Perennial Value Shares for Income Trust

MONTHLY REPORT AUGUST 2019

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	8.4	0.9	12.3	8.9	8.1	6.3
Capital Growth	-2.8	-6.8	-1.5	-8.1	-1.8	-3.6	-0.1
Total Return	-2.3	1.6	-0.6	4.2	7.1	4.5	6.2
Franking Credits#	0.0	3.6	0.3	5.5	3.6	3.0	2.3
Income Distribution including Franking Credits	**0.5**	**12.0**	**1.2**	**17.8**	**12.5**	**11.1**	**8.6**
Benchmark Yield including Franking Credits*	1.0	1.3	1.0	6.3	6.3	6.2	6.1
Excess Income to Benchmark#	**-0.5**	**10.7**	**0.2**	**11.5**	**6.2**	**4.9**	**2.5**

#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

- Macro concerns saw global markets fall in August, with the S&P500 -1.8%, FTSE 100 -5.0%, Nikkei 225 -3.8% and the Shanghai Composite -1.6%.
- The Australian market also fell, finishing the month -2.3%, despite the reporting season seeing many companies deliver solid results. Across the portfolio, dividends increased by an average of 10% for the financial year.
- Defensive sectors outperformed with Healthcare (+3.4%), REITs (+1.3%) and Consumer Staples (+0.1%), while cyclical sectors such as Metals and Mining (-8.0%), Energy (-5.6%) and Financials (-2.6%) underperformed.
- The key positive contributors included Tabcorp, Downer and Woolworths, while our resources holdings lagged.

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 $27 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)	14.8	16.0
Price to Free Cash Flow (x)	15.5	15.4
Gross Yield (%)	6.7	5.7
Price to NTA (x)	2.5	2.5

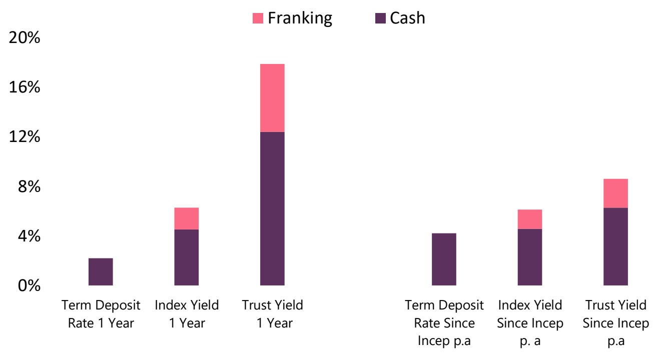
Source: Perennial Value Management. As at 31 August 2019

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 (%)

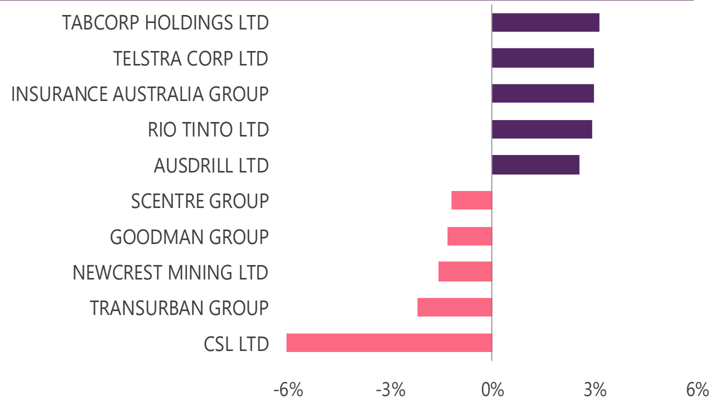
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Distribution Yield

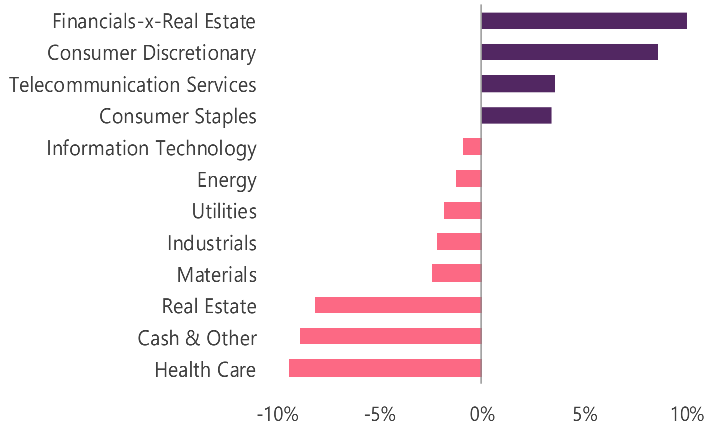


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Following several strong months of performance, trade war concerns and other macro risks caught up with global markets in August. Most major markets sold off over the month, with the S&P500 -1.8%, FTSE100 -5.0%, Nikkei 225 -3.8% and the Shanghai Composite -1.6%.

The Australian market was not immune, with the ASX300 Accumulation Index finishing the month down -2.3%. These macro factors were the dominant influence on the market over the month, with risk aversion and falling interest rates leading to strong performances of the defensive parts of the market. This saw outperformance of sectors such as Healthcare (+3.4%), REITs (+1.3%) and Consumer Staples (+0.1%), which rallied despite their already very expensive valuations. By contrast, the more cyclical parts of the market were sold off, with Metals and Mining (-8.0%), Energy (-5.6%) and Financials (-2.6%) all lagging.

While macro uncertainty dominated markets during the month, at the micro level, the reporting season highlighted that many companies continue to perform well, growing earnings and increasing dividends. Many portfolio holdings delivered strong results, including, Tabcorp (+7.3%), on a strong result driven by the lotteries business, Downer (+7.0%), on a solid operational performance and Woolworths (+6.0%), on improving sales momentum. Across the portfolio, dividends were increased by an average of 10.0% for the financial year.

Stocks which detracted from performance included Platinum Asset Management (-17.6%), on soft funds flows and Caltex (-11.1%), on weak refining margins. Resource holdings BHP (-11.0%) and Rio Tinto (-8.3%), were also weaker on softer commodity prices.

Trust Activity

During the month, we trimmed out holdings in the major banks and Macquarie and reinvested the proceeds in a new position in Qantas, where we intend to participate in their upcoming off-market buy-back. At month end, stock numbers were 32 and cash was 0.5%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-2.3
Energy	-5.6
Materials	-7.3
Industrials	-2.5
Consumer Discretionary	+0.6
Health Care	+3.4
Financials-x-Real Estate	-2.6
Real Estate	+1.3
Information Technology	+0.7
Telecommunication Services	-3.2
Utilities	-2.2

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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 August of 0.47cpu, bringing the total income return for the last 12 months to 13.2cpu. This represents an income yield for the last 12 months of 12.3% or 17.7% 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 16.0x and offering an attractive gross dividend yield of 5.7%.

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 numbers 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	-1.8
Nikkei225	-3.8
FTSE100	-5.0
Shanghai Composite	-1.6
RBA Cash Rate	1.00
AUD / USD	-2.2
Iron Ore	-28.9
Oil	-7.3
Gold	+7.5
Copper	-4.7

Contact Us

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Signatory of: PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant