

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years Since Inception (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.2	5.2	6.0	9.1	8.0	6.2
Capital Growth	2.2	7.5	19.8	21.9	-3.3	-1.5	0.0
Total Return	2.6	8.7	25.0	27.9	5.8	6.5	6.1
Franking Credits [#]	0.1	0.4	2.2	2.5	3.9	3.1	2.4
Income Distribution including Franking Credits	0.5	1.6	7.4	8.5	13.0	11.1	8.6
Benchmark Yield including Franking Credits*	0.5	1.6	4.8	5.1	4.7	5.6	6.0
Excess Income to Benchmark[#]	0.0	0.0	2.6	3.4	8.3	5.5	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

- Markets continued their upwards march in May, driven by strong economic data, expectations of further stimulus measures and the accelerating vaccine rollouts. This saw most major indices post positive returns. The market was also helped by a slight pull-back in bond yields.
- The Australian market also performed strongly, with the ASX300 Accumulation Index finishing the month up 2.3%. Sector performance was mixed, with strong performances from both cyclical sectors such as Financials, as well as growth sectors such as Healthcare.
- 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)	15.6	17.6
Price to Free Cash Flow (x)	13.1	15.6
Gross Yield (%)	6.6	4.9
Price to NTA (x)	2.6	2.8

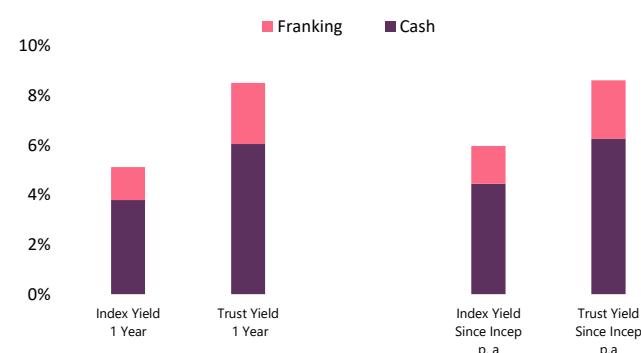
Source: Perennial Value Management. As at 31 May 2021

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 (%)

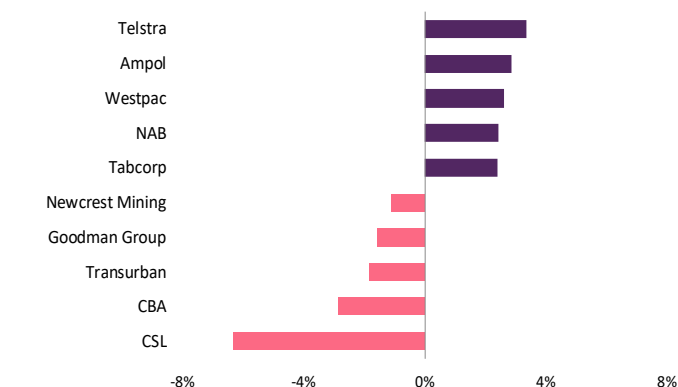
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

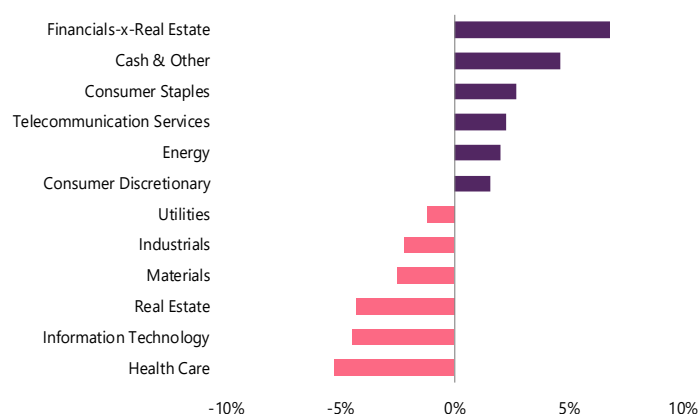


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered a return, including franking credits and after fees of 2.7% in May, outperforming the index by 0.4%. Over the last 12 months, the Trust has performed strongly, delivering a return of +30.4%, outperforming the index by 0.3%. This performance highlights the Trust's leverage to the improving, post-COVID economy. Historically, value style investing has delivered significant outperformance during economic recoveries.

