Perennial Value Shares for Income Trust

MONTHLY REPORT JANUARY 2020

	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	3.3	13.9	8.6	8.0	6.3
Capital Growth	2.6	1.7	1.3	4.0	-2.2	-2.7	0.1
Total Return	3.0	3.1	4.6	17.9	6.4	5.3	6.5
Franking Credits#	0.2	0.7	1.3	6.3	3.4	3.0	2.4
Income Distribution including Franking Credits	**0.7**	**2.1**	**4.6**	**20.2**	**12.0**	**11.0**	**8.7**
Benchmark Yield including Franking Credits*	0.0	1.0	2.9	6.9	6.3	6.3	6.1
Excess Income to Benchmark#	**0.7**	**1.1**	**1.7**	**13.3**	**5.7**	**4.7**	**2.6**

#Franking credits are an estimate as tax components will only be known 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 sold off in January, as investors moved to risk-off mode, due to fears about the impact on economic growth of the unfolding coronavirus epidemic.
- Despite this, the Australian market delivered a very strong return of +4.9%. Falling bond yields and risk aversion saw a flight to defensive sectors such as Healthcare (+12.0%), Consumer Staples (+7.8%) and Telcos (+7.7%), while more cyclical sectors such as Metals and Mining (+0.7%) and Energy (+0.6%) lagged.
- The major positive contributors to performance were Woolworths (+15.7%), Coles (+11.5%), Graincorp (+10.8%) and Wesfarmers (+9.2%).
- 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)	15.5	17.5
Price to Free Cash Flow (x)	17.2	17.0
Gross Yield (%)	6.4	5.2
Price to NTA (x)	2.4	2.7

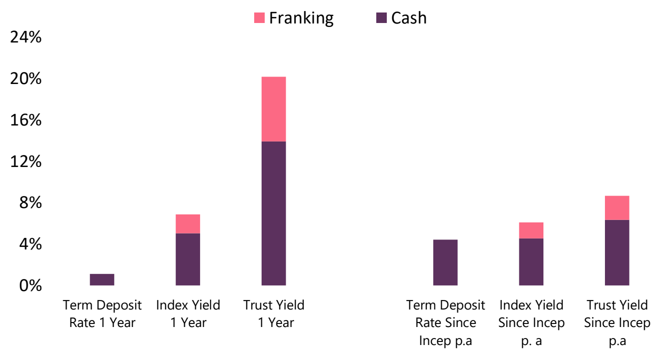
Source: Perennial Value Management. As at 31 January 2020

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 (%)

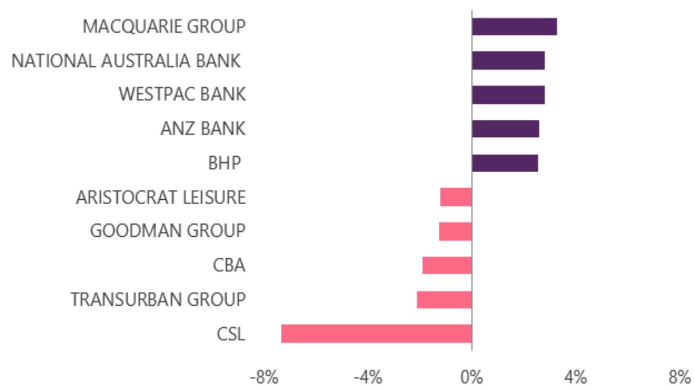
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Distribution Yield

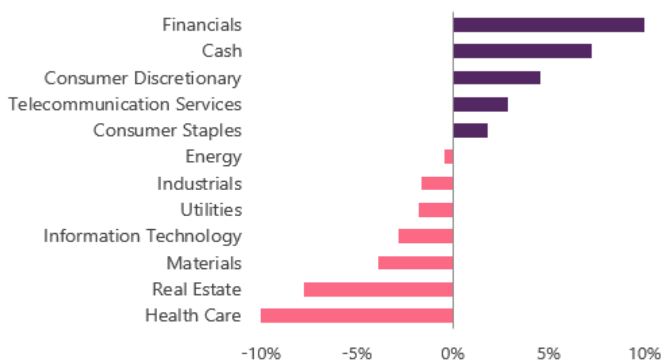


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Following a strong finish to 2019, global markets sold off in January, as optimism around an improving macroeconomic backdrop was replaced by fears about the impact on economic growth of the unfolding coronavirus epidemic. This move to a risk-off setting saw the S&P500 -0.2%, Nikkei 225 -1.9%, FTSE100 -3.4% and the Shanghai Composite -2.4%.

By contrast, the Australian market delivered a very strong return of +4.9%. Falling bond yields and risk aversion saw a flight to defensive sectors such as Healthcare (+12.0%), Consumer Staples (+7.8%) and Telcos (+7.7%), while Financials (+4.7%) also performed well, with the banks recovering some of their recent losses. These combined to drive the market higher, while more cyclical sectors such as Metals and Mining (+0.7%) and Energy (+0.6%) lagged.

Stocks which positively contributed to performance included Woolworths (+15.7%) and Coles (+11.5%), both of which rallied due to the announcement that Kaufland had decided not to enter the Australian market. Graincorp (+10.8%), Wesfarmers (+9.2%), Janus Henderson (+8.9%), Telstra (+8.5%) and Coca-Cola Amail (+8.3%) also performed well.

Stocks which detracted included Flight Centre (-10.8%) and Qantas (-9.8%), due to the risk to tourism from the coronavirus, as well as Downer (-9.3%), which issued an earnings downgrade. The Trust's Resources and Energy exposures also weighed on performance. More significantly, the rotation to expensive defensive sectors presented headwind to the Trust, which is underweight the defensive sectors on account of their excessive valuations and low dividend yields.

Trust Activity

During the month, we exited our position in Link Administration after a rally in the stock following it making an acquisition in Europe. While the acquisition was well-received, we believe there are a number of risks emerging in the core business. At month end, stock numbers were 32 and cash was 7.2%.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+4.9
Energy	+0.6
Materials	+1.6
Industrials	+1.9
Consumer Discretionary	+4.3
Health Care	+12.0
Financials-x-Real Estate	+4.7
Real Estate	+6.3
Information Technology	+10.2
Telecommunication Services	+7.7
Utilities	+1.0
Consumer Staples	+7.8

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 January of 0.47cpu, bringing the total income return for the last 12 months to 13.3cpu. This represents an income yield for the last 12 months of 13.9% 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 FY21 P/E ratio of 17.7x and offering a gross dividend yield of 5.1%.

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	-0.2
Nikkei225	-1.9
FTSE100	-3.4
Shanghai Composite	-2.4
RBA Cash Rate	0.75
AUD / USD	66.9c
Iron Ore	-11.2
Oil	-11.9
Gold	+4.7
Copper	-10.0

Contact Us

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