

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.5	1.4	0.5	6.1	5.5	7.5	6.3
Capital Growth	0.6	4.6	0.6	24.0	-0.1	-0.7	0.1
Total Return	1.1	6.0	1.1	30.1	5.4	6.8	6.4
Franking Credits [#]	0.2	0.5	0.2	2.4	2.3	3.0	2.3
Income Distribution including Franking Credits	0.7	1.9	0.7	8.5	7.8	10.5	8.6
Benchmark Yield including Franking Credits*	0.0	0.7	0.0	5.1	4.6	5.6	5.9
Excess Income to Benchmark[#]	0.7	1.2	0.7	3.4	3.2	4.9	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

- The Australian market rose again in July, with the ASX300 Accumulation Index making another record high, finishing the month up +1.1% and bringing the total return for the last 12 months to a very healthy +29.1%.
- Resources were the standout over the month, with the sector rising strongly in anticipation of reporting strong profit results and large dividends, while Financials were weaker, as the recent COVID lockdowns weighed on sentiment towards the banks.
- Looking to the current financial year, market dividends are expected to increase significantly as corporate earnings recover post-COVID. The Trust is currently targeting a 30% increase in FY22 net distribution to 5.5 CPU. Based on the unit price at the start of the year, this equates to a cash distribution yield of around 5.5% and 7.5%, including franking credits.

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 \$21 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)	13.7	16.0
Price to Free Cash Flow (x)	11.0	14.1
Gross Yield (%)	7.8	5.5
Price to NTA (x)	2.9	2.9

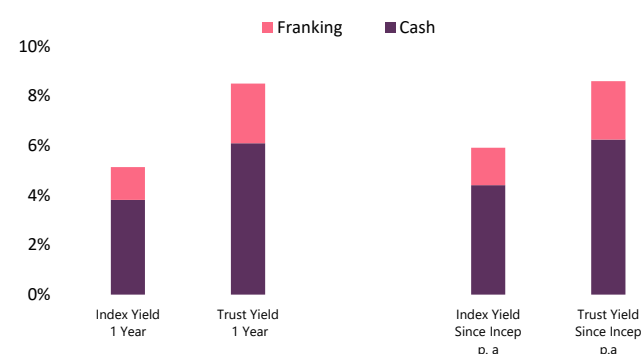
Source: Perennial Value Management. As at 31 July 2021

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 (%)

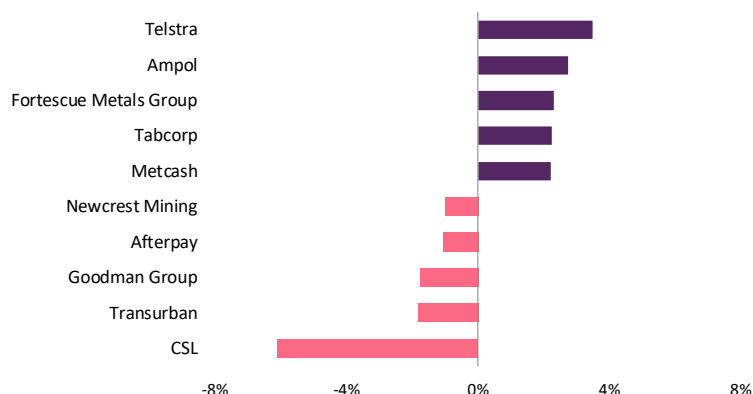
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

