Perennial Value Shares for Income Trust

MONTHLY REPORT JULY 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)#	1.5	5.9	1.5	8.5	5.9	9.3	8.5
Capital Growth	1.1	4.4	1.1	0.2	-3.8	0.6	0.6
Income Distribution#	0.4	1.5	0.4	8.3	9.7	8.7	7.9
Benchmark Yield*	0.0	1.1	0.0	6.4	6.2	6.3	6.1
Excess income#	**0.4**	**0.4**	**0.4**	**1.9**	**3.5**	**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 12 months, the Trust has delivered a grossed up income return of 8.3%.
- The Australian stock market continued its rise, delivering a return of 1.3% for the month of July, bringing the total return for the last 12 months to a healthy 14.7%.
- The market was led higher by the Industrials, up 1.6% with the major banks continuing to recover, while the Resources were largely flat.

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	Trust FUM	
Stephen Bruce	AUD $33 million	
Distribution Frequency	**Minimum Initial Investment**	
Monthly	$25,000	
Trust Inception Date	**Fees**	**APIR Code**
December 2005	0.92%	IOF0206AU

Portfolio Characteristics – FY19	Trust	Market
Price to Earnings (x)	14.8	15.9
Price to Free Cash Flow (x)	14.0	15.5
Gross Yield (%)	7.3	5.7
Price to NTA (x)	2.1	2.4

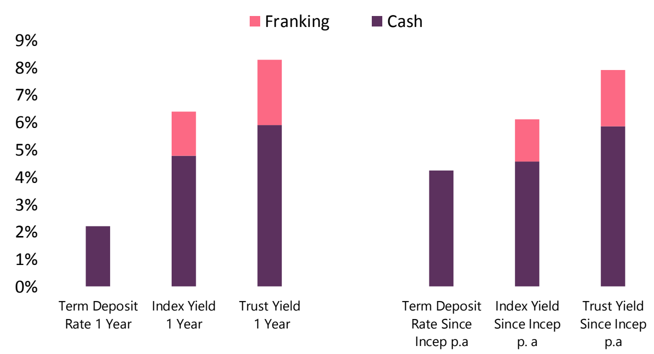
Source: Perennial Value Management. As at 31 July 2018.

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 (%)

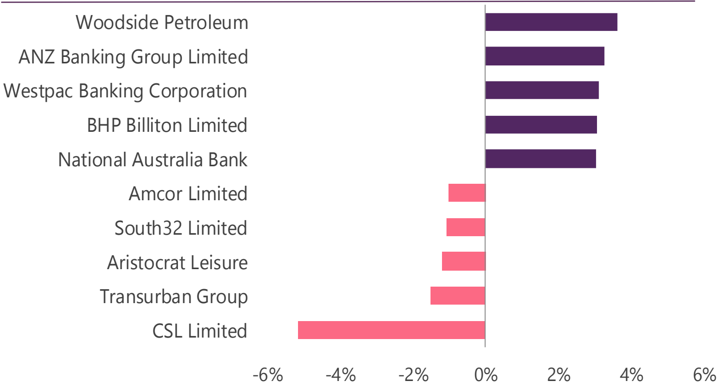
FY18	91.9	FY15	88.4
FY17	65.6	FY14	115.0
FY16	55.9	FY13	97.8

Distribution Yield

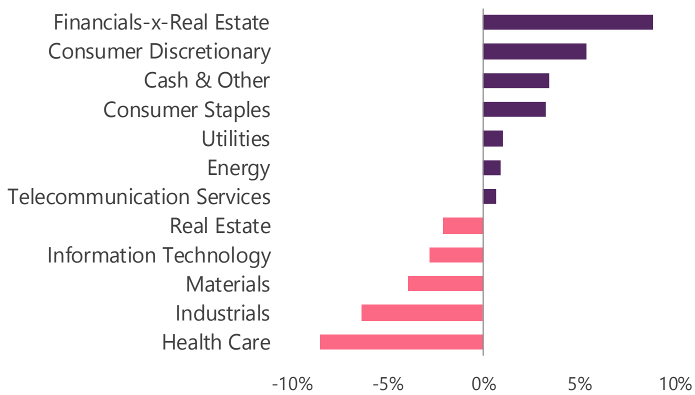


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Better performing holdings over the month included BHP (+2.8%), which outperformed after announcing the sale of its US shale oil operations for US$10.8bn. The sale represents an important step in BHP refocussing on its core operations in iron ore, copper, coal and conventional petroleum. Given the already strong balance sheet, the bulk of the sale proceeds will be returned to investors through a combination of higher dividends and buy-backs. Along with the current strong commodity prices, it is this ability to return significant amounts of capital and franking credits to shareholders which makes BHP very attractive as an investment.

The major banks also outperformed, delivering an average return of +2.6%. Sentiment towards the sector is still negative due to the combination of the Royal Commission and concerns around the outlook for the housing market. However, while the growth outlook for the banks is definitely very muted, they are trading on attractive valuations and offering compelling dividend yields. At current prices, the sector is paying an average FY19 gross dividend yield of 8.9%.

Other stocks which outperformed included Downer (+8.8%), Telstra (+8.4%), Flight Centre (+6.8%), Perpetual (+4.9%), Tabcorp (+4.7%), and Stockland (+4.5%).

The main detractors from performance were IAG Insurance (-5.7%), Platinum Asset Management (-4.5%), Graincorp (-3.5%) and Rio Tinto (-2.7%).

Trust Activity

During the month, we took profits and trimmed holdings in a number of stocks which had performed strongly over recent months including Macquarie Group and Coca-Cola Amatil, with proceeds being reinvested into CBA and Rio Tinto. At month end, stock numbers were 31 and cash was 3.4%.

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

Despite the ongoing negative political atmosphere, the economic backdrop continues to be positive, both domestically and offshore, with healthy growth and low unemployment in most major regions. This is supportive of ongoing moderate corporate earnings growth, healthy resources demand and financial system stability. The portfolio is exposed to this dynamic through its positions in the large-cap, low-cost resource stocks, the major banks and a range of quality industrials. We continue to avoid those sectors of the market where valuations are high and those which are exposed to the risk of rising interest rates such as Healthcare, REITs and Infrastructure.

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.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+1.3
Energy	+1.2
Materials	-0.3
Industrials	+3.2
Consumer Discretionary	+1.8
Health Care	+2.2
Financials-x-Real Estate	+2.0
Real Estate	+1.0
Information Technology	-1.1
Telecommunication Services	+7.6
Utilities	-1.4

Global, Currency & Commodities (%)

S&P500	+3.6
Nikkei225	+1.1
FTSE100	+1.5
Shanghai Composite	+1.0
RBA Cash Rate	1.50
AUD / USD	+0.6
Iron Ore	+3.8
Oil	-6.5
Gold	-2.3
Copper	-4.5

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