Perennial Value Shares for Income Trust

MONTHLY REPORT NOVEMBER 2019

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	1.4	2.3	14.0	8.7	8.2	6.3
Capital Growth	1.6	2.8	1.3	4.2	-1.3	-2.2	0.1
Total Return	2.1	4.2	3.6	18.2	7.4	6.0	6.4
Franking Credits#	0.2	0.7	0.9	6.2	3.5	3.0	2.3
Income Distribution including Franking Credits	**0.7**	**2.1**	**3.2**	**20.2**	**12.2**	**11.1**	**8.6**
Benchmark Yield including Franking Credits*	0.7	1.5	2.6	7.1	6.3	6.3	6.1
Excess Income to Benchmark#	**0.0**	**0.6**	**0.6**	**13.1**	**5.9**	**4.8**	**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

- Markets were buoyant in November, and the Trust delivered a return, including franking credits of +2.3%.
- Better performing holdings included, Caltex (+26.7%), which received a takeover offer, Qantas (+13.9%) which announced ambitious medium-term growth targets and Graincorp (+12.4%) after the ACCC approved the sale of its terminals business.
- The major detractors from performance were the banks (down an average of -4.5%), after delivering generally soft full-year results and being impacted by the Westpac AUSTRAC issues.
- The Trust continues to target a pre-tax distribution yield for FY20 of around 7.0%.

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 – FY21	Trust	Index
Price to Earnings (x)	15.1	17.3
Price to Free Cash Flow (x)	16.3	16.6
Gross Yield (%)	6.4	5.2
Price to NTA (x)	2.3	2.5

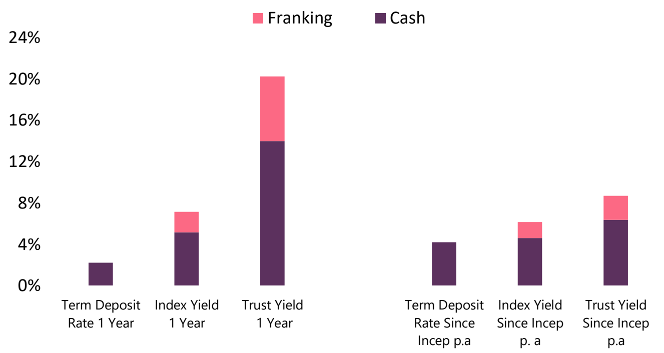
Source: Perennial Value Management. As at 30 November 2019

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 (%)

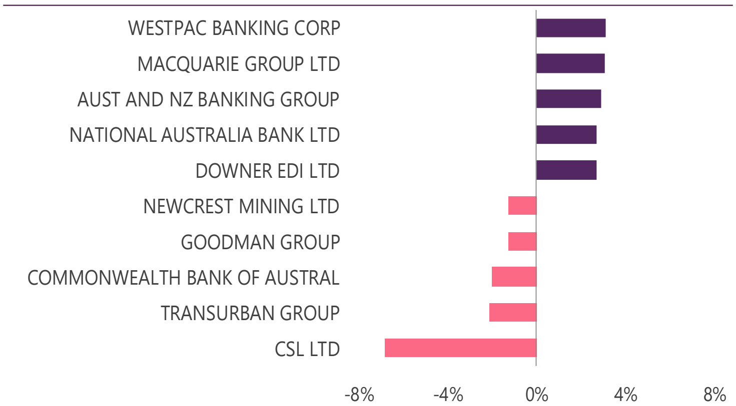
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Distribution Yield

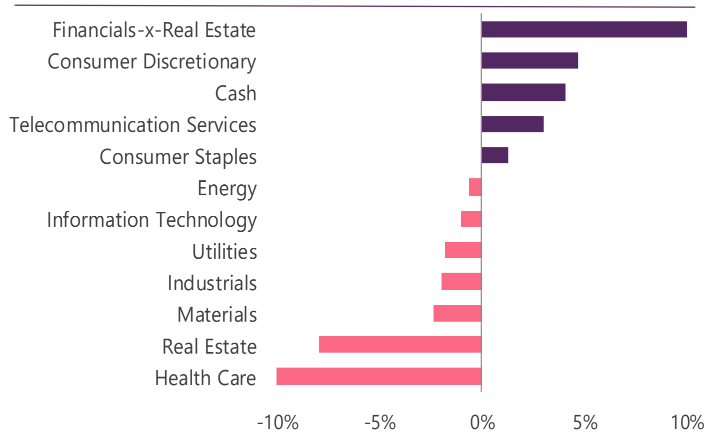


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered a return of 2.3% in November, marginally behind the Index. This was a solid result, given the particularly strong returns from a number of sectors which the Trust is underweight on account of valuation, including IT (+10.6%), Healthcare (+8.8%) and Consumer Staples (+8.1%).

Trust holdings which contributed positively included, Caltex (+26.7%), which rallied after receiving a takeover offer from Canadian-based service station operator, Alimentation Couche Tard. Should the takeover proceed, it is likely to include the payment of a large, fully-franked dividend. Qantas (+13.9%) rose after announcing ambitious medium-term growth targets and Graincorp (+12.4%) lifted after the ACCC approved the sale of its terminals business. This paves the way for it to realise value by demerging into separate grains and malt businesses. Coca-Cola Amatil (+12.1%), Amcor (+10.7%) and Telstra (+10.6%) also outperformed.

The major detractors from performance were the banks (down an average of -4.5%), after delivering generally soft full-year results and being impacted by the Westpac AUSTRAC issues. There is absolutely no disputing that the performance of the banks, in relation to conduct and compliance, has been totally unacceptable. However, new management and increased regulatory oversight will ensure that these issues will be remedied. In the mean time, the underlying businesses remain strong, valuations are attractive and dividend yields will continue to be high. Further, this year may well be a turning point in the performance of the sector, as its focus moves from rectifying the errors of the past, towards optimising for the future. As a result, the Trust continues to hold an overweight position in the major banks.

Trust Activity

During the month we took profits and exited our holding in Star Entertainment and reduced holdings in IAG and Suncorp. Proceeds were used to increase our holding Macquarie Group and the major banks. At month end, stock numbers were 31 and cash was 4.1%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+3.2
Energy	+7.3
Materials	+4.4
Industrials	+4.0
Consumer Discretionary	+4.2
Health Care	+8.8
Financials-x-Real Estate	-2.0
Real Estate	+2.3
Information Technology	+10.6
Telecommunication Services	???
Utilities	-0.5

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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 November 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 14.0% or 20.2% 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 slightly above its long-term average, with a FY20 P/E ratio of 17.3x and offering a gross dividend yield of 5.2%.

Within the overall market, however, 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	+2.0
Nikkei225	+5.4
FTSE100	-2.2
Shanghai Composite	+0.8
RBA Cash Rate	0.75
AUD / USD	+2.1
Iron Ore	-9.6
Oil	-0.9
Gold	+2.8
Copper	+2.3

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