# Perennial Value Shares for Income Trust

**Monthly Report**
31 January 2018

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception |
|---|---|---|---|---|---|---|---|
| | % | % | % | % p.a. | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares for Income Trust# | 0.0 | 3.6 | 7.4 | 10.2 | 7.3 | 10.1 | 8.7 |
| Capital Growth | -0.4 | 1.6 | 2.1 | -0.4 | -2.5 | 1.5 | 0.7 |
| Income Distribution# | 0.4 | 2.0 | 5.3 | 10.6 | 9.8 | 8.6 | 8.0 |
| S&P/ASX300 Accumulation Index Yield* (grossed up for franking credits) | 0.0 | 1.1 | 3.1 | 6.3 | 6.3 | 6.3 | 6.1 |
| **Excess Income#** | **0.4** | **0.9** | **2.2** | **4.3** | **3.5** | **2.3** | **1.9** |

#Includes franking credits ^Since inception: December 2005. Past performance is not a reliable indicator of future performance. *S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax Exempt) Yield

## Overview

- Over the 12 months to January 2018, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits) of 10.6%. This compares favourably to the Index grossed up yield of 6.3% and the term deposit rate of 2.3%.
- The market eased -0.4% in January. Resources rose +0.8% on continued strength in commodity prices. Industrials declined -0.7%, led down by interest rate-sensitive sectors such as Utilities and REITs, which fell on rising bond yields.
- Offshore markets were generally stronger, with the US market continuing its strong run, to be up +24.1% for the last 12 months.

## Perennial Value Shares for Income Trust

The objective of the Trust is to provide investors with an attractive level of tax effective income, paid via monthly distributions. The Trust aims to provide a gross distribution yield, adjusted for applicable franking credits, above that provided by the S&P/ASX 300 Franking Credit Adjusted Daily Total Return Index (Tax-Exempt).

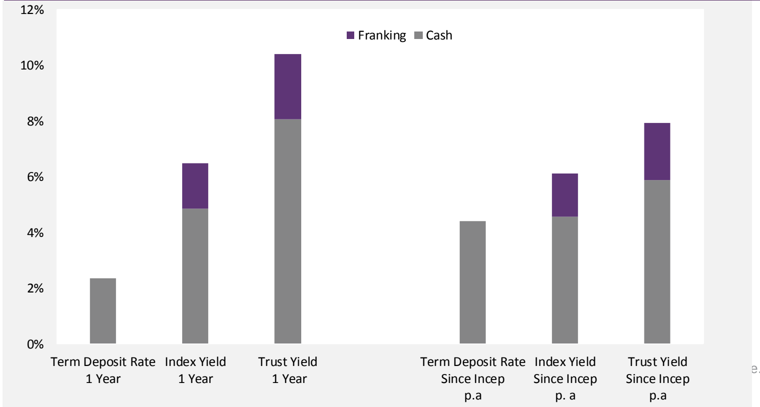
| | |
|---|---|
| Portfolio manager | Stephen Bruce |
| Trust FUM | $35 m |
| Distribution frequency: | Monthly |
| Minimum initial investment | $25,000 |
| Trust Inception Date | June 2001 |
| Fee | 0.92% |
| APIR code | IOF0206AU |

| Portfolio Characteristics – FY19 | Trust | Market |
|---|---|---|
| Price to Earnings (x) | 14.2 | 15.3 |
| Price to Free Cash flow (x) | 13.1 | 14.7 |
| Gross Yield (%) | 6.7 | 5.8 |
| Price to NTA (x) | 2.1 | 2.2 |

Source: Perennial Value Management. As at 31 January 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.

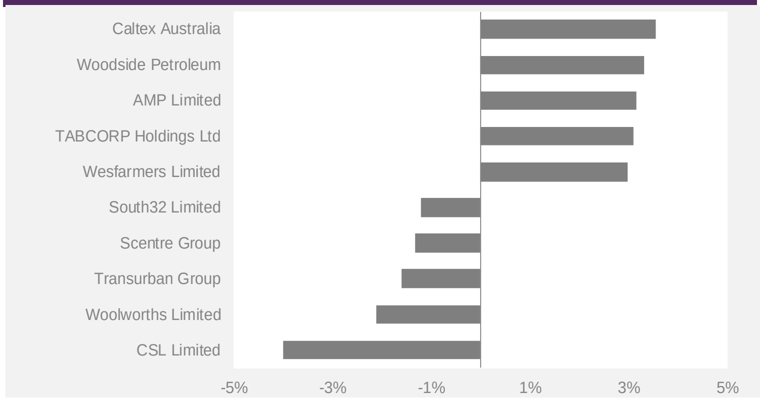
| Franking Levels (%) | |
|---|---|
| FY17 | 65.6 |
| FY16 | 55.9 |
| FY15 | 88.4 |
| FY14 | 115.0 |
| FY13 | 97.8 |
| FY12 | 98.5 |

## Distribution Yield

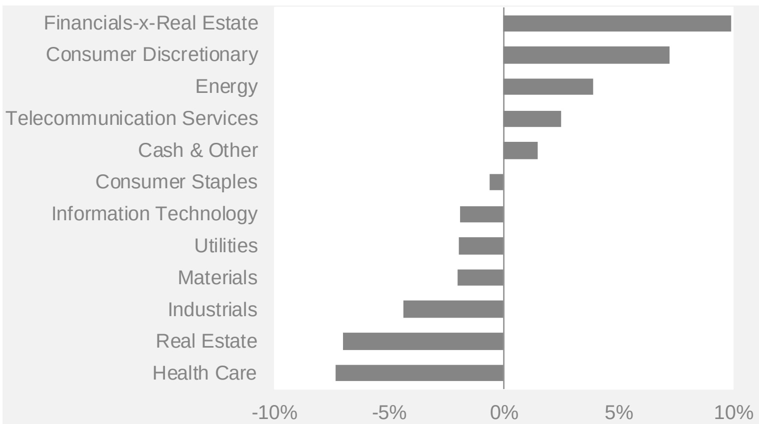



Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index




## Sector Active Exposure vs Index



## Trust Review

Better performing holdings over the month included Flight Centre (+15.3%) which rallied as the market became more comfortable about their ability to meet their long-term earnings targets. Perpetual (+8.3%) rose after delivering a positive update regarding fund flows and Orica (+6.1%) rallied after announcing several significant contract wins which will increase capacity utilisation at its new explosives plant in the Pilbara. Macquarie Group (+3.5%) rallied as it will benefit from the US corporate tax cuts as well as expectations of a positive upcoming trading update. Boral (+2.7%) rose on the back of continued improvement in US economic data, with the company now deriving approximately 40.0% of its earnings from the US, with exposure to both residential construction and infrastructure.

Resource stocks BHP (+2.1%) and Rio Tinto (+1.4%) rose on continued commodity price strength. Other stocks which outperformed included Event Hospitality (+2.2%), Caltex Australia (+2.1%), Crown Resorts (+1.8%) and AMP (+1.2%). The Trust also benefited from its underweight position in the expensive defensive sectors of the market such as Utilities, REITs, which underperformed as bond yields rose on the back of continuing strong global economic data.

Stocks which detracted from performance included agricultural stocks Graincorp (-9.6%), which fell on the back of poor cropping conditions and Tabcorp (-7.3%) which eased following its strong recent performance post the approval of its merger with Tatts Group.

## Trust Activity

During the month, we took profits and reduced our holding in BHP, following its strong run, and trimmed our holdings in ANZ, NAB and Westpac. Proceeds were used to increase our holdings in a number of good value stocks which we expected to pay attractive dividends in the upcoming reporting season including AMP, CBA, Downer EDI and Telstra. At month end, stock numbers were 28 and cash was 1.5%.

## Distribution

In order to provide a more regular income stream, commencing in January, the Trust has moved from paying quarterly to monthly distributions. We will aim to pay equal cash distributions each month, based on our estimate of the income to be generated over the year. Franking credits and any realised capital gains will then be distributed, as per usual, with the June distribution. This aims to give investors more certainty over their income payments.

## Outlook

The global economic backdrop continues to be positive, with all major regions delivering improved growth. While the domestic economy has been subdued, recent data is increasingly positive. 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 which are trading on attractive valuations. This scenario 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 and REITs and infrastructure.

**The portfolio 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.**

| Market Review - Australia | % | Global, Currency & Commodities | % |
|---|---|---|---|
| S&P/ASX300 Accumulation Index | -0.4 | S&P500 | +5.8 |
| Energy | -0.3 | Nikkei 225 | +1.5 |
| Materials | +0.5 | FTSE100 | -1.3 |
| Industrials | -2.0 | Shanghai Composite | +5.3 |
| Consumer Discretionary | -0.2 | RBA Cash Rate | 1.50 |
| Health Care | +3.1 | AUD / USD | +3.5 |
| Financials-x-Real Estate | -0.7 | Iron Ore | +2.4 |
| Real Estate | -3.2 | Oil | +3.3 |
| Information Technology | +2.5 | Gold | +3.2 |
| Telecommunication Services | +0.8 | Copper | -3.2 |
| Utilities | -4.3 | | |

## Contact Us

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Signatory of:

PRI Principles for Responsible Investment