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Monthly Investment Update

Perennial Perspective August 2014

Justifiable complacency?



Markets in July seemed to exhibit an air of complacency with the so called fear index, the US VIX volatility index hitting seven year lows, Aussie markets were quite buoyant overall (Aussie shares and REITs up around 4 and 5% respectively for the month) and global shares only slightly negative partly thanks to a weaker currency. This is despite a wave of negative geo-political events in Gaza, the Ukraine, Iraq/Syria and the complex Argentinian bond technical default. In the midst of this we saw the election of Joko Widodo in Indonesia who looks like leading a strong reformist agenda for a country important to our long term future.

In the US, a solid GDP number, a positive forward looking report card from the IMF which is looking to a rebound in growth to 3% in 2015 and an encouraging US reporting season (as I write this around 77% of companies have beaten earnings estimates) made investors feel a bit more relaxed about the world's largest economy.

Against this July backdrop it's probably no surprise that we have seen a minor sell-off in shares in early August as markets started to in price in a little more, perhaps normalised rate of risk into the valuation equation.

So the central scenario looks like the massive liquidity injection and low rates will continue to see the developed economies maintaining their positive momentum leading to improved company earnings that could justify further growth in equity values. So apart from the usual lead indicators (Global PMIs etc), what are the key themes to watch for to see if this scenario actually plays out?

- Geo-Political spillover. Italy posted a second quarter of negative growth and is technically in recession which is in part due to the Russian sanctions which hopefully won't de-rail the patchy growth throughout Europe. These risks are hard to factor in, but look to be reasonably contained.
- Janet Yellen's difficult job of communicating her rate intentions so as not to panic global markets, which probably hang too much on her every word. So far she has played it very well making it clear that she wants to see real and sustainable improvement in the US jobs market and wages growth before pushing that big lever.
- The Aussie transition from the mining boom. It was never going to be easy but the recent pick up in building approvals, particularly on the east coast is very welcome although it is remarkable in a way to think that our unemployment rate which spiked to 6.4% this week is now higher than the US. The importance of other parts of the economy firing up is critical if we

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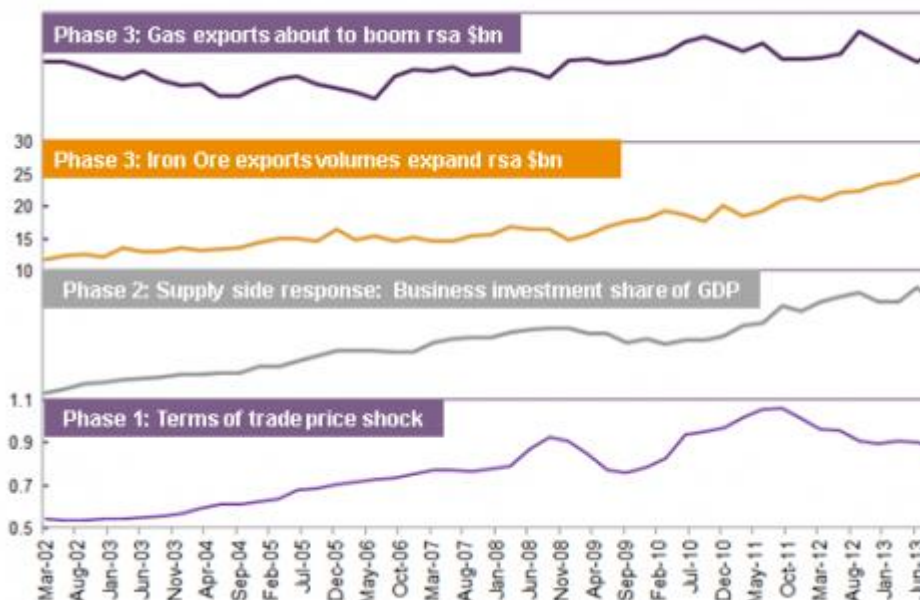
In July, the Por Managers and Frank Uhlenbru recorded their latest video updates.

[Click here to watch the vidoes](#)



Economic and Strategy Month Update

are to avoid a severe slowdown as business investment as a share of GDP falls from its historical mining boom driven highs. The chart below shows the various phases of the mining boom. Phase 1 was where the massive Chinese demand for our resources caused the largest ever surge in our terms of trade (the prices we get for our exports relative to import prices) even larger than the wool boom in the 1950s. Phase 2 is the often talked about investment boom (shown here as total business investment as a share of GDP). In the next two charts, the longer term benefits of the boom can be seen, where supply expands as a result of earlier investment. The trend of sharply rising iron ore exports as new capacity comes on should be repeated in gas exports once the mega projects are completed.



Source: ABS, Perennial

As we watch these events unfold over the next eighteen months, we will eventually be able to use perfect hindsight to judge whether today's valuations are justifiable. Until then, it's a judgement call on the world and Australia continuing to grow.

by: Frank Uhlenbruch

Growth momentum in the US China appears to be improving

To read Frank Uhlenbruch's Economic and Strategy Monthly Update, please click here.

