

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years Since Inception (% p.a.)	
Income Distribution	0.4	1.3	3.2	5.2	9.2	7.8	6.3
Capital Growth	0.1	13.9	9.9	-10.5	-3.5	-2.2	-0.6
Total Return	0.5	15.2	13.0	-5.3	5.7	5.6	5.7
Franking Credits [#]	0.2	0.5	1.3	2.3	4.1	3.0	2.4
Income Distribution including Franking Credits	0.6	1.8	4.5	7.5	13.3	10.8	8.6
Benchmark Yield including Franking Credits*	0.0	0.5	2.0	3.6	5.1	5.8	5.9
Excess Income to Benchmark[#]	0.6	1.3	2.5	3.9	8.2	5.0	2.7

[#]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 began the month strongly, driven by continuing positive sentiment around vaccine rollouts and the prospect of larger stimulus in the US, following the Democratic wins in the Senate. However, a sell-off later in the month saw most major global indices finish the month largely flat.
- The Australian market followed a similar path, rallying early in the month before pulling back, with the ASX300 Accumulation Index finishing the month up +0.3%. The consumer-facing sectors, along with the financials, led the market, while defensive, rate-sensitive sectors lagged.
- 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)	16.9	17.8
Price to Free Cash Flow (x)	14.4	15.6
Gross Yield (%)	5.6	4.5
Price to NTA (x)	2.2	2.5

Source: Perennial Value Management. As at 31 January 2021

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 (%)

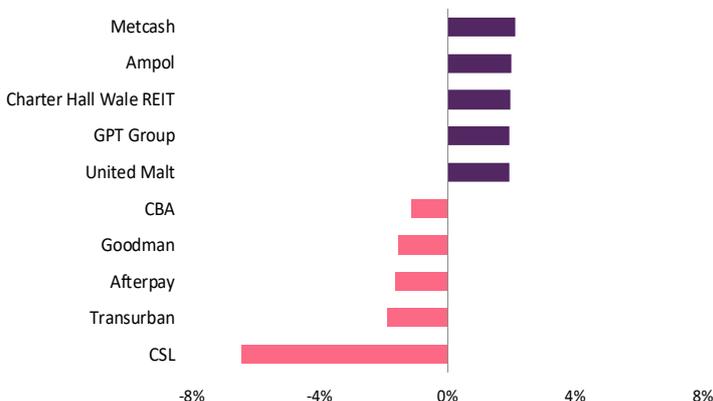
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

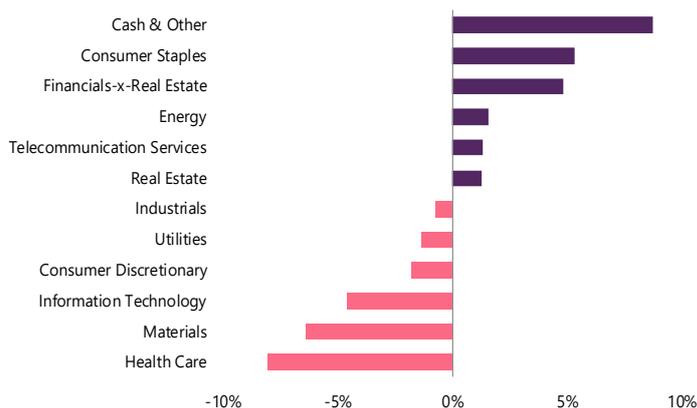


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets began the month strongly, driven by continuing positive sentiment around vaccines and the prospect of larger stimulus in the US, following the Democratic wins in the Senate. However, a sell-off later in the month saw most major global indices finish the month largely flat. Increasing inflation expectations and a rise in bond yields likely weighed on markets, along with profit-taking after the recent strong run. In addition, the social media-engineered short squeezes may also have led to some degree of de-risking in parts of the market.

The Australian market followed a similar path, rallying early in the month before pulling back, with the ASX300 Accumulation Index finishing the month up 0.3%. The consumer-facing sectors, along with the financials led the market, while defensive, rate-sensitive sectors lagged as bond yields rose. The Trust delivered a return of +0.6%, outperforming the market by 0.3%, as ongoing strong domestic economic data supported the outlook for many of our holdings which are leveraged to an improvement in the broader economy.

Continuing improvement in the domestic economy saw consumer-facing stocks perform strongly, with the Consumer Discretionary sector (+4.8%) the best performing sector over the month. A number of retailers delivered very strong trading updates during the month, reflecting the strong recent consumer spending data. The unemployment rate continues to decline, with strong jobs growth, while consumer confidence reached a 10-year high. The Trust is exposed to the sector through holdings in Bunnings' owner, Wesfarmers (+8.4%), as well as supermarket operators, Woolworths (+3.9%), Metcash (+1.2%) and Coles (+0.4%).

The Financials were also a beneficiary of the strong domestic economic data, with the major banks all outperforming, rising an average of 4.9%. House prices are rising and borrowing for new housing has picked up strongly on the back of government incentives. The improving employment market, along with the strength in the property market means that the bad debt outcomes are likely to be significantly better than initially feared. Further, the banks will soon be in a position to focus on their cost bases, once the post-Royal Commission compliance spend begins to abate. The banks are well-provisioned and well-capitalised, meaning that they will be able to significantly increase their dividends over the coming years. The Trust holds a meaningful position in the major banks.

The Telco sector also performed well, led by Telstra (+4.7%). The company stands to benefit from the rollout of its 5G network and has significant opportunities to realise value through the sale of network assets over the coming years. These types of assets, such as mobile phone towers, can attract very high valuations from infrastructure investors. In the meantime, it is paying an attractive dividend yield.

Other holdings which outperformed included healthcare stocks Sonic Healthcare (+6.9%) and Healius (+4.0%). These companies operate in the pathology and diagnostic imaging sectors which are currently experiencing strong demand as people catch up on medical procedures deferred due to COVID. Earnings of the pathology divisions of these companies are also currently receiving a very substantial boost from performing huge numbers of COVID tests.

Energy company Woodside Petroleum (+7.6%) also performed strongly on a rally in the oil price, while mining stocks were generally softer, with Fortescue Metals (-7.9%) easing after a strong run.

Trust Activity

During the month, the Trust participated in the Ampol off-market buy-back. These transactions are used by companies to efficiently distribute excess franking credits to shareholders. They generate an attractive after-tax return for investors on low tax rates, as the majority of the sale price received is in the form of a fully-franked dividend. The Trust also reduced its holding in Dexus and Mirvac. At month end, stock numbers were 38 and cash was 6.0%.

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 January of 0.35cpu, bringing the total income return for the last 12 months to 5.2% or 7.5% 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 prospect of a near-term roll-out of an effective COVID vaccine underpinning the reopening of economies and a return to global 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 presidency and Democratic Senate means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

Fortunately, the recent COVID outbreak in NSW seems to have been brought under control, with restrictions having now been eased, 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.

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 Principles for Responsible Investment



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