Perennial Value Shares for Income Trust

MONTHLY REPORT MAY 2018

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares for Income Trust (Net)#	0.7	-1.7	4.8	5.1	3.8	8.6	8.2
Capital Growth	0.2	-3.1	-2.3	-5.5	-5.9	-0.1	0.3
Income Distribution#	0.5	1.4	7.1	10.6	9.7	8.7	7.9
S&P/ASX300 Accumulation Index Yield*	0.8	1.6	5.9	6.1	6.1	6.3	6.1
Excess income#	**-0.3**	**-0.2**	**1.2**	**4.5**	**3.6**	**2.4**	**1.8**

#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 last twelve months, the trust has delivered a grossed up income return of 10.6%.
- Increased political uncertainty was a key feature of the month, with the market dealing with a number of concerns including the ongoing US-China trade dispute, tensions over Korea and Iran and then finally the sell-off triggered by the Italian political issues.
- Despite this, the Australian market finished the month up 1.2%, brining the total return for the last 12 months to 10.0%.

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/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax-Exempt).

Portfolio Manager
Stephen Bruce

Trust FUM
AUD $32 million

Distribution Frequency
Monthly

Minimum Initial Investment
$25,000

Trust Inception Date
December 2005

Fees
0.92%

APIR Code
IOF0206AU

Portfolio Characteristics – FY19	Trust	Market
Price to Earnings (x)	14.0	15.3
Price to Free Cash Flow (x)	13.5	15.4
Gross Yield (%)	7.2	5.7
Price to NTA (x)	2.0	2.3

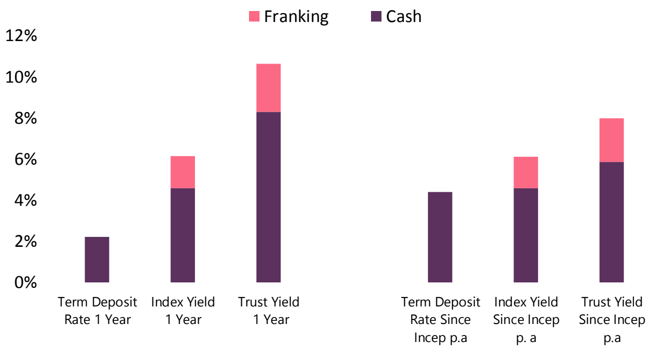
Source: Perennial Value Management. As at 31 May 2018.

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 (%)

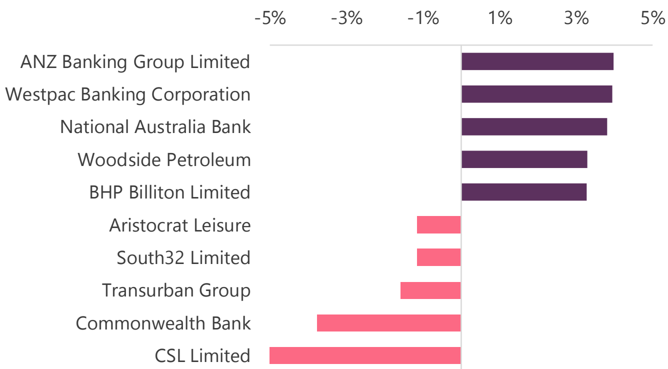
FY17	65.6	FY14	115.0
FY16	55.9	FY13	97.8
FY15	88.4	FY12	98.5

Distribution Yield

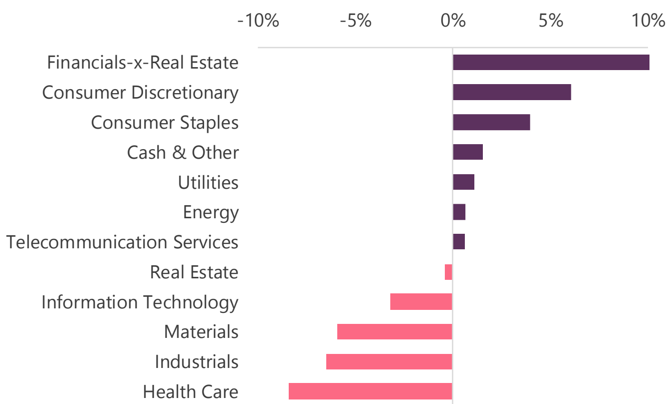


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Better performing holdings over the month included Flight Centre (+10.2%), which rallied strongly expectations of higher oil prices driving airfare prices and therefore booking fees. Macquarie Group (+8.1%) performed strongly after delivering a solid FY18 profit result which saw earnings up 15.0% and dividends up 12.0%. In our view, this business has numerous growth drivers and is particularly well-placed to benefit in the global growth in renewable energy investment.

REIT holdings, Vicinity Centres (+9.4%), Dexus (+4.2%) and Scentre Group (+3.7%) also outperformed as bond yields retraced and Platinum Asset Management (+7.1%) rose on positive funds flow data.

The month saw ANZ, NAB and Westpac report their interim results. As expected, they delivered subdued earnings growth and kept their dividends flat on the previous period. Importantly, credit conditions remain very benign and the banks are well-capitalised.

Stocks which detracted from performance included Telstra (-11.9%) which fell after indicating that it expects full-year profits to be at the lower end of its previous range and Graincorp (-10.1%) which declined on concerns over the current seasonal outlook. Boral (-8.9%) was also sold off after lowering earnings guidance on the back of poor weather in Australia and operational issues in the US.

Trust Activity

The banks are currently offering attractive long-term value and during the month we increased our holdings ahead of their dividend paying period. We also sold out of our Westfield Corp position ahead of the takeover completing and exited our holding AMP given the high level of uncertainty around the business currently. At month end, stock numbers were 32 and cash was 1.5%.

Distribution

In order to provide a more regular income stream, commencing in January 2018, 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

While the level of volatility in markets is likely to increase going forward, driven by factors such as ongoing trade policy uncertainty and the recent developments in Italy, 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 (%)

S&P/ASX300 Accumulation Index	+1.2
Energy	+0.4
Materials	+2.0
Industrials	+1.2
Consumer Discretionary	+5.3
Health Care	+5.5
Financials-x-Real Estate	-0.1
Real Estate	+3.0
Information Technology	+2.0
Telecommunication Services	-10.1
Utilities	+1.0

Global, Currency & Commodities (%)

S&P500	+2.2
Nikkei225	-1.2
FTSE100	+2.2
Shanghai Composite	+0.4
RBA Cash Rate	1.50
AUD / USD	+0.2
Iron Ore	-2.3
Oil	+2.3
Gold	-1.3
Copper	-0.3

Invest Online Now

Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000 | 1300 730 032 | invest@perennial.net.au | www.perennial.net.au

Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant