Perennial Value Shares for Income Trust

MONTHLY REPORT SEPTEMBER 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	2.5	2.5	10.9	10.6	8.4	8.5
Capital Growth	0.1	0.7	0.7	4.3	0.9	-0.1	0.6
Income Distribution#	0.6	1.8	1.8	6.6	9.7	8.5	7.9
Benchmark Yield*	0.7	1.8	1.8	6.3	6.4	6.2	6.1
Excess income#	**-0.1**	**0.0**	**0.0**	**0.3**	**3.3**	**2.3**	**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

- The Australian stock market eased in September, delivering a return of –1.2% for the month, leaving the total return for the last 12 months at a healthy +14.0%.
- The Trust gained 0.7%, outperforming by +1.8% as the market became more favourable towards value stocks after a long period of being dominated by expensive growth and momentum stocks.
- Resources moved higher, +5.2%, on robust commodity prices, while the industrials declined -2.7%, with many expensive stocks pulling back from recent highs and banks weaker on continuing Royal Commission concerns.
- Offshore markets were also positive, with the S&P500 +0.4%, FTSE100 +1.0%, Nikkei 225 +5.5% and Shanghai Composite +3.5%.

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	Index
Price to Earnings (x)	15.0	15.6
Price to Free Cash Flow (x)	13.6	15.2
Gross Yield (%)	7.2	5.9
Price to NTA (x)	2.4	2.4

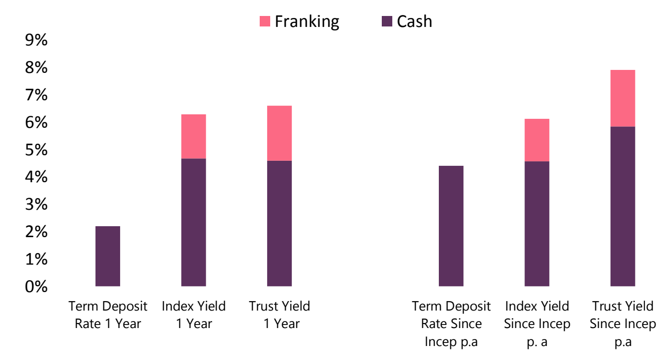
Source: Perennial Value Management. As at 30 September 2018.

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 (%)

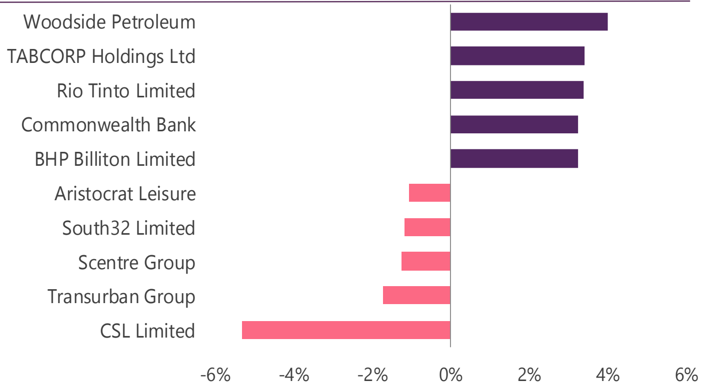
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0
FY16	55.9	FY13	97.8

Distribution Yield

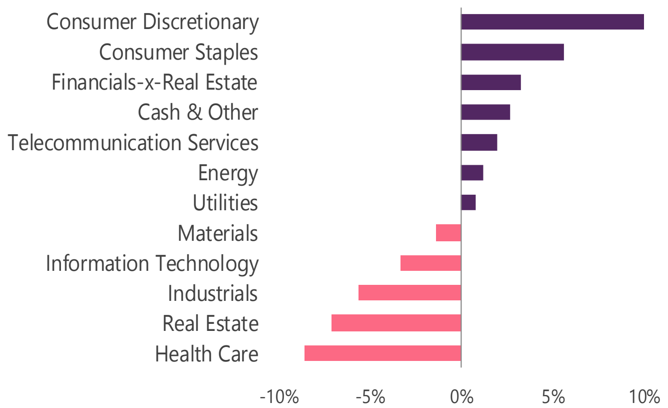


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The resources sector was the standout over the month, with Rio Tinto (+8.3%) rallying after announcing a $3.2bn buy-back program. In addition to continued healthy commodity prices, returns of capital and franking credits are a key part of our investment thesis supporting our positive view on the sector. BHP (+7.2%) is also cum-capital return following the sale of its shale assets while Woodside Petroleum (+ 4.6%) rallied on the positive oil price outlook and tightening LNG market. Other holdings which outperformed over the month included Telstra (+2.9%), Downer (+2.2%) and Tabcorp (+1.5%).

The Trust benefited from being underweight on valuation grounds in a number of expensive growth stocks including CSL (-11.0%), A2 Milk (-11.0%), Treasury Wines (-9.4%) and Transurban (-5.5%) all underperforming over the month. We have long argued that many of these stocks are trading on excessive valuations and at risk of being de-rated at some point.

The major banks underperformed marginally, delivering an average return of –2.1%. 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.

The main detractors from performance were Suncorp (-6.6%), Flight Centre (-7.3%), AGL Energy (-6.2%) and IAG (-5.2%).

Trust Activity

During the month, we exited our holdings in Dexus and Scentre Group. Proceeds were used to increase our holdings in a number of stocks including HT&E, Flight Centre and Rio Tinto, each of which demonstrate sound dividend-paying prospects. At month end, stock numbers were 29 and cash was 2.5%.

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

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 Trust 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	-1.2
Energy	+4.3
Materials	+4.1
Industrials	-2.1
Consumer Discretionary	-3.8
Health Care	-7.3
Financials-x-Real Estate	-2.2
Real Estate	-1.5
Information Technology	-0.6
Telecommunication Services	+2.7
Utilities	-3.1

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Global, Currency & Commodities (%)

S&P500	+0.4
Nikkei225	+5.5
FTSE100	+1.0
Shanghai Composite	+3.5
RBA Cash Rate	1.50
AUD / USD	+0.0
Iron Ore	+5.6
Oil	+6.8
Gold	-0.9
Copper	+5.0

Contact Us

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Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant