Perennial Value Shares for Income Trust

MONTHLY REPORT MARCH 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	1.2	3.1	9.4	7.6	7.5	6.2
Capital Growth	-22.2	-27.9	-28.8	-31.1	-13.9	-10.6	-2.3
Total Return	-21.7	-26.7	-25.6	-21.7	-6.3	-3.1	3.9
Franking Credits#	0.3	0.5	1.4	4.3	3.1	2.7	2.3
Income Distribution including Franking Credits	**0.8**	**1.7**	**4.5**	**13.7**	**10.7**	**10.2**	**8.5**
Benchmark Yield including Franking Credits*	0.7	1.3	3.4	4.6	5.6	5.8	6.0
Excess Income to Benchmark#	**0.1**	**0.4**	**1.1**	**9.1**	**5.1**	**4.4**	**2.5**

#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

- The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%.
- In what was a very tough month for Value style investing globally, the Trust did well to deliver a pre-tax total return of -21.7%, largely in line with the Index.
- The Trust continues to expect to deliver a pre-tax distribution yield for the FY20 financial year close to its 7.0% target.
- The near term outlook is highly uncertain, however at current levels, a significant amount of bad news is factored into share prices. History has shown that selloffs like this present exceptional opportunities for investors with a longer term time frame.

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 $19 million	
Distribution Frequency	**Minimum Initial Investment**	
Monthly	$25,000	
Trust Inception Date	**Fees**	**APIR Code**
December 2005	0.92%	IOF0078AU

Portfolio Characteristics – FY21	Trust	Index
Price to Earnings (x)	13.1	14.3
Price to Free Cash Flow (x)	15.8	13.3
Gross Yield (%)	7.9	6.2
Price to NTA (x)	1.7	1.9

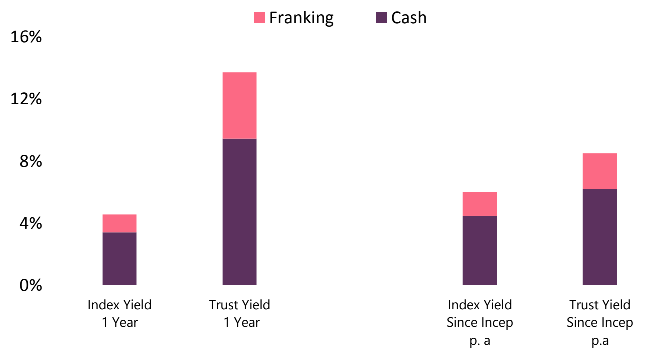
Source: Perennial Value Management. As at 31 March 2020

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 (%)

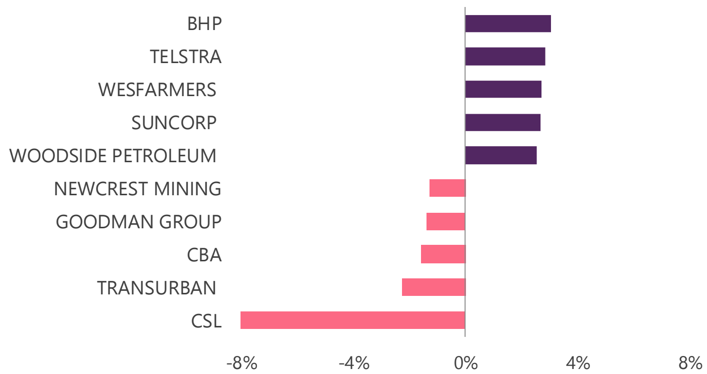
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Distribution Yield

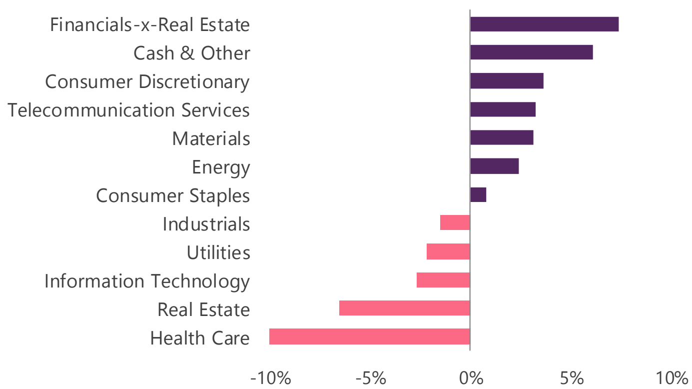


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%, as investors factored in the impact of a very sharp, but potentially short, disruption to the global economy.

All sectors of the market delivered negative returns, with many large companies experiencing share price falls of up to -50% in what appeared, in many cases, to be panic selling. Despite this, in what was very tough month for Value style investing globally, the Trust did well to deliver a pre-tax total return largely in line with the market.

Examples of stocks caught up in this selling included Macquarie Group (-36.4%). While near-term earnings will be impacted, Macquarie will likely emerge from this disruption in an even stronger position. The company has shown an unwavering ability to seize the opportunities presented in a crisis and will no doubt use this as an opportunity to acquire assets and businesses at prices which will deliver outstanding profits for years to come.

The best performing sector was Consumer Staples (-3.5%), driven by Coles (+6.7%) and Woolworths (-8.4%), as supermarket sales are being boosted as people stock up on various essentials. The Trust holds overweight positions in both of these stocks.

The Trust benefited from its overweight position in the Metals and Mining sector, with Fortescue Metals (+6.7%), Rio Tinto (+0.9%) and BHP (-10.8%) all outperforming on the resilience of the iron ore price. The major miners are well-placed going forward, with their strong balance sheets and the expectation Chinese stimulus measures. Other stocks which performed well included more defensive holdings such as insurers IAG (-2.8%) and Medibank Private (-4.0%), packaging companies Amcor (-8.0%) and Orora (-11.4%) and Telstra (-10.5%).

The major banks underperformed (down an average –30.0%) as the market factored in rising bad debt levels and lower dividends. We currently forecast that while the banks will modestly reduce their dividends, they will continue to offer an attractive yield. Further, the banks are going into this downturn in a very strong financial position, having significantly increased capital and liquidity in recent years and are well placed to play a critical role in supporting the economy through this period. The Trust currently holds an index weight in the majors.

The Trust's position in Woodside Petroleum (-34.8%) detracted, as energy stocks were sold off on the fall in the oil price. The coronavirus driven decline in demand for oil, compounded by the Saudi-Russia price war, saw Energy (-37.9%) the worst performing sector for the month. Oil is currently trading at unsustainably low levels and will likely rise at some point over the coming months. In the meantime, we remain comfortable with our holding in Woodside on account of its strong balance sheet and low production costs.

Other stocks which detracted were our travel-related stocks, with Flight Centre (-69.6%) and Qantas (-39.2%). Both these stocks have moved aggressively to protect their balance sheets in the face of unprecedented disruptions to their operations.

Trust Activity

During the month, we did not make any significant changes to the portfolio, as we remain comfortable with our key holdings. The only stock added to the Trust was United Malt Group, which was demerged from Graincorp. This is a solid business with globally diversified operations and a stable earnings stream. As such it is well suited to the current environment. At month end, stock numbers were 34 and cash was 6.1%.

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 March of 0.47cpu, bringing the total income return for the last 12 months to 9.4% or 13.7% 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 will not be repeated in the current year.

Across the market, a number of companies have announced the suspension of their dividends in order to conserve cash in the face of the downturn. However, the Trust has now banked over 75% of the dividends budgeted to be received in the FY20 financial year, with the remainder still expected to be received over the coming months. As a result, at this stage, we are still expecting the Trust to deliver a pre-tax distribution yield for the FY20 financial year close to the target level of around 7.0%, comprising a 5.0% cash yield plus 2.0% in franking credits.

Looking forward, we will assess the outlook for dividends for FY21 over the next few months. While it is certain that many companies will be reducing their dividends, the market overall should still be expected to generate an attractive level of dividend income in the year ahead, particularly compared to other alternative sources of yield.

Outlook

The fall in March brings the market's total decline since its February high to -28.6%, making it one of the sharpest selloffs on record. While the slowing of activity means that forecasting near term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored being factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. Australia's relatively low levels of infections and recent move to more stringent isolation measures sees us well placed versus other parts of the world to weather this storm.

The silver lining of a downturn such a this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, having stress tested our key portfolio holdings, we believe they offer exceptional upside from the current oversold levels.

In the meantime, 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 with strong balance sheets, 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.

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