Stocks which contributed positively over the month included the major banks, which returned an average of +6.4%, after reporting half-year results which demonstrated positive operating trends and saw a significant rebound in dividends. While the banks have faced a raft of challenges over the past several years, many of the headwinds they have experienced are now turning into tailwinds. Credit growth is now starting to pick up, interest margins have stabilised and may well begin to rise, expenses are being brought under control and credit quality has remained very strong despite the impacts of COVID. These factors should combine to return the sector to earnings and dividend growth over the coming years. Further, the banks are well provisioned, having taken large charges early on in the pandemic and have very strong capital positions. As the economic uncertainty recedes, the banks will be able to both release some of these surplus provisions and return some of this surplus capital to shareholders. Combined with their relatively attractive valuations and leverage to rising interest rates, we see further upside for the sector from here.

Ampol (+11.6%) performed strongly after the government announced an industry support package which will underpin earnings from its refining operations at Lytton in Queensland until at least 2027. This is an important move to maintain energy security in Australia and will significantly reduce volatility of earnings from this division.

Aristocrat Leisure (+10.8%) rallied after delivering a result which was well ahead of market expectations, driven by very strong growth in their digital business. The company is diversifying away from its traditional gaming machine business and is now a top 5 global developer of online social games. The company is very well-positioned, with a strong balance sheet allowing it to invest heavily into new product development.

Woolworths (+5.9%) outperformed after announcing the details of the planned demerger of the supermarkets business and its Endeavour Drinks unit, which contains its liquor and hotel operations. History has shown that demergers such as these often create value for shareholders, with each business better able to focus on its specific goals. The company also indicated that, following the demerger, they could return between \$1.6-2.0bn capital to shareholders.

Telstra (+3.8%) was stronger as price rises from key competitor Optus signalled that the mobile market was becoming less competitive. This follows on from management changes at TPG – owner of the Vodafone network – which suggested that they would also be less aggressive going forward. All this bodes well for Telstra's earnings outlook and dividend paying ability.

Tabcorp (+2.8%) continued to rise as the bidding war for its wagering operations played out, with a number of interested parties seeing the notional price being bid increasing from \$3.0bn to \$3.5bn to \$4.0bn. The potential for corporate activity of this nature was one of the key attractions of holding this stock.

Holdings which detracted from performance included Seven Group (-7.0%), Woodside Petroleum (-4.6%) and Macquarie Group (-3.2%). We remain comfortable with the outlook for each of these stocks.

Trust Activity

During the month, the Trust locked in profits and exited its holding in Event Hospitality, which had rallied back to above its pre-COVID levels. Proceeds were used to increase the Trust's holdings in NAB and Westpac ahead of their results and to participate in a capital raising by the Charter Hall Long WALE REIT. This is one of our few REIT exposures and we are attracted by its portfolio of properties with long-term, inflation-linked leases to a range of high-quality tenants. At month end, stock numbers were 31 and cash was 4.1%.

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 May of 0.35cpu, bringing the total income return for the 11 months of the financial year to date to 5.2% or 7.4% including franking credits. For the full financial year to June, we are targeting a cash distribution of approximately 5.0% or 7.0% including franking credits.

Looking forward to next financial year, the outlook for dividends is positive. Many businesses are seeing strong operating conditions and corporate balance sheets are generally strong. This should underpin an attractive level of dividends in the year ahead. In addition, we may seek to enhance the income generation of the Trust by undertaking limited call-writing.

Outlook

We believe that 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term rollout 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.

Domestically, key indicators around employment, business confidence 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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