Perennial Value Shares for Income Trust

Monthly Report April 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.5	4.9	6.0	8.1	7.5	6.2
Capital Growth	-0.4	7.7	2.6	6.6	-0.8	-1.7	0.2
Total Return	0.1	9.2	7.5	12.6	7.3	5.8	6.4
Franking Credits#	0.2	0.7	2.2	2.6	3.5	3.0	2.3
Income Distribution including Franking Credits	**0.7**	**2.2**	**7.1**	**8.6**	**11.6**	**10.5**	**8.5**
Benchmark Yield including Franking Credits*	0.0	2.2	4.9	5.8	5.2	5.6	5.9
Excess Income to Benchmark#	**0.7**	**0.0**	**2.2**	**2.8**	**6.4**	**4.9**	**2.6**

^Since inception: December 2005. Past performance is not a reliable indicator of future performance. #Franking credits are an estimate as tax components will only be known with certainty at the end of the financial year. *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.

Overview

Markets finally succumbed to combined concerns around the impact of rising interest rates, the war in Ukraine and spreading lockdowns in China, with most major indices posting losses in April.

The Australian market again performed relatively better, with the ASX300 Accumulation Index declining by a modest -0.8% over the month. The risk-off move in markets saw the more defensive sectors of the market outperform

Looking to the current financial year, 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. Any surplus income will be distributed with the June distribution.

Fund Characteristics

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 $21 million

Distribution Frequency
Monthly

Minimum Initial Investment
$25,000

Trust Inception Date
December 2005

Fees
0.92%

APIR Code
IOF0078AU

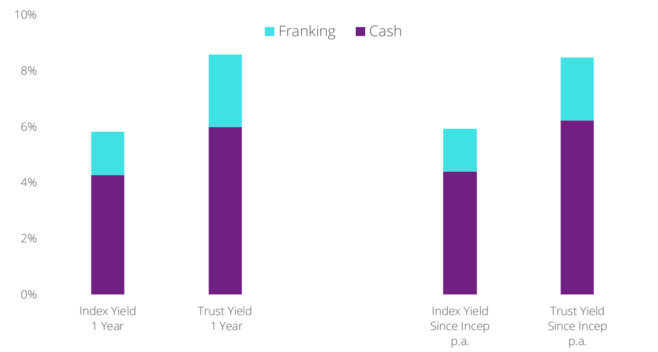
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.0	16.4
Price to Free Cash Flow (x)	11.3	14.2
Gross Yield (%)	7.0	5.2
Price to NTA (x)	2.8	3.0

Source: Perennial Value Management. As at 30 April 2022

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.

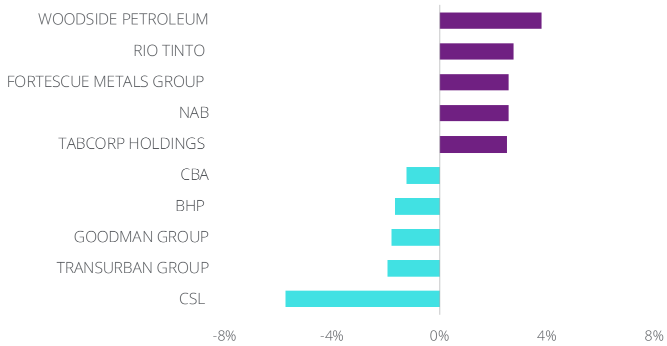
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

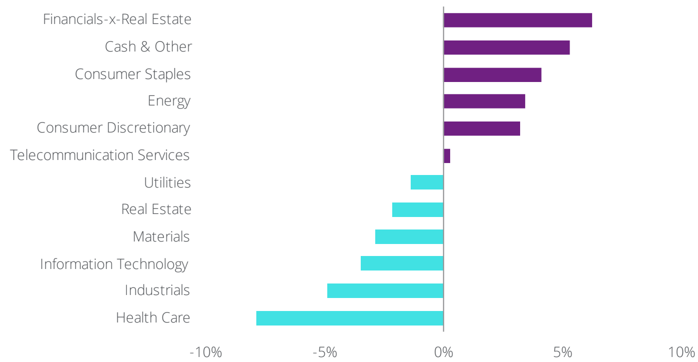


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +0.3%, including franking credits and after-fees in April, outperforming the Index by +1.1%. For the last 12 months, the Trust has delivered a return of +15.3%, outperforming the Index by +3.6%. This demonstrates the Trust's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

Graincorp (+21.6%), continued its rally, after upgrading guidance yet again. Eastern Australian agricultural markets are experiencing a near perfect storm of favourable growing conditions, high soft commodity prices and strong export demand. Conditions have been strong for the last 2 years but uncertainty stemming from the Black Sea region has driven a further spike in grain prices and strong demand for reliable Australian supplies into the global market.

Other strong performers included packaging company, Orora (+10.8%), which hosted an investor day highlighting the strong performance of its Australian glass and can manufacturing operations and the ongoing recovery in its US business. This is a very well-managed company, offering defensive earnings, with a strong balance sheet to support growth opportunities.

Ampol (+10.5%), outperformed after the NZ competition regulator approved its proposed acquisition of Z Energy. This transaction is expected to be very positive for the company, creating a Trans-Tasman leader in transport fuels and convenience retail, with significant additional scale. The company also announced its March quarter earnings, which saw very strong margins from its refining operation. The increased level of volatility and geopolitical uncertainty has highlighted the importance of maintaining a level of domestic refining capacity, with the government having moved to underwrite the profitability of the sector.

United Malt (+10.1%), also performed well, despite lowering guidance for the current financial year. While earnings are presently being impacted by a range of COVID-related supply chain and logistical disruptions, underlying demand is strong, and earnings are expected to recover strongly as these abate. Further, this company is a potential takeover target, with attractive market positions in a consolidating industry.

Insurance stocks IAG (+3.7%) and Suncorp (+3.1%) both outperformed with continuing strength in the insurance premium rate cycle and the expected benefits from higher interest rates which will boost the earnings from their investment portfolios.

Stocks which underperformed during the month included our resources holdings, which were generally lower on the back of concerns over the Chinese growth outlook, following renewed COVID lockdowns in a number of cities. We remain positive on the outlook for the resources sector as while lockdowns will impact growth in the current quarter, we expect that the Government will implement meaningful stimulus measures in the second half of the year. This is expected to support commodities demand and will come in the context of generally tight supply conditions for most commodities.

Trust Activity

During the month, we took profits and reduced our holding in Graincorp. This has been a very strong performer, with its share price nearly doubling from our entry price. Proceeds were used to establish positions in James Hardie and Treasury Wine Estates. These are both high quality companies, which have been sold down to attractive levels and where we see significant long-term upside

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 various uncertainties, many businesses are seeing strong operating conditions. Further, corporate balance sheets are generally strong. In particular, the banks are well-capitalised 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

On balance, we view the outlook as positive, with economies recovering as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos and Consumer Staples.

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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