Perennial Value Shares for Income Trust

MONTHLY REPORT DECEMBER 2018

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	1.2	2.4	4.2	6.5	6.2	5.8
Capital Growth	-1.8	-11.0	-10.3	-11.9	-4.0	-2.9	-0.3
Total Return	-1.4	-9.8	-8.0	-7.8	2.5	3.4	5.5
Franking Credits#	0.2	0.6	1.0	1.8	2.1	2.2	2.1
Income Distribution including Franking Credits	**0.7**	**1.8**	**3.4**	**6.0**	**8.6**	**8.4**	**7.9**
Benchmark Yield* including Franking Credits	0.3	1.0	2.7	5.4	6.0	6.1	6.1
Excess Income to Benchmark#	**0.4**	**0.8**	**0.7**	**0.6**	**2.6**	**2.3**	**1.8**

#Franking credits are an estimate as tax components will only be know with certainty at the end of the financial year ^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

- Global markets sold off in December, with the S&P500 -9.9%, FTSE 100 -3.6%, Nikkei 225 -10.5% and Shanghai Composite -3.6%.
- The Australian market performed much better, finishing the month nearly flat at -0.2%, bringing the total return for the last 12 months to a modest decline of -3.1%.
- Metals and Mining was the best performing sector, rising +7.6%. Otherwise, defensive sectors generally outperformed the more cyclical ones.
- Following the recent declines, the market is now trading below its long-term average forward P/E ratio of 14.5x and offering an attractive gross dividend yield of over 6.0%, presenting many very good value opportunities available for investors with a longer-term time horizon.

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 $28 million

Distribution Frequency
Monthly

Minimum Initial Investment
$25,000

Trust Inception Date
December 2005

Fees
0.92%

APIR Code
IOF0078AU

Portfolio Characteristics – FY20	Trust	Index
Price to Earnings (x)	12.5	13.8
Price to Free Cash Flow (x)	11.5	13.6
Gross Yield (%)	8.2	6.5
Price to NTA (x)	2.0	2.1

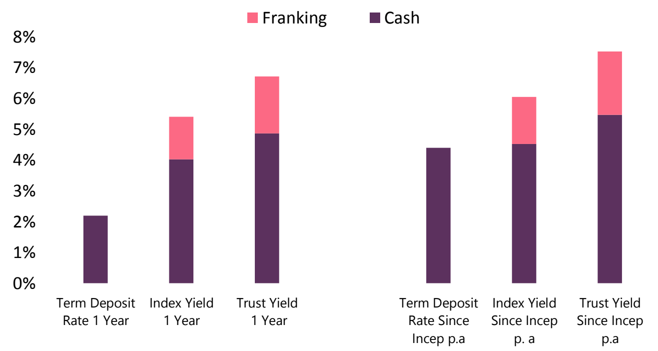
Source: Perennial Value Management. As at 31 December 2018.

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 (%)

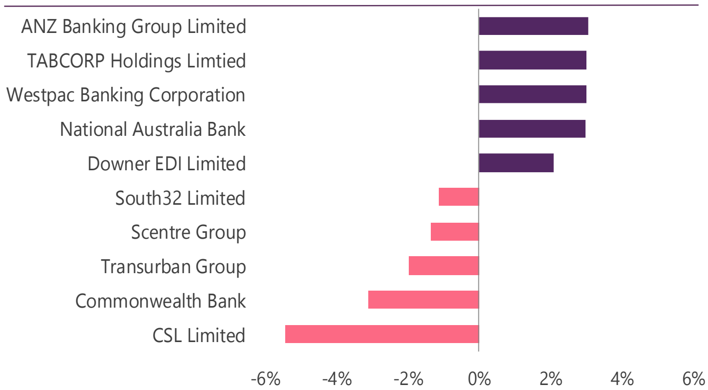
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0
FY16	55.9	FY13	97.8

Distribution Yield

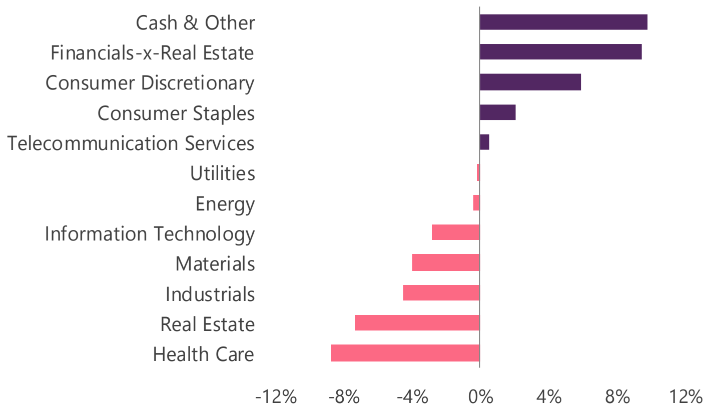


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Given the weakness in offshore markets, the Australian market performed very well over the month to close nearly flat at -0.2%. The Resources sector led the way (+4.8%), driven by strong performances from BHP (+11.5%) and Rio Tinto (+7.1%), on the back of ongoing resilience in the iron ore price. During the month, the Trust participated in the BHP off-market buy-back, which generated a significant fully-franked dividend and a strong after-tax return.

Other stocks which performed well included Graincorp (+25.6%), which received a conditional takeover proposal at a 43.0% premium to the current share price. While the company's earnings are depressed due to the drought in Eastern Australia, this serves as a reminder of the opportunities the market's short-termism often presents for investors with a longer-term time horizon. As a value investor, we seek to identify these sort of situations where the market has become overly pessimistic on the outlook for stock due to transient factors. AGL Energy (+9.5%), Downer (+7.8%), Star Entertainment (+4.1%), Wesfarmers (+2.0%) and Woolworths (+1.7%) also outperformed.

Stocks which detracted from performance included Flight Centre (-12.1%), Caltex (-7.4%) on lower refining margins and Coca-Cola Amatil (-5.2%) on a subdued trading update.

Financials were also generally weaker, with the major banks down an average of -4.0% on housing market concerns and Clydesdale Bank (-8.0%) on Brexit worries. Janus Henderson Group (-7.9%) and Macquarie Group (-5.0%) fell on weaker global markets. These companies are trading on very attractive valuations and, in our view, offer significant long-term upside potential.

Trust Activity

During the month we initiated positions in Amcor, Ausdrill and Seven Group Holdings and added to our position in Downer. This was funded by reducing our holdings in AGL Energy, BHP and Macquarie Group. At month end, stock numbers were 32 and cash was 9.8%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-0.2
Energy	-2.2
Materials	+5.1
Industrials	-0.3
Consumer Discretionary	-1.9
Health Care	+2.7
Financials-x-Real Estate	-3.1
Real Estate	+1.7
Information Technology	-4.1
Telecommunication Services	-5.1
Utilities	+2.8

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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 below its long-term average, with a one year forward P/E of 14.1x 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	-9.9
Nikkei225	-10.5
FTSE100	-3.6
Shanghai Composite	-3.6
RBA Cash Rate	1.50
AUD / USD	-3.6
Iron Ore	+8.9
Oil	-8.4
Gold	+5.1
Copper	-5.6

Contact Us

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Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant

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