

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years Since Inception (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.4	2.7	5.4	9.3	7.6	6.3
Capital Growth	0.9	14.7	9.7	-8.3	-2.6	-3.4	-0.6
Total Return	1.3	16.1	12.4	-2.9	6.7	4.2	5.6
Franking Credits <sup>#</sup>	0.2	0.6	1.2	2.4	4.1	2.9	2.3
<b>Income Distribution including Franking Credits</b>	<b>0.6</b>	<b>2.0</b>	<b>3.9</b>	<b>7.8</b>	<b>13.4</b>	<b>10.5</b>	<b>8.6</b>
Benchmark Yield including Franking Credits*	0.2	0.5	2.0	3.8	5.2	5.7	6.0
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.4</b>	<b>1.5</b>	<b>1.9</b>	<b>4.0</b>	<b>8.2</b>	<b>4.8</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 rose in December, building on November's strong gains, as markets continued to look optimistically towards a post-Trump, post-COVID future, with all major global indices delivering positive returns.
- The Australian market also rose, with the ASX300 Accumulation Index finishing the month up +1.3%, with generally positive economic news and corporate trading updates offsetting concerns over the COVID outbreak in NSW. Over what has been an extraordinary year, the market has delivered a total return of +1.7% and has recovered to be within -8% of its pre-COVID high.
- 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	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)	17.3	18.4
Price to Free Cash Flow (x)	15.0	16.5
Gross Yield (%)	5.5	4.3
Price to NTA (x)	2.3	2.5

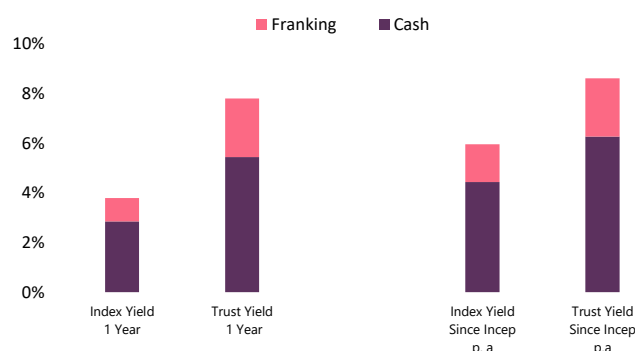
Source: Perennial Value Management. As at 31 December 2020

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 (%)

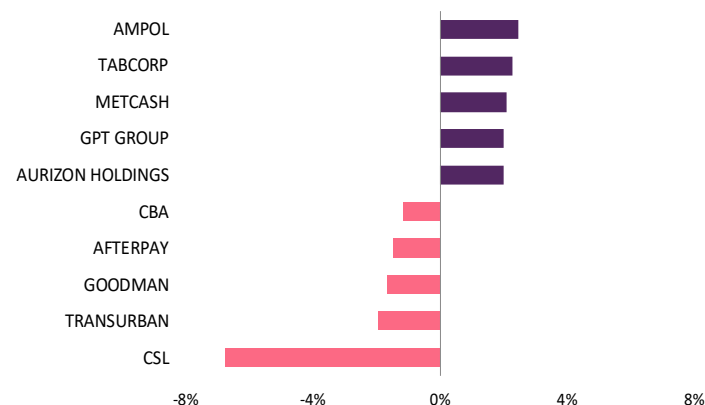
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

## Distribution Yield

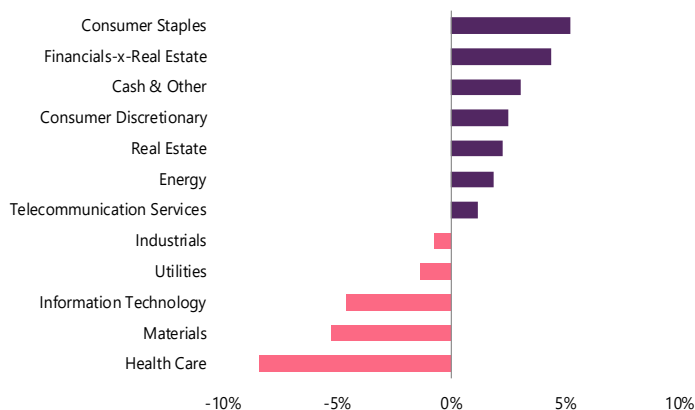


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

Global markets rose in December, building on November's strong gains, as markets continued to look optimistically towards a post-Trump, post-COVID future, with all major global indices delivering positive returns on the prospect of a recovery in economic activity and growth as well as a return to a more stable global political environment.

The Australian market also rose, with the ASX300 Accumulation Index finishing the month up +1.3%, with generally positive economic news and corporate trading updates offsetting concerns over the COVID outbreak in NSW. The Trust delivered a return of +1.4%, outperforming the market by 0.1%. Over what has been an extraordinary year, the market has delivered a total return of +1.7% and has recovered to be within 8% of its pre-COVID high.

Metals and Mining (+10.6%) was the best performing sector over the month, as continued strong Chinese steel production drove demand for iron ore at the same time as global supply expectations were lowered due to ongoing production issues in Brazil. These factors conspired to see the iron ore price up over +22% during the month. The Trust benefited from the strong iron ore price through holdings in miners Fortescue Metals (+28.5%), Rio Tinto (+12.3%) and BHP (+11.5%), as well as mining services companies, Seven Group (+6.1%) and Monadelphous (+5.3%) which support the iron ore miners.

Grocery wholesaler, Metcash (+17.3%) rallied after delivering a strong first half result which showed significant sales volume growth across each of its grocery, liquor and hardware divisions. Further, the company reported that the strong sales momentum had continued into the second half. Pleasingly, the strong result allowed the company to increase its interim dividend by +33%. The Trust's holdings in Woolworths (+6.3%) and Coles (+1.6%) also rose, as supermarket sales remained robust, while Wesfarmers (+1.9%), the owner of Bunnings, rose with continued strength in the hardware sector.

Medibank Private (+5.6%) was stronger as the industry reported that private health insurance uptake was better than expected, possibly as a result of COVID making people more focussed on the importance of access to healthcare services. We see Medibank as a solid defensive holding and a company which will play a key role in driving efficiency gains across the private healthcare sector.

The major banks eased (down and average of -0.3%), after their very strong rallies in November. As mentioned last month, the ultimate outcome in terms of bad debts due to COVID impacts is likely to be significantly less bad than initially feared. This is best highlighted by the fact that the vast majority of both mortgages and business loans have been able to resume full repayments once their deferral period has ended. Importantly, the banks' capital positions are strong and dividend payments have been resumed. Given the high level of provisioning undertaken and the strong capital positions, as conditions improve, it is likely that the banks will be able to increase their dividends significantly over the coming years. Combined with their undemanding valuations, we still see meaningful upside and remain overweight the sector.

Holdings which detracted from performance include Event Hospitality (-11.3%) which declined after the sale of its German cinema operations fell through and Aurizon (-8.2%), which fell due to concerns over the impact of Chinese import bans in its coal haulage volumes. We remain comfortable with these holdings.

## Trust Activity

During the month, we added Metcash to the portfolio, ahead of what we expected to be a strong profit result. The Trust also participated in a capital raising by Charter Hall Long WALE REIT. This was funded by taking profits and reducing holdings in Amcor and trimming our holdings in the major banks following their strong run in November. At month end, stock numbers were 38 and cash was 1.0%.

## 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 December of 0.35cpu, bringing the total income return for the last 12 months to 5.4% or 7.8% 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 FY21.

## Outlook

The start of 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term roll-out of an effective COVID vaccine underpinning the reopening of economies and a return to growth. Importantly also, the change of leadership in the US should usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop. The election result of a Biden win, means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

While the recent COVID outbreak in NSW and associated restrictions presents some risk to the positive domestic outlook, it seems to be to be largely under control at present, meaning the impact on activity levels, may not be significant or long-lasting. Further, key indicators around employment, loan deferrals and the property market are all surprising to the upside. Finally, the economy is underpinned by historically low interest rates and meaningful fiscal stimulus. If this improvement continues, then corporate earnings and dividends are likely to rebound strongly over the coming year.

**The Trust is positioned to benefit from an ongoing economic improvement. 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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