Perennial Value Shares for Income Trust

MONTHLY REPORT OCTOBER 2018

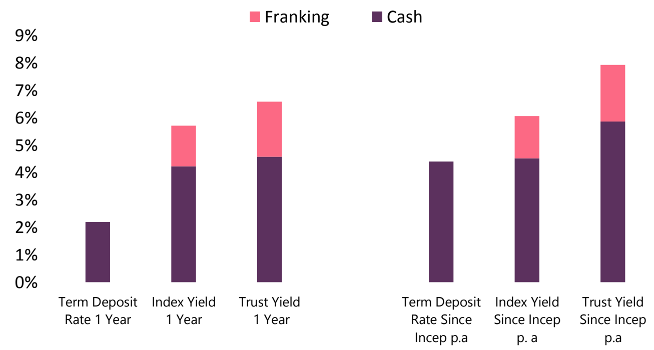
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares for Income Trust (Net)[#]	-6.1	-5.2	-3.7	0.8	6.9	6.2	8.0
Capital Growth	-6.6	-7.0	-6.0	-5.8	-1.9	-2.2	0.1
Income Distribution[#]	0.5	1.8	2.3	6.6	8.8	8.4	7.9
Benchmark Yield[*]	0.0	1.7	1.7	5.7	6.2	6.1	6.1
Excess income[#]	**0.5**	**0.1**	**0.6**	**0.9**	**2.6**	**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 market fell in line with offshore markets, to finish the month down -6.2%, bringing the total return for the last 12 months to +2.9%.
- The sell-off was broad-based, with all sectors of the market delivering negative returns. However, many of the more expensive parts of the market such as Healthcare and IT, which we avoid on the basis of overvaluation, were hit particularly hard.
- Following the decline, the market is now trading in line with its long-term average forward P/E ratio of 14.6x and offering an attractive gross dividend yield of over 6.0%, with many very good value, high-yielding opportunities available.

Distribution Yield



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

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 $29 million	
Distribution Frequency	**Minimum Initial Investment**	
Monthly	$25,000	
Trust Inception Date	**Fees**	**APIR Code**
December 2005	0.92%	IOF0078AU

Portfolio Characteristics – FY19	Trust	Index
Price to Earnings (x)	14.0	14.6
Price to Free Cash Flow (x)	12.5	14.2
Gross Yield (%)	7.8	6.2
Price to NTA (x)	2.2	2.2

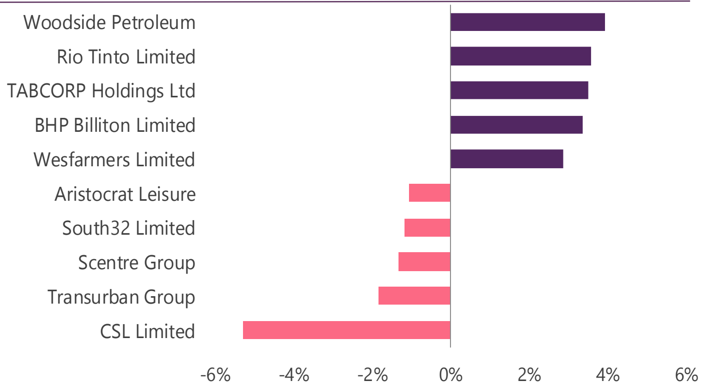
Source: Perennial Value Management. As at 31 October 2018.

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.

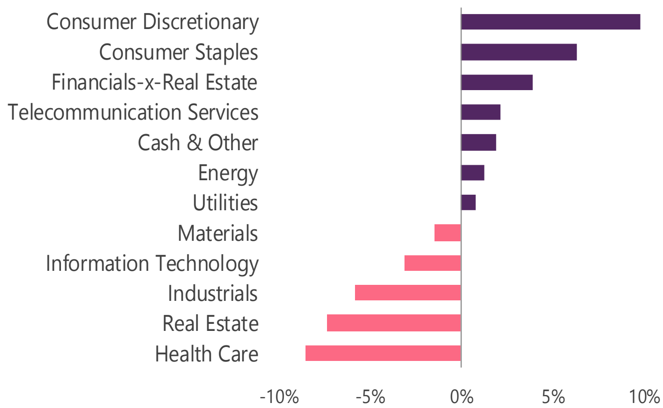
Franking Levels (%)

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

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The broad-based, global macro nature of the sell-off in October saw both Industrials (-6.1%) and Resources (-6.5%) decline by a similar amount. Despite this, several holdings were able to deliver positive returns, with Graincorp (+4.3%) rallying as seasonal conditions normalise, Cocal-Cola Amatil (+1.5%) rising due to its defensive nature and Woolworths (+1.2%) higher on the prospect of improving sales. Other holdings which outperformed included Rio Tinto (-3.0%) which is undertaking a $3.2bn buy-back program, Suncorp (-3.1%) and Telstra (-3.4%)

The Trust also benefited from being underweight on valuation grounds in a number of expensive growth stocks including REA Group (-16.7%), Seek (-14.0%), Treasury Wines (-13.6%) and Cochlear (-11.5%). The Trust also benefited from not holding AMP (-22.6%) which fell sharply after announcing the sale of its life business for a price which disappointed the market.

The major banks performed in line with the market, delivering an average return of -6.1%. 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, justifying a position in the Trust.

The main detractors from performance included Boral (-18.8%) which fell on negative sentiment to the US housing market and Flight Centre (-12.7%) on a weaker outlook. Woodside (-9.7%), fell on the weaker oil price, however, we view this as temporary and have a positive medium-term view on oil and LNG prices.

Trust Activity

During the month, we increased our holding in ANZ, which is offering an attractive valuation and a gross dividend yield of 8.9%. At month end, stock numbers were 29 and cash was 1.9%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-6.2
Energy	-10.3
Materials	-5.2
Industrials	-5.3
Consumer Discretionary	-8.3
Health Care	-7.2
Financials-x-Real Estate	-6.0
Real Estate	-3.1
Information Technology	-11.4
Telecommunication Services	-7.4
Utilities	-4.0

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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

Following the recent sell-off, the market is now trading in line with its long-term average, with a one year forward P/E of 14.6x and offering an attractive gross dividend yield of over 6.0%.

Within the overall market, we are currently finding many good value, high-yielding investment opportunities. Across both the industrial and resources sectors, we are seeing many quality companies trading on attractive valuations which should deliver solid returns to investors from these levels.

By contrast, there remain large pockets of expensive growth and momentum style stocks which present significant de-rating risks both as interest rates rise and if the lofty growth rates implied in their valuations are not able to be met. We do not hold these types of stocks as they do not meet our value criteria.

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.

Global, Currency & Commodities (%)

S&P500	-6.9
Nikkei225	-9.1
FTSE100	-5.1
Shanghai Composite	-7.7
RBA Cash Rate	1.50
AUD / USD	-2.0
Iron Ore	+9.6
Oil	-8.8
Gold	+2.0
Copper	-5.2

Contact Us

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Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant