Perennial Value Shares for Income Trust

MONTHLY REPORT JUNE 2019

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	7.6	8.6	12.4	12.4	8.8	8.1	6.4
Capital Growth	-5.3	-3.3	-6.0	-6.0	0.3	-2.3	0.0
Total Return	2.2	5.3	6.4	6.4	9.1	5.8	6.4
Franking Credits#	3.2	3.9	5.8	5.8	3.6	2.9	2.3
Income Distribution including Franking Credits	**10.8**	**12.5**	**18.2**	**18.2**	**12.4**	**11.0**	**8.7**
Benchmark Yield including Franking Credits*	0.2	1.2	6.5	6.5	6.4	6.3	6.1
Excess Income to Benchmark#	**10.6**	**11.3**	**11.7**	**11.7**	**6.0**	**4.7**	**2.6**

#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. Benchmark yield including franking credits is calculated as the difference between the return on S&P/ASX300 Franking Credit Adjusted Daily Total Return Index (Tax Exempt) and the return of the S&P/ASX300 Index. Past performance is not a reliable indicator of future performance.

Overview

- Central Bank easing and the prospects of a trade thaw following the G20 meeting, saw global equity markets rally strongly in June, with the S&P500 +6.9%, FTSE 100 +3.7%, Nikkei 225 +3.3% and Shanghai Composite +2.8%.
- The Australian market also performed strongly, finishing the month +3.6%, with both industrials and resources contributing positively.
- Resources (+7.7%) led the market higher, on the back of strong iron ore and gold prices, while Healthcare (+4.4%) and REITs (+4.2%) both rallied on the fall in bond yields. Consumer Discretionary (-1.5%) was the only sector to record a negative return.
- The Trust declared a final distribution for the FY19 year of 8.2cpu. This brings the total income return for the year to 13.1cpu. This represents an income yield for the last 12 months of 12.2% or 18.2% including franking credits.

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 $30 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)	14.5	15.9
Price to Free Cash Flow (x)	12.9	15.3
Gross Yield (%)	6.7	5.4
Price to NTA (x)	2.4	2.5

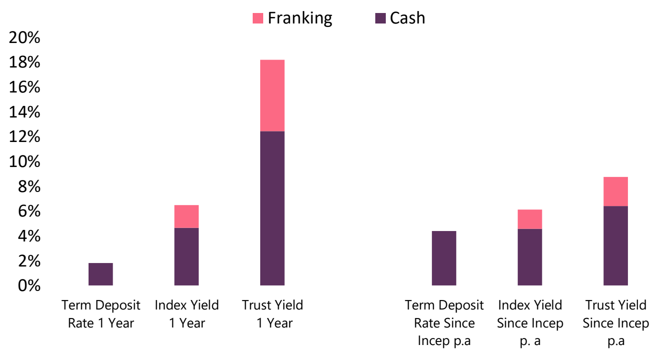
Source: Perennial Value Management. As at 30 June 2019

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 (%)

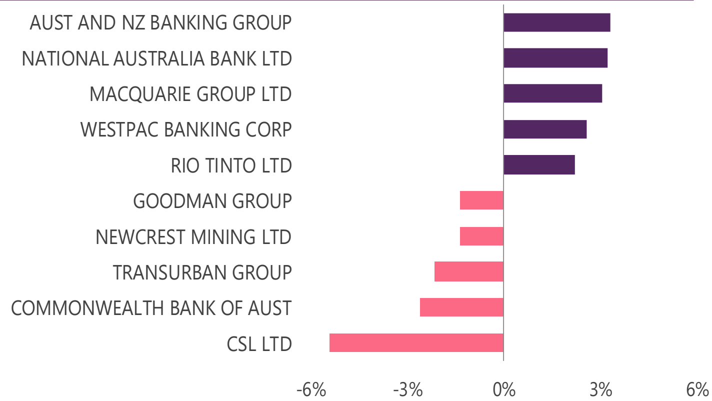
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0
FY16	55.9	FY13	97.8

Distribution Yield

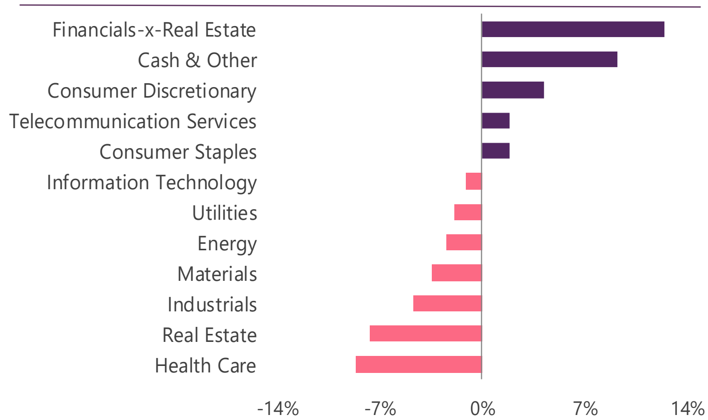


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Central Bank easing and the prospects of a trade thaw following the G20 meeting, saw global equity markets rally strongly in June, with the S&P500 +6.9%, FTSE 100 +3.7%, Nikkei 225 +3.3% and Shanghai Composite +2.8%.

The Australian market followed on from May's post-election rally and also performed strongly, finishing the month +3.6%, with both industrials and resources contributing positively.

The most notable event of the month was widely-anticipated 25bp rate cut by the RBA, as Australia falls into line with other developed economies and adopts more accommodative monetary policy in order to support the economy in the face of increased geopolitical risks around trade disputes and Brexit. On the domestic front however, while growth has slowed, there are signs the housing market has stabilised and the resources sector continues to go from strength to strength on the back of strong demand for iron ore in a supply-constrained market, as well as a very strong gold price.

Against this backdrop, stocks which performed well included Ausdrill (+24.6%), which provides services to the gold sector, as well as iron ore miners BHP (+9.0%) and Rio Tinto (+3.4%). Macquarie Group (+4.2%) also outperformed, as its infrastructure business is a beneficiary of lower interest rates.

Stocks which detracted from performance included Link Market Services (-16.2%), due to UK issues in its UK operations and Star Entertainment (-7.8%), on weaker gaming revenues. We continue to hold these stocks on the basis that they have solid medium-term prospects and represent good value at current levels.

Trust Activity

During the month, we took profits reduced our holdings in Amcor, which had performed strongly following its merger with Bemis and Woodside Petroleum, which had benefited from the recovery in the oil price. At month end, stock numbers were 32 and cash was 9.3%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+3.6
Energy	+2.2
Materials	+6.2
Industrials	+5.6
Consumer Discretionary	-1.5
Health Care	+4.4
Financials-x-Real Estate	+3.4
Real Estate	+4.2
Information Technology	+1.1
Telecommunication Services	+2.2
Utilities	+3.1

Invest Online Now

Distribution

In order to provide a regular income stream, the Trust pays monthly distributions. We aim to pay equal cash distributions each month, based on our estimate of the dividend income to be generated over the year. Franking credits, surplus income and any realised capital gains will then be distributed, as per usual, with the June distribution.

For the FY19 financial year, we had targeted a 7% distribution yield, comprising a 5% cash yield plus 2% in franking credits. However, as a result of participating in a number of tax-effective, off-market buy-backs over the past year, the Trust generated a significantly higher level of income, delivering a total income return of 18.2%, comprising a cash yield of 12.4% and franking credits of 5.8%. Investors who do not require this additional income may wish to consider reinvesting this back into the Trust.

Looking forward to the current financial year, the high level of buy-back activity is unlikely to be repeated and the Trust is again targeting a 7% distribution yield, comprising 5% cash plus 2% franking credits.

Outlook

The market is currently trading close to its long-term average, with a FY20 P/E ratio of 15.9x and offering an attractive gross dividend yield of 5.4%.

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 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	+3.3
FTSE100	+3.7
Shanghai Composite	+2.8
RBA Cash Rate	1.25
AUD / USD	+1.3
Iron Ore	+14.2
Oil	+3.2
Gold	+8.0
Copper	+2.8

Contact Us

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