Perennial Value Shares for Income Trust

Quarterly Report
30 September 2017

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Shares for Income Trust*	-0.4	-0.4	8.6	5.8	10.5	7.1
S&P/ASX 300 Accumulation Index	0.8	0.8	9.0	7.1	9.9	6.0
Value Added (Detracted)	**-1.2**	**-1.2**	**-0.4**	**-1.3**	**0.6**	**1.1**
Capital Growth	-2.8	-2.8	-0.1	-2.6	3.2	0.3
Income Distribution	2.2	2.2	7.9	7.6	6.5	5.9
Net Performance^^	-0.6	-0.6	7.8	5.0	9.7	6.2

*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 $34 million
Distribution frequency	Quarterly
Team FUM	AUD $5.2 billion
Minimum initial investment	$25,000
Trust inception date	December 2005
APIR code	IOF0078AU
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#Gross dividend yield.

- **Over the twelve months to September 2017, 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 8.0% pa.**
- **The Trust has delivered a healthy total return of 8.6% for the last twelve months.**

Trust characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

Quarterly Distribution

The Trust paid a distribution of 2.4 cents per unit for the September quarter. Adding franking credits, the gross (pre-tax) distribution for the quarter was 3.4 cents per unit. Based on the unit price at the start of the financial year ($1.08), this represents a pre-tax distribution yield for the quarter of 3.1% and brings the Trust's pre-tax distribution yield over the last twelve months to 10.3%.

Trust Performance

The Trust delivered a negative return of 0.4% for the September quarter, bringing the Trust's total return for the last twelve months to 8.6%.

Global markets were stronger over the September quarter, with the S&P500 up 4.1%, Nikkei 225 up 0.7%, FTSE100 up 0.3% and the Shanghai Composite up 5.0%. Commodity prices were generally stronger, with oil up 20.0%, thermal coal up 23.0%, coking coal up 27.0%, copper up 9.0% and gold up 4.0%. Iron ore was the exception, declining 3.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar rose 2 cents to 79 US cents.

The better performing sectors over the quarter were metals & mining (up 8.9%), energy (up 5.7%), materials (up 5.3%) and consumer staples (up 3.2%). Telecommunications (down 16.5%) was the worst performing sector, with utilities (down 7.7%), healthcare (down 7.5%), consumer discretionary (down4.2%), industrials (down 1.5%), financials (down 1.2%), real estate investment trust's (down 1.0%) and information technology (down 0.4%) also lagging.

The highlight of the quarter was the August reporting season. 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 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, Healthscope and James Hardie. 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.

Stocks which contributed positively over the quarter included Platinum Asset Mangement (up 35.7%) as performance of its funds improved and Lendlease (up 9.8%), as investors came to appreciate the value on offer in the stock, which is trading at a significant discount to the market. In our view, the market has placed far too much emphasis on its Australian apartment developments, relative to its investment management, global urban regeneration and infrastructure businesses. Resource stocks outperformed on stronger commodity prices, with BHP (up 13.8%) and Rio Tinto (up 8.3%). In the case of BHP, the market is optimistic that the new Chairman will improve capital allocation going forward, which should over time improve returns to investors. Rio Tinto announced an additional USD 2.5 billion buy-back program, including a tax-effective, AUD 700 million off-market buy-back in which the Trust intends to participate. Other strong performers included Caltex (up 4.3%) and Macquarie Group (up 2.7%).

Stocks which detracted from performance included Vocus Group (down 29.1%), which fell as the two private equity bidders withdrew. While there is significant latent value in the network assets of this business, this will take time to realise and we have now exited the position. Telstra (down 13.8%), also declined after lowering its future dividend payout policy as it reinvests to compete in the market. Financials, QBE Insurance (down 13.3%), Suncorp (down 8.1%) and AMP (down 3.2%) also underperformed.

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 Macquarie Group, Lendlease, Janus Henderson and Platinum Asset Management. We also exited our holdings in Iluka Resource and Vocus Group on account of their current low dividend yields. Proceeds were used to establish positions in a number of companies including Star Entertainment and Tabcorp, both stocks which we see as being relatively defensive but also having company-specific upside drivers. At quarter end, stock numbers were 30 and cash was 5.0%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.9	8.5
BHP Billiton Limited	8.4	5.4
Westpac Banking Corporation	6.5	7.0
ANZ Banking Grp Limited	4.8	5.6
National Australia Bank	4.6	5.5
Suncorp Group Limited	4.5	1.1
Woodside Petroleum	4.5	1.4
AMP Limited	4.3	0.9
Rio Tinto Limited	4.0	1.8
Wesfarmers Limited	3.9	3.0

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	7.6	4.4
Materials	17.1	16.9
Industrials	0.0	7.5
Consumer Discretionary	12.4	5.0
Consumer Staples	4.9	7.2
Health Care	0.0	7.0
Financials-x-Real Estate	44.7	36.7
Real Estate	4.6	8.4
Information Technology	0.0	1.6
Telecommunication Services	3.8	3.1
Utilities	0.0	2.1
Cash & Other	5.0	-

Rounding accounts for small +/- from 100%.

Environmental, Social and Corporate Governance (ESG)

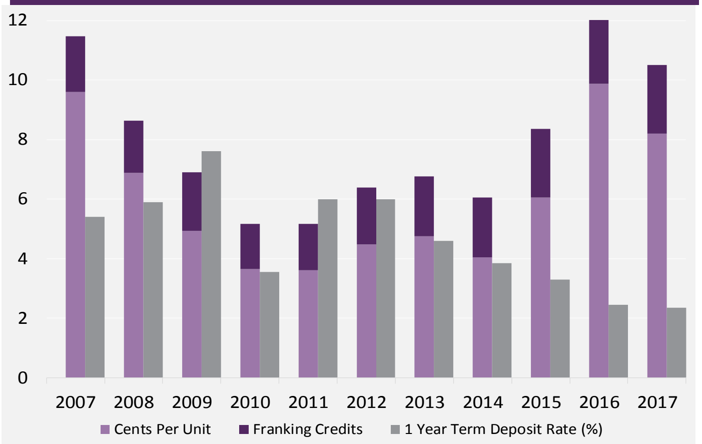
Perennial Value remains alert and active in ESG matters. During the quarter, Perennial Value became a signatory to the United Nations Principles for Responsbile Investment's statement welcoming an inquiry into establishing a Modern Slavery Act in Australia. The Act would improve transparency on how companies operating in Australia are managing modern slavery risks in their operations and supply chains.

Outlook

The Trust continues to exhibit Perennial Value's true to label value characteristics, 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. Further, we believe the current very low interest rates highlight the relative attractiveness of financially-sound, high dividend yielding equities.

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: