Perennial Value Shares for Income Trust

MONTHLY REPORT APRIL 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.6	1.3	3.9	10.1	8.0	7.7	6.2
Capital Growth	7.8	-24.2	-23.2	-27.2	-11.9	-9.0	-1.8
Total Return	8.4	-22.9	-19.4	-17.1	-3.9	1.3	4.4
Franking Credits#	0.4	0.7	1.6	4.6	3.2	2.8	2.3
Income Distribution including Franking Credits	**1.0**	**2.0**	**5.5**	**14.7**	**11.2**	**10.5**	**8.5**
Benchmark Yield including Franking Credits*	0.0	1.3	3.7	4.8	5.7	5.9	6.0
Excess Income to Benchmark#	**1.0**	**0.7**	**1.8**	**9.9**	**5.5**	**4.6**	**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

- Global markets rallied in April, as it appeared coronavirus infections had peaked, bringing the prospect of an easing of lockdowns in many economies.
- The Australian market was particularly strong, as it became clear that the virus had been effectively controlled, with the ASX300 Accumulation Index up +9.0%, having now risen +21.9% from its March low.
- The Trust continues to expect to deliver a pre-tax distribution yield for the FY20 financial year close to its 7.0% target. Looking to FY21, while market dividends will be lower, the Trust will seek out the best dividend opportunities and may seek to supplement income generation by undertaking limited call-writing.

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 $20 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)	14.6	16.1
Price to Free Cash Flow (x)	12.9	14.7
Gross Yield (%)	6.5	5.4
Price to NTA (x)	1.8	2.0

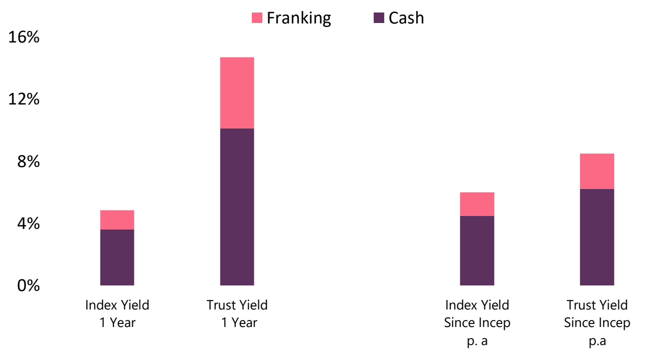
Source: Perennial Value Management. As at 30 April 2020

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 (%)

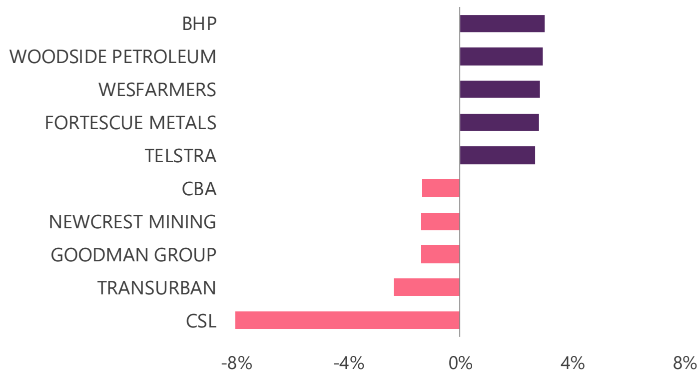
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4
FY17	65.6	FY14	115.0

Distribution Yield

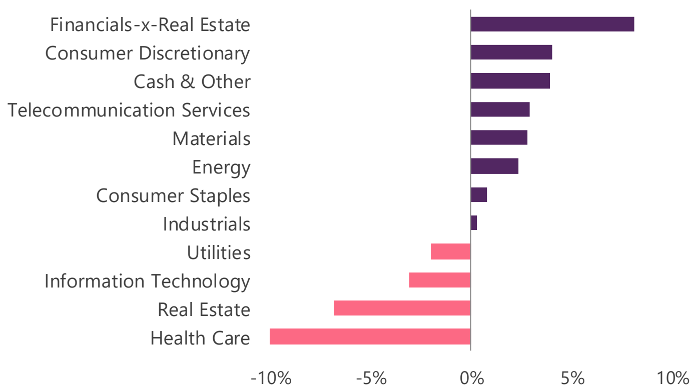


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets staged a rally in April, as investors responded positively to the news of coronavirus infection rates declining and the prospect of lockdowns beginning to be eased in several major economies.

The Australian market performed particularly strongly, with the ASX300 Accumulation index rising by +9.0%. While still well down from its February high, the Australian market has now rallied +21.9% from its low in mid-March. It seems clear that the steps taken to limit the spread of the virus in Australia have been more effective than in many other regions and, as a result, our economy may be able to restart earlier than others.

The rally was broad-based, with all sectors delivering positive returns. The resources sector performed particularly well, with Energy (+25.2%) the best performing sector. This sector had been sold off sharply last month, after key producing nations refused to cut production in the face of sharply falling demand. This caused prices to collapse to unsustainably low levels. More recently, however, it seems that more rational behaviour is likely and this should see prices recover somewhat. This saw our holding in Woodside Petroleum rally strongly (+23.3%). The mining stocks also performed well, on continued expectations of Chinese stimulus measures. The Trust continues to hold an overweight position in the Resources sector, with holdings in Fortescue Metals (+19.6%), BHP (+11.6%) and Rio Tinto (+3.5%). Mining services holding Perenti (+49.2%) and Seven Group (+36.2%) also performed strongly.

The Financials sector (+2.9%) lagged the market, weighed down by the major banks (up an average of +0.4%). During the month, ANZ, NAB and Westpac all announced significant increases to their bad debt provisions ahead of the expected increase in defaults over the coming periods. Also, following the advice of the regulator, banks' dividends will be significantly reduced or deferred. The banks are in a strong financial position and are well placed to be part of the solution in this downturn, rather than part of the problem as during the GFC. Further, if the banks play their part well over this period, it will serve to highlight the benefits of our strong financial system and possibly provide them with an opportunity for redemption following the Royal Commission. The Trust holds a slight underweight position in the major banks as, while we see clear medium-term value in the sector, their near-term dividend prospects are significantly diminished.

Last month we commented that many stocks appeared to have fallen victim to panic selling as the crisis unfolded. Pleasingly, many of these holdings rebounded strongly in April. Examples included Downer (+39.9%), Crown Resorts (+31.1%), Tabcorp (+27.3%) and Macquarie Group (+19.7%). All of these are strong businesses with sound long term prospects which were oversold in March.

The major detractors from relative performance were our holding in more defensive names which lagged in the rally, for example IAG (-6.8%), United Malt Group (-3.2%), Telstra (-0.7%) and Medibank Private (+1.5%). The Trust's underweight in the REIT sector, on which we remain cautious, also detracted as the sector rallied during the month.

Trust Activity

During the month, we established a position in Aurizon, Australia's largest rail operator. This company has reliable earnings, underpinned by long-term contracts and an attractive dividend yield. At month end, stock numbers were 34 and cash was 3.9%.

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 April of 0.47cpu, bringing the total income return for the last 12 months to 10.1% or 14.7% 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 reduction or suspension of their dividends in order to conserve cash in the face of the downturn. However, the Trust has now banked the majority of the dividends budgeted to be received in the FY20 financial year. 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.

In addition, we may seek to enhance the income generation of the Trust by undertaking limited call-writing.

Outlook

Despite the rally in April, the market is still well down from its February highs. While the sharp 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. While it is impossible to know how this will ultimately play out, signs are emerging that worst of the health crisis may be behind us and the first steps towards normalisation may not be too far away.

Further, Australia has so far fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity.

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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