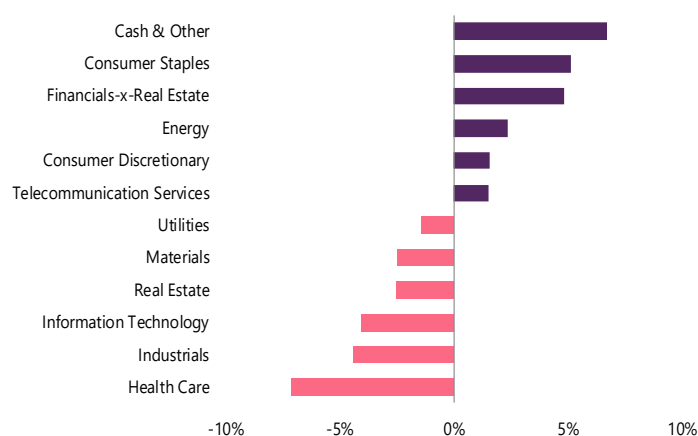


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

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 1.3% in July, slightly ahead of the index return of 1.1%. Over the last 12 months, the Trust has performed strongly, delivering a return of 32.5%, outperforming the index by +2.0%. 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 Seven Group Holdings (+14.3%), which performed well after moving to a 70% shareholding in Boral at the conclusion of its takeover offer. This is sufficient to give Seven Group operational and strategic control over Boral and we believe that there is the opportunity for them to significantly improve its performance over the coming years. Further, Boral's Australian businesses are a good fit with Seven's industrial operations and increase its exposure to the expected increase in infrastructure investment over coming years.

Resources holdings performed strongly over the month. While the iron ore price declined from its recent very high levels, the major miners were stronger, with BHP (+10.0%), Fortescue Metals (+6.7%) and Rio Tinto (+5.4%) all higher on expectations of very strong profit results and dividends during the upcoming reporting season. Rio Tinto, the first of the miners to report, delivered a record first half result during the period, driven by strength in the iron ore price. This large profit, combined with the fact that the balance sheet was already in very good shape, led to them announcing a massive US\$9.1bn interim dividend. We expect similar outcomes from BHP and Fortescue Metals when they report their results in August.

The current COVID outbreaks in NSW and elsewhere saw Healius (+5.2%) continue to outperform. As the second largest pathology services provider in Australia, the company stands to benefit from the associated increase in COVID testing during this period. While this will hopefully be only temporary, it is providing a helpful boost to earnings while the company undertakes steps to improve its operational performance and lift margins following the sale of its medical centre business. Global pathology provider, Sonic Healthcare (+4.2%), also outperformed as surging delta variant infections led to high levels of testing across many of its markets. While COVID testing revenue will subside over time, the cash flows being generated currently are rapidly degearing the balance sheet. This will give the company significant capacity to fund future acquisitions as it grows its global footprint.

Packaging company, Orora (+8.1%), performed strongly over the month. The company is the leading manufacturer of glass and aluminium containers in Australia and stands to benefit over time as environmental concerns see a shift over time away from plastic packaging. In the mean time, the company has defensive earnings, serving the consumer staples sector and a very strong balance sheet.

The major banks were weaker in July, underperforming by an average of -3.0%, due to negative sentiment around the potential impacts of the current lockdowns. We believe that this will be short lived and expect the banks to recover strongly once the COVID outbreak is brought under control. While lockdowns will clearly have an impact on the economy, the banks are in a very strong financial position. This has been demonstrated by the fact that both ANZ and NAB announced on-market buy-backs of \$1.5bn and \$2.5bn respectively during the month. The fact that the regulator signed off on this in the face of the current uncertainty, indicates they have a high level of confidence in the strength of the sector.

Trust Activity

July was a quiet month in terms of activity in the Trust, with the only change being to increase our holding in CBA. We expect that CBA will deliver a solid result and dividend and also announce a large off-market buy-back. Participating in these buy-backs generates an attractive after-tax return for the Trust. This was funded by trimming our holdings in the other banks. At month end, stock numbers were 32 and cash was 5.0%.

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.

Despite the current COVID outbreak, many businesses are seeing strong operating conditions. Further, corporate balance sheets are generally strong. In particular, the banks are holding significant surplus capital and the resources sector is largely debt free and generating very strong cash flows. This should underpin an attractive level of dividends in the year ahead. In addition, many companies are likely to undertake capital returns such as off-market buy-backs to return excess capital and franking credits to investors.

As a result, the Trust is currently targeting a 30% increase in FY22 net distribution to 5.5 CPU. At the opening unit price of \$1.02, this represents a net distribution yield of 5.5% or 7.5% including franking.

Outlook

We believe that 2021 may well mark a significant turning point for the global economy and markets, with the accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings. Further, this should also usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop.

Domestically, while the current COVID outbreak and associated lockdowns are a clear setback, 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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Signatory of:
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