discretionary	-8.3
Health Care	-7.2
Financials-x-Real Estate	-6.0
Real Estate	-3.1
Information Technology	-11.4
Telecommunication Services	-7.4
Utilities	-4.0

Global, Currency & Commodities (%)

S&P500	-6.9
Nikkei225	-9.1
FTSE100	-5.1
Shanghai Composite	-7.7
RBA Cash Rate	1.50
AUD / USD	-2.0
Iron Ore	+9.6
Oil	-8.8
Gold	+2.0
Copper	-5.2

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