

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years Since Inception (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.7	0.4	5.0	7.7	7.9	6.3
Capital Growth	-1.3	6.1	-1.3	-19.6	-8.8	-7.6	-1.4
Total Return	-0.9	7.7	-0.9	-14.7	-1.2	0.3	4.9
Franking Credits <sup>#</sup>	0.3	0.8	0.3	2.1	3.4	2.9	2.4
<b>Income Distribution including Franking Credits</b>	<b>0.7</b>	<b>2.4</b>	<b>0.7</b>	<b>7.1</b>	<b>11.0</b>	<b>10.8</b>	<b>8.6</b>
Benchmark Yield including Franking Credits*	0.0	0.3	0.0	4.1	5.6	5.8	6.0
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.7</b>	<b>2.1</b>	<b>0.7</b>	<b>3.0</b>	<b>5.4</b>	<b>5.0</b>	<b>2.6</b>

<sup>#</sup>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 were mixed in July, with economic re-openings and positive announcements around vaccine trials, being weighed against a resurgence in COVID-19 infections in many countries.
- The Australian market eked out a small gain in July, with the ASX300 Accumulation Index logging its fourth consecutive positive month, rising +0.6%. This was despite mounting concerns around the second wave of infections in Victoria.
- Looking to FY21, the Trust is targeting a pre-tax distribution yield of around 7%. 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	Trust FUM	
Stephen Bruce	AUD \$20 million	
Distribution Frequency	Minimum Initial Investment	
Monthly	\$25,000	
Trust Inception Date	Fees	APIR Code
December 2005	0.92%	IOF0078AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.8	16.5
Price to Free Cash Flow (x)	13.3	16.2
Gross Yield (%)	6.3	4.7
Price to NTA (x)	2.1	2.2

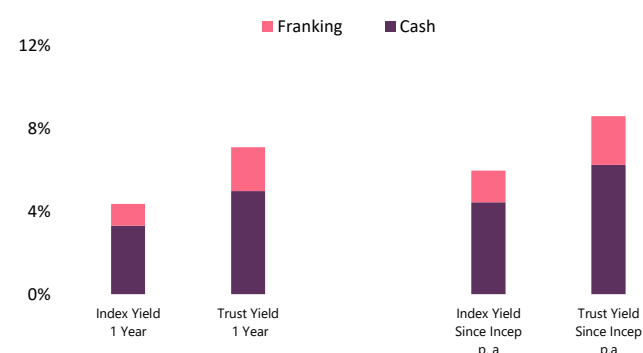
Source: Perennial Value Management. As at 31 July 2020

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 (%)

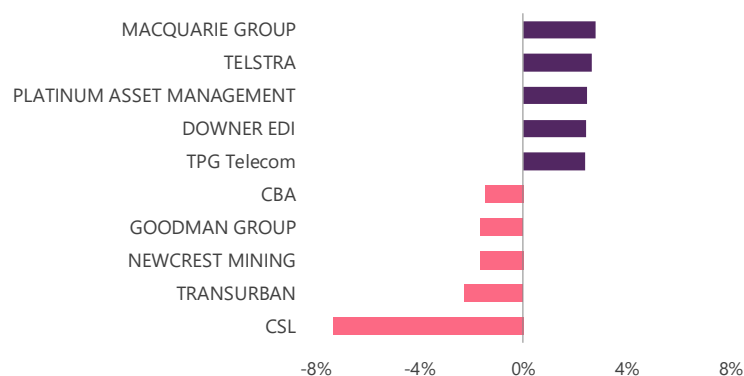
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

## Distribution Yield

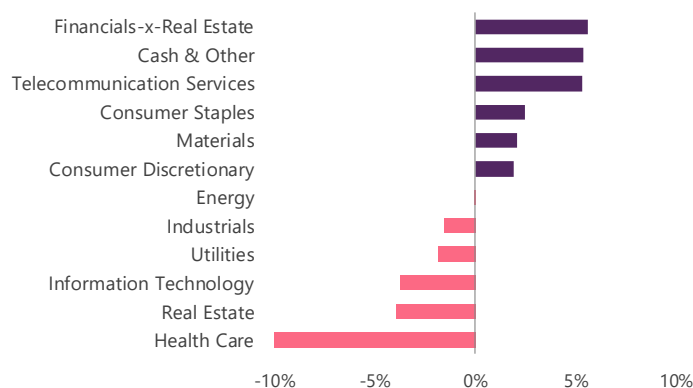


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

Global markets were mixed in July, with recovering economic activity as re-openings continued and positive announcements around vaccine trials, being weighed against a resurgence in COVID-19 infections in many countries. The Australian market eked out a small gain, with the ASX300 Accumulation Index logging its fourth consecutive positive month, rising +0.6% in July and having now risen +31.4% from its March low.

Resources (+4.5%) led the market in July, with Metals and Mining (+7.1%) the best performing sector of the market. This was driven by ongoing strength in commodity prices, attributable to a weaker USD as well as ongoing supply disruptions, while demand remained robust, principally driven by China. The Trust holds an overweight position in the resources sector and saw a particularly strong performance from its holding in Fortescue Metals (+25.7%), which shipped a record volume of iron ore in Q4. Holdings in Rio Tinto (+4.1%) and BHP (+2.6%) also outperformed.

Tabcorp (+5.3%) also performed well, following the announcement of a pending change in Chairman and CEO. The market took this to increase the chances of the business being broken up via a demerger of the lotteries and wagering businesses. This has the potential to realise value as the higher quality lotteries business, with its stable earnings and long licences could potentially command a higher valuation as a separate business. At the same time, the wagering business is likely to perform better as a focussed, stand alone operation. Indeed, history has shown that demergers have more often than not created significant value for shareholders.

Other strong performers included more defensive stocks such as Telstra (+7.0%), with its reliable dividend yield, currently close to 7%, as well as supermarket retailers Coles (+5.8%) and Woolworths (+3.8%).

During the month, the Trust participated in capital raisings by Perpetual (+2.2%) and Downer (-4.4%). Perpetual raised money to finance the acquisition of a US based value manager, Barrow Hanley, in a strongly accretive transaction. While value style investing has struggled to outperform in recent years, it has a strong track record of outperforming over the long-term. As a value investor ourselves, we have long argued that there is the potential for a strong swing back in the favour of value investing, given the extreme valuation dispersion in markets at present. In the case of Downer, the funds raised were used primarily to acquire the minority interests in Spotless, allowing them to fully-integrate the business into their own operations, thereby capturing full synergy benefits.

Concerns around the economic impact of a renewed lockdown in Victoria saw the banks weaker over the month, down an average of 2.2%. This benefited the Trust in a relative sense as it holds a modest underweight position in the major banks, as the near term outlook is subdued. While the ultimate extent of bad debts is hard to determine, the banks have entered this downturn in strong financial shape and we see valuation upside on a medium-term view as well as leverage to any improvement in the outlook. Further, during the month, APRA clarified its position regarding banks dividends, indicating that the banks would be able to resume paying dividends later in the year.

Holdings which detracted from performance included Monadelphous (-17.7%), IAG (-11.8%), Event Hospitality (-11.7%), Ampol (-10.4%) and Graincorp (-9.5%). We remain comfortable with the outlook for each of these companies and see significant valuation upside from current levels.

## Trust Activity

During the month, we further reduced our bank exposure, trimming our holdings in NAB and Westpac and exited our holding in Flight Centre, as the likely resumption of travel continues to be pushed further out. Proceeds were used to participate in the capital raisings by Downer and Perpetual. At month end, stock numbers were 35 and cash was 5.4%.

## 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 July of 0.35cpu, bringing the total income return for the last 12 months to 5.0% or 7.1% 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.

At this stage, we are targeting a pre-tax distribution yield of approximately 7.0% for the FY21 financial year.

## Outlook

The market has rallied strongly from its March lows, however, is still well down from its previous 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 into the share prices of many companies.

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 the renewed lockdown in Victoria is a clear setback, 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.

Finally, the silver lining of a downturn such as this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, we have been taking the opportunity to add a number of new stocks to the portfolio which we are confident will deliver strong returns to investors over time.

**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.**

**Invest Online Now**

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