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Perennial Investors Index

	Australian Assets (%)				International Assets (%)	
	Shares	Listed Property	Fixed Interest	Cash	International Shares	Global Property
Jul-14	4.4	5.0	0.3	0.2	-0.2	1.3
Year to Jul-14	13.3	17.4	5.5	2.7	11.8	15.4
3 Yrs to Jul-14 p.a.	13.0	19.7	6.5	3.5	18.4	14.2
5 Yrs to Jul-14 p.a.	10.3	14.8	6.9	3.9	10.3	17.6

Source: Perennial Investment Partners Limited

Read more for Perennial Investors Index and market returns.

Perennial Growth - Managing Growth, High Conviction, Socially Responsive Investing and Absolute Return

This Month's Focus: Perennial Growth Shares Wholesale Trust

The Australian market performed strongly in July rising 4.4%. Materials (up 7.7%) was the standout sector as mining stocks rallied on solid Chinese economic data. The best performers for the month within the Trust were Sundance Energy (up 15.2%), Karoon Gas (up 14.0%), and Aristocrat Leisure (up 9.5%).

To read the full commentary for July 2014, please [click here](#).



Perennial Fixed Interest - Managing Australian, Diversified, Global Fixed Interest, Cash and High Yielding Securities

This Month's Focus: Perennial Tactical Income Trust

The Trust exceeded the benchmark by 0.14%, producing a gross return of 0.40%, while the net return was 0.36%. Outperformance was driven by value added via asset allocation, most notably our underweight allocation to fixed interest. We continue to prefer defensive duration strategies as these will provide investors some protection against rising yields.

To read the full commentary for July 2014, please [click here](#).



Perennial International - Managing Global Shares High Alpha, Asian Equities and International Shares

This Month's Focus: Perennial Global Shares High Alpha Trust

The Perennial Global Shares High Alpha Trust delivered a return of 0.2% in July, slightly behind the MSCI All Country Index Net Dividends in AUD (the Index) which rose by 0.3%. The main positive contributors were Japanese food company Kewpie, which rose 13% during the month, Indian healthcare company Sun Pharmaceutical which rose by 15% and US technology giant Microsoft which rallied following solid results and the first news of restructuring actions under new CEO Satya Nadella. On the negative side were US Industrial Amerco which declined 9.5% on profit taking following strong year to date performance, US book store operator Barnes and Noble falling 8.6% late in the month as the overall market sold off, and French industrial Airbus which fell 11.4% as concerns emerge over the longevity of the commercial aerospace cycle. The Australian dollar declined 1.5% over the month.

[Read more](#)



Perennial Value - Managing Value, Smaller Companies and Shares for Income

This Month's Focus: Perennial Value Shares Wholesale Trust

The Trust performed in line with the market in July, returning 4.4%. A range of stocks in the portfolio rose between 10%-25% including Sims Metal (up 23.2%), Bluescope (up 15.9%), Orica (up 12.9%) and Super Retail (up 11.6%). The better performing sectors during the month were Materials (up 7.7%), IT (up 5.7%), Telecommunications (up 5.1%) and REITs (up 5.0%).

To read the full commentary for July 2014, please [click here](#).



Perennial Value - Managing Smaller Companies

This Month's Focus: Perennial Value Smaller Companies Trust

The Trust ended the month up 6.1% after all fees, outperforming its benchmark by 1.2%. Given the strong pipeline of IPO's that have come to the smaller end of the market over the past 18 months (47 IPOs) the Trust has selectively participated in 14. The Trust's best performing stock during July was HFA Holdings (up 32.4%).

To read the full commentary for July 2014, please [click here](#).



Perennial Real Estate Investments - Managing Global and Australian REITs

This Month's Focus: Perennial Global Property Wholesale Trust

Global property markets had a decent July (up 1.0%), led by Asia. Within the Trust, the Americas was our best performing region (in terms of attribution), followed by Asia and Europe. Attractive valuations and dividend yields should keep global property stocks in favour.

To read the full commentary for July 2014, please [click here](#).

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Investment Manager: Perennial Investment Partners Limited ABN 59 087 901 620, AFSL: 238763 ("Perennial"). Sub Managers: Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Perennial Fixed Interest Partners Pty Limited ABN 35 099 336 357, Perennial International Equities Management Pty Limited ACN 099 336 375, Perennial Growth Management Pty Limited ABN 41 099 336 384 and Perennial Real Estate Investments Pty Limited ABN 35 117 913 685 are Subsidiaries and Authorised Representatives of Perennial. Responsible Entity: IOOF Investment Management Limited ABN 53 006 695 021, AFSL: 230524. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. Whilst every effort to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by the application form attached to the current product disclosure statement. The current product disclosure statement can be found on Perennial's website www.perennial.net.au. Please [click here](#) to read the Morningstar Fund Manager of the Year Award disclaimer.