Perennial Value Shares for Income 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 for Income Trust*	1.6	-0.7	1.6	11.5	5.4	11.9	7.3
S&P/ASX 300 Accumulation Index	0.0	-2.5	0.0	7.0	5.1	10.7	6.0
Value Added (Detracted)	**1.6**	**1.8**	**1.6**	**4.5**	**0.3**	**1.2**	**1.3**
Capital Growth	1.6	-4.2	1.6	2.8	-2.7	4.5	0.7
Income Distribution	0.0	3.3	0.0	8.0	7.4	6.6	5.9
Net Performance^^	1.6	-0.9	1.6	10.8	4.7	11.1	6.6

*Gross Performance. ^Since inception: December 2005. ^^This refers to the Trust's gross performance net of investment management fees. Past performance is not a reliable indicator of future performance.

Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, paid via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index#.

Portfolio manager
Stephen Bruce

Risk profile
High

Trust FUM
AUD $35 million

Distribution frequency
Quarterly

Team FUM
AUD $6.7 billion

Minimum initial investment
$25,000

Trust inception date
December 2005

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#Gross dividend yield.

- **Over the twelve months to July 2017, Perennial Value Shares for Income Trust (the Trust) has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.3%.**
- **Since inception in December 2005, the Trust has delivered a pre-tax distribution yield of 7.9% per annum.**
- **The Trust has delivered a solid total return of 11.5% for the last twelve months.**

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 both up 20.0%, copper up 7.0%, oil up 10.0% and gold up 2.0%. The Reserve Bank of Australia (RBA) left the cash rate steady at 1.5% and the Australian Dollar (AUD) finished the month up three cents at 80 US cents.

The 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%). The 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 up 1.6% for July, resulting in a solid total return for the last twelve months of up 11.5%, 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 Platinum Asset Management (up 18.1%), which rose on the back of improving investment performance, 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 benefitted, 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 Australian Prudential Regulation Authority'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 Telstra (down 4.7%) which declined on increasing competition and uncertainty around the long-term capital management policy. While the dividend may be lowered to some extent the stock will continue to be an attractive source of fully-franked dividend yield and we continue to hold the stock (although the Trust reduced its holding significantly in late 2016). Other stocks which underperformed included, offshore earners Janus Henderson Group (down 4.3%), Orica (down 3.8%) and Macquarie Group (down 3.0%), which were sold off on the back of the higher AUD.

Trust Activity

During the month, we established a position in Harvey Norman, which we believe has been oversold on Amazon fears. While the entry of Amazon will no doubt have an impact, this will likely take time to manifest, and much of Harvey Norman's product range, such as furniture, is unlikely to be affected. We are particularly attracted to the dividend yield and surplus franking credit position, with the stock offering a forecast financial year (FY) 2018 gross yield of 10.7%. We also added Tabcorp to the Trust. This stock is offering a forecast FY 2018 gross yield of 7.5% and stands to derive significant synergies should the merger with Tatts Group proceed. At month end, stock numbers were 25 and cash was 9.3%.

Outlook

The Trust continues to offer a higher forecast gross yield than the overall market and, 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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

Top 10 Holdings

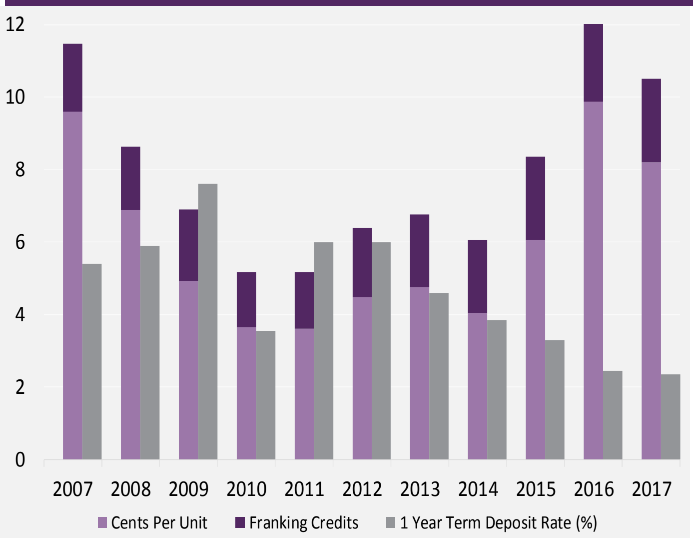
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	8.2	5.6
Commonwealth Bank	7.9	9.3
Westpac Banking Corporation	6.3	7.0
Macquarie Group Limited	4.8	1.9
ANZ Banking Group Limited	4.7	5.6
Suncorp Group Limited	4.6	1.2
Rio Tinto Limited	4.5	1.8
National Australia Bank	4.3	5.2
AMP Limited	4.3	1.0
Telstra Corporation	4.1	3.2

Rounding accounts for small +/- from 100%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.2	4.1
Materials	17.7	16.6
Industrials	0.0	7.2
Consumer Discretionary	8.3	5.2
Consumer Staples	3.0	7.1
Health Care	0.0	6.9
Financials-x-Real Estate	44.7	37.4
Real Estate	3.0	8.3
Information Technology	0.0	1.5
Telecommunication Services	6.8	3.6
Utilities	0.0	2.2
Cash & Other	9.3	-

Distribution History



Distribution shown for full financial years only. Does not take into consideration your personal tax situation. 1 Year Term Deposit Rate sourced from RBA as at last day of previous financial year. Past performance is not a reliable indicator of future performance.

Signatory of:

PRI Principles for Responsible Investment