Perennial Value Shares for Income Trust

MONTHLY REPORT JUNE 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.6	2.0	5.1	5.1	7.6	7.9	6.3
Capital Growth	1.8	15.8	-17.5	-17.5	-8.0	-6.7	-1.3
Total Return	2.4	17.8	-12.4	-12.4	-0.4	1.2	5.0
Franking Credits#	0.2	0.9	2.2	2.2	3.3	2.9	2.3
Income Distribution including Franking Credits	**0.8**	**2.9**	**7.3**	**7.3**	**10.9**	**10.8**	**8.6**
Benchmark Yield including Franking Credits*	0.2	0.4	4.3	4.3	5.6	5.9	6.0
Excess Income to Benchmark#	**0.6**	**2.5**	**3.0**	**3.0**	**5.3**	**4.9**	**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 continued to recover in June, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies.
- The Australian market was also strong, with the ASX300 Accumulation Index logging its third consecutive positive month, rising +2.4% in June and having now risen +30.6% from its March low.
- The Trust delivered a pre-tax distribution yield for the FY20 financial year of 7.3%. 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 $21 million	
Distribution Frequency Monthly	**Minimum Initial Investment** $25,000	
Trust Inception Date December 2005	**Fees** 0.92%	**APIR Code** IOF0078AU

Portfolio Characteristics – FY22	Trust	Index
Price to Earnings (x)	13.5	16.2
Price to Free Cash Flow (x)	12.5	15.3
Gross Yield (%)	5.2	4.8
Price to NTA (x)	1.8	2.1

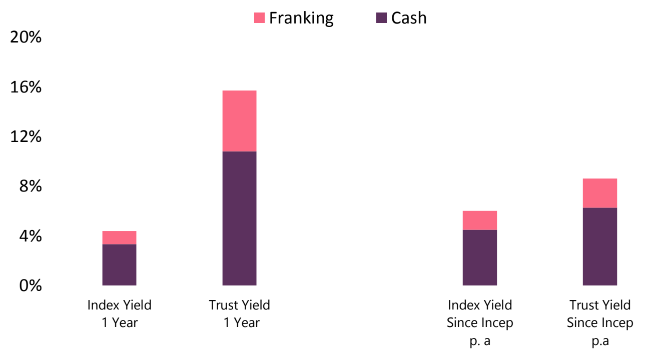
Source: Perennial Value Management. As at 30 June 2020

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 (%)

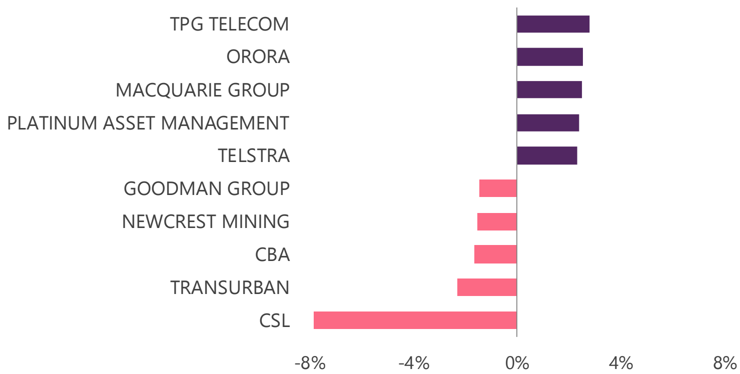
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

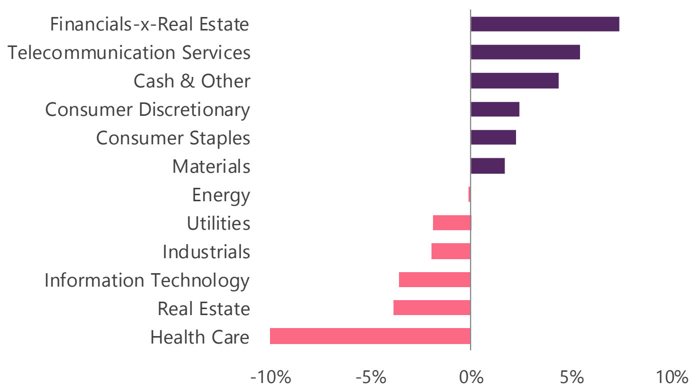


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets continued to recover in June, as many countries began moving to ease lockdowns and restart their economies. While the continuing rise in the number of COVID cases in the US is causing significant concern, markets have been comforted by ongoing support from the Federal Reserve and other Central Banks.

The Australian market was also strong, as infection rates fell to very low levels in most parts of the country and restrictions began to be eased. The ASX300 Accumulation Index logged its third consecutive positive month, rising +2.4% in June and having now risen +30.6% from its March low.

The best performing sectors in the market in June were Consumer Discretionary (+5.1%) and Consumer Staples (+4.8%). The Trust benefited from strong performances from holdings in consumer exposed stocks such as Coles (+11.8%), Wesfarmers (+11.0%) and Woolworths (+5.5%). Each of these companies provided strong retail sales updates during the month.

The generally more positive sentiment to the outlook for the domestic economy saw the Financials (+4.3%) also outperform. This was led by the major banks (up an average of +4.9%), which continued to rally on optimism that the ultimate extent of bad debts would be less than expected. The major banks have faced significant headwinds in recent years, exacerbated by the impacts of the Royal Commission. Critically, however, the banks have entered the current crisis in a very strong financial position and have the opportunity to perform a crucial role in nursing the economy through this difficult period. We maintain our view that, in spite of its various shortcomings, the Australian banking system is unquestionably one of the best in the world, and the stability that it has provided to the economy is often underappreciated in public debate. Over the medium term, we see significant valuation upside to the banks from current levels and the Trust holds a slight overweight position in the sector.

Macquarie Group (+7.8%), one of our largest active positions, also performed well. One thing that can be said of Macquarie is that they never waste a good crisis. It is likely that they will be using the current market disruptions to acquire assets a very attractive prices, which will deliver significant profits in year to come. This is on top of the long-term growth to be delivered by their global leadership position in infrastructure investment. This is likely to be a key focus area for governments seeking to support economic activity, creating yet more opportunities for Macquarie.

Seven Group Holdings (+5.8%), rallied after providing a positive trading update, highlighting strong demand in its Westrac mining equipment business. Interestingly, Seven Group was also revealed as having acquired a 10% stake in Boral. The Boral share price has fallen sharply in recent times, as a result of issues in its US operations. Seven Group has proven itself to be a savvy investor and clearly sees an opportunity for realising value in Boral.

Other strong performers included Ampol (+8.2%), which stands to realise value from the sale of a 49% stake in its service station portfolio, as well as Tabcorp (+5.0%) and Medibank Private (+4.9%).

The key negative contributors over the period included Flight Centre (-15.0%), Monadelphous (-8.5%), United Malt Group (-8.3%) and Event Hospitality (-7.6%).

Trust Activity

During the month, we took profits and reduced our holding in Rio Tinto, Wesfarmers and Macquarie Group following strong share price performances in recent times. We also exited our position in Qantas. The stock had rallied very strongly and more than doubled from its low. While Qantas will survive the current downturn, a return to dividend payments will be some time away. Proceeds were used to establish positions in Coca-Cola Amatil, Dexus and TPG Telecom. At month end, stock numbers were 37 and cash was 4.4%.

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 June of 0.47cpu, bringing the total income return for the last 12 months to 5.1% or 7.3% including franking credits.

Looking forward, the outlook for dividends for FY21 will become clearer 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, 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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