Perennial Value Shares for Income Trust

MONTHLY REPORT JULY 2019

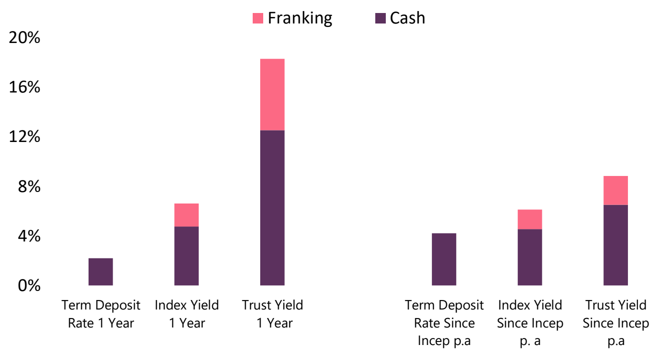
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	8.6	0.5	12.5	8.8	8.1	6.4
Capital Growth	1.3	-3.9	1.3	-5.9	-1.0	-2.8	0.1
Total Return	1.8	4.6	1.8	6.6	7.8	5.3	6.5
Franking Credits#	0.1	3.8	0.2	5.7	3.6	3.0	2.3
Income Distribution including Franking Credits	**0.6**	**12.4**	**0.7**	**18.2**	**12.4**	**11.1**	**8.7**
Benchmark Yield including Franking Credits*	0.0	1.1	0.0	6.6	6.3	6.3	6.1
Excess Income to Benchmark#	**0.6**	**11.3**	**0.7**	**11.6**	**6.1**	**4.8**	**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

- Global markets moved higher in July, on the prospects of Central Bank easing, with the S&P500 +1.3%, FTSE 100 +2.2%, Nikkei 225 +1.2%, while the Shanghai Composite eased, -1.6%.
- The Australian market delivered another strong result, finishing the month +3.0% and finally surpassing its pre-GFC high, as the RBA cut interest rates by a further 25bp to a record low of 1.0%.
- The better performing sectors included Consumer Staples (+9.6%), Healthcare (+6.0%), IT (+5.1%) and Consumer Discretionary (+4.7%). Metals & Mining (+1.1%), Materials (+1.2%), Energy (+1.5%) and Financials (+1.8%) lagged, while still all delivering positive returns.
- The Trust declared a distribution for July of 0.466cpu, bringing the total income return for the last 12 months to 13.14cpu. This represents an income yield for the last 12 months of 12.5% or 18.2% including franking credits.

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 $28 million	
Distribution Frequency	**Minimum Initial Investment**	
Monthly	$25,000	
Trust Inception Date	**Fees**	**APIR Code**
December 2005	0.92%	IOF0078AU

Portfolio Characteristics – FY20	Trust	Index
Price to Earnings (x)	14.8	16.4
Price to Free Cash Flow (x)	13.3	15.8
Gross Yield (%)	6.6	5.3
Price to NTA (x)	2.4	2.5

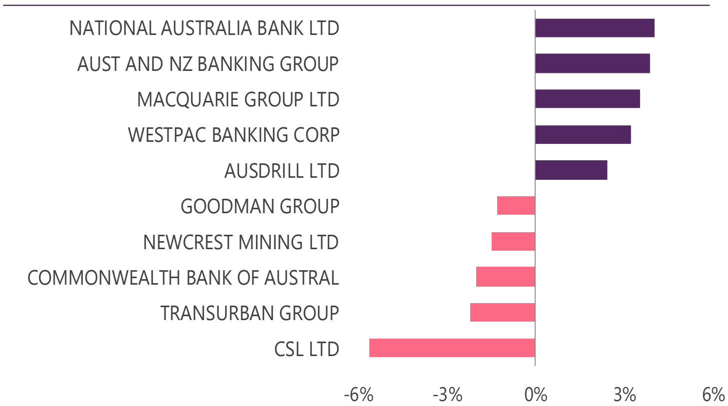
Source: Perennial Value Management. As at 31 July 2019

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.

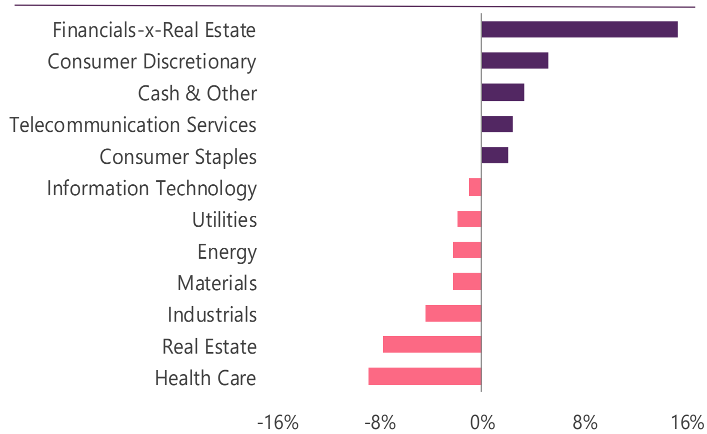
Franking Levels (%)

FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets moved higher again in July, on the prospects of Central Bank easing, with the S&P500 +1.3%, FTSE 100 +2.2%, Nikkei 225 +1.2%, while the Shanghai Composite eased, -1.6%.

The Australian market delivered another strong result, finishing the month +3.0% and finally surpassing its pre-GFC high, bringing the total return for the last 12 months to +13.2%.

The RBA followed up its June rate cut with another 25bp cut in July, sending the cash rate to a record low of 1.0%, with the aim of reducing the unemployment rate and stimulating wages growth. While the domestic economy has slowed, there was further evidence that the housing market has stabilised.

The combination of falling interest rates and increased geopolitical risks around trade disputes and Brexit, saw investors seek out more defensive parts of the market, resulting in strong performances from sectors such as Consumer Staples (+9.6%), Healthcare (+6.0%) and IT (+5.1%). This presented a headwind for the Trust, as we are underweight these sectors due to their very high valuations and low dividend yields.

By contrast, more cyclical sectors of the market such as Metals & Mining (+1.1%), Materials (+1.2%), Energy (+1.5%) and Financials (+1.8%) lagged, albeit while still all delivering positive returns.

Stocks the Trust holds which performed well included, Flight Centre (+10.9%), Calex (+8.9%), Wesfarmers (+8.4%), Ausdrill (+8.2%) and NAB (+7.2%). Stocks which detracted from performance included Perpetual (-6.5%), Crown Resorts (-4.7%), Rio Tinto (-4.7%) and Woodside Petroleum (-4.6%).

Trust Activity

During the month, we took profits and reduced our holdings in Coca-Cola Amatil and Medibank Private, both of which had performed strongly in recent times. At month end, stock numbers were 32 and cash was 3.3%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+3.0
Energy	+1.5
Materials	+1.2
Industrials	+3.4
Consumer Discretionary	+4.7
Health Care	+6.0
Financials-x-Real Estate	+1.8
Real Estate	+2.6
Information Technology	+5.1
Telecommunication Services	+2.8
Utilities	+1.9

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.

The Trust declared a distribution for July of 466cpu, bringing the total income return for the last 12 months to 13.14cpu. This represents an income yield for the last 12 months of 12.5% or 18.2% including franking credits.

The distribution yield over the past 12 months was boosted as a result of the Trust participating in a number of off-market buy-backs. This is not expected to be repeated in the current year.

For the FY20 financial year, we are targeting a 7.0% distribution yield, comprising a 5.0% cash yield plus 2.0% in franking credits.

Outlook

The market is currently trading close to its long-term average, with a FY20 P/E ratio of 16.4x and offering an attractive gross dividend yield of 5.3%.

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	+1.3
Nikkei225	+1.2
FTSE100	+2.2
Shanghai Composite	-1.6
RBA Cash Rate	1.00
AUD / USD	-1.8
Iron Ore	+2.4
Oil	-2.1
Gold	+0.3
Copper	-1.8

Contact Us

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

Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant