

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years Since Inception (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.2	1.2	4.8	7.2	7.8	6.2
Capital Growth	-4.4	-4.3	-4.3	-22.2	-8.4	-5.4	-1.6
Total Return	-4.0	-3.1	-3.1	-17.4	-1.2	2.4	4.7
Franking Credits [#]	0.2	0.6	0.6	2.0	3.2	2.9	2.4
Income Distribution including Franking Credits	0.6	1.8	1.8	6.8	10.4	10.7	8.6
Benchmark Yield including Franking Credits*	0.5	1.3	1.3	3.7	5.4	5.8	6.0
Excess Income to Benchmark[#]	0.1	0.5	0.5	3.1	5.0	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 were weaker in September, with most major indices declining on the back of increasing COVID-19 infections in many countries and the uncertainty caused by the looming US election.
- The Australian market was also weaker, with the ASX300 Accumulation Index declining -3.6%, despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings.
- The Trust is targeting an FY21 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 Stephen Bruce	Trust FUM AUD \$18 million	
Distribution Frequency Monthly	Minimum Initial Investment \$25,000	
Trust Inception Date December 2005	Fees 0.92%	APIR Code IOF0078AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.6	16.5
Price to Free Cash Flow (x)	13.4	15.7
Gross Yield (%)	6.4	4.7
Price to NTA (x)	1.9	2.2

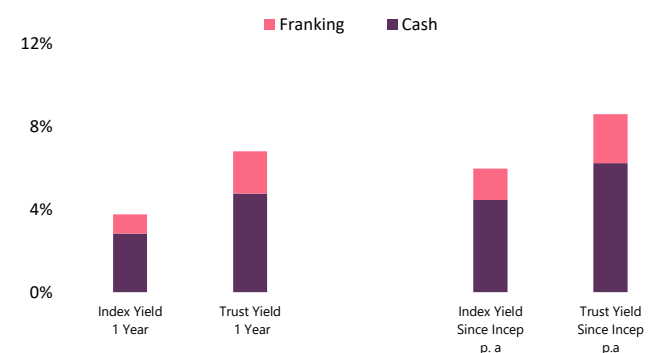
Source: Perennial Value Management. As at 30 September 2020

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 (%)

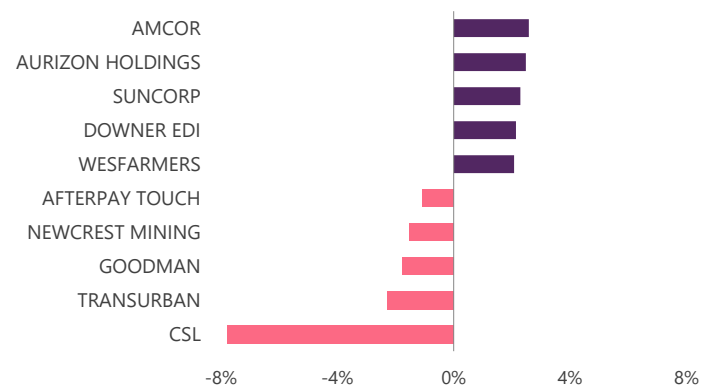
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

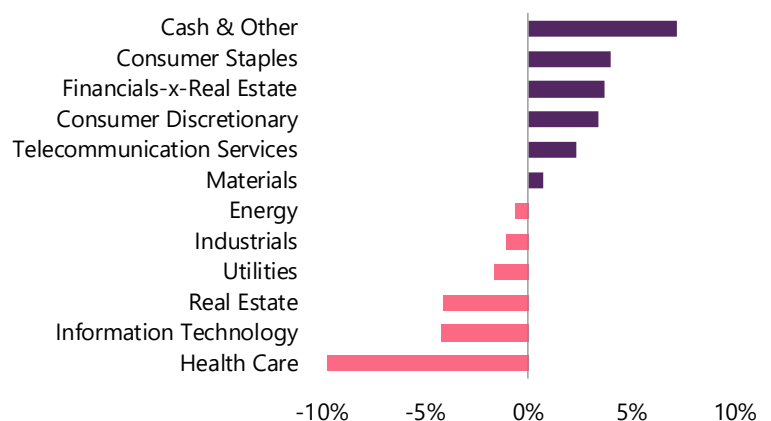


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets were weaker in September, with most major indices declining on the back of “Second wave” fears, due to increasing COVID-19 infections in many countries as well as the uncertainty caused by the looming US election and a failure to agree on a further round of stimulus measures. Economic data was softer in Europe and the spectre of Brexit also returned as an issue for the UK.

The Australian market fell in sympathy with global markets, with the ASX300 Accumulation Index declining -3.6%. This was despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings, which will be important in driving a resumption of domestic economic activity. The Australian unemployment rate positively surprised during the month, although this is distorted by stimulus measures, which are now beginning to taper off.

In line with the more cautious mood in September, defensive sectors of the market tended to outperform, with Healthcare (+0.8%) the only sector to deliver a positive return. The REITs (-1.1%) outperformed, although this was more driven by potential upside from a re-opening rather than their supposed defensive characteristics, which have been brought into question in this downturn. More cyclical sectors tended to underperform, with Energy (-10.7%) and Metals & Mining (-4.0%) both lagging on concerns over the global outlook, while Financials (-6.1%) also lagged, weighed down by the banks.

The IT sector (-6.4%) also underperformed, with market darling Afterpay (-12.5%), giving back some of its recent gains. We have previously commented on this stock, which boasts a market capitalisation of over \$20bn, despite generating negligible earnings and no dividends. Time will tell, but our guess is that this stock still has a long way to fall and is emblematic of the excessive valuations being seen in some parts of the market. By contrast, the market’s fall means a significant amount of bad news is now factored into the share prices of many less “exciting” companies, suggesting significant upside for the patient investor. Further, these better value companies have the benefit of dividends which “pay you while you wait” for capital growth.

Holdings which contributed positively to performance included Event Hospitality (+16.0%), which rallied on the potential for a recovery in its hotel and cinema operations should restrictions be lifted. In addition, the company was recently included in the ASX300 Index for the first time. Packaging companies Orora (+9.6%) and Amcor (+2.2%) both outperformed, as did Coca-Cola Amatil (+4.4%) and United Malt Group (+5.1%).

New portfolio addition, Aristocrat Leisure (+5.6%), rallied on the expectation of ongoing strong growth in its digital gaming business as well as the potential for one of its key competitors to reduce their focus on traditional land-based gaming activities. This stock offers a very strong earnings and dividend growth profile, while trading on a reasonable valuation. Sonic Healthcare (+5.1%), another portfolio addition during the month, rallied with ongoing demand for COVID testing adding to earnings from its routine pathology testing business, which have now largely bounced back to pre-COVID levels.

Holdings which detracted from performance included Platinum Asset Management (-14.3%), Graincorp (-12.1%), Woodside Petroleum (-10.2%) and Suncorp (-9.1%). The major banks also detracted (down average -4.4%) due to concerns over bad debts levels. We continue to believe that credit losses will be better than feared and see the banks as offering attractive medium-term value and continuing to be a good source of fully-franked dividends.

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Trust Activity

During the month, the Trust added a number of new holdings including Aristocrat Leisure and Sonic Healthcare. Both of these companies have leading global positions and solid growth prospects as well as having elements of their business which can benefit from the current environment, such as Aristocrat’s online gaming operations and Sonic’s large scale role in the provision of COVID testing services. Mirvac and Dexu were also added, giving positive exposure to a re-opening of the domestic economy. At month end, stock numbers were 34 and cash was 7.0%.

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 September of 0.35cpu, bringing the total income return for the last 12 months to 4.8% or 6.8% 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 recovered over half of its losses from the COVID-induced sell-off and now appears to be in a holding pattern as it attempts to weight up the increasingly positive domestic outlook with increasing global risks.

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 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 Trust continues to be positioned to benefit from any sustained recovery in the domestic and global outlook.

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.

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