Perennial Value Shares for Income Trust

Perennial Partners

Monthly Report January 2024

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	0.5	1.7	3.9	6.5	8.4	8.7	8.0	7.7	6.6
Capital Growth	1.0	10.4	4.4	0.3	1.7	-0.4	-1.8	-1.3	-0.2
Total Return	1.5	12.1	8.3	6.8	10.1	8.3	6.2	6.4	6.4
Franking Credits#	0.2	0.7	1.4	2.2	3.3	3.7	3.2	2.8	2.5
Income Distribution including Franking Credits	**0.7**	**2.4**	**5.3**	**8.7**	**11.7**	**12.4**	**11.2**	**10.5**	**9.1**
Benchmark Yield including Franking Credits*	0.0	0.9	3.0	5.8	5.9	5.6	5.7	5.8	5.9
Excess Income to Benchmark#	**0.7**	**1.5**	**2.3**	**2.9**	**5.8**	**6.8**	**5.5**	**4.7**	**3.2**

^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 were positive again in January, with the S&P500 up another +1.6% to a record high, and the NASDAQ lifting another +1.0%, to be up +18.9% and +30.9% respectively over the last 12 months. The Nikkei 225 surged a further +8.4% to be up +32.8% for the last 12 months, while the FTSE 100 eased -1.3%. Increasing concerns over the Chinese economic outlook saw the Shanghai Composite down another -6.3%, leaving it down -14.3% for the last 12 months.

The Australian market was also positive, with the ASX300 Accumulation Index rising +1.1%. Better than expected inflation data buoyed hopes of interest rate cuts.

The Trust is currently targeting FY24 net monthly distributions of 0.493 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of 5.3%.

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 $19 million

Distribution Frequency
Monthly

Minimum Initial Investment
$25,000

Trust Inception Date
December 2005

Fees
0.92%

APIR Code
IOF0078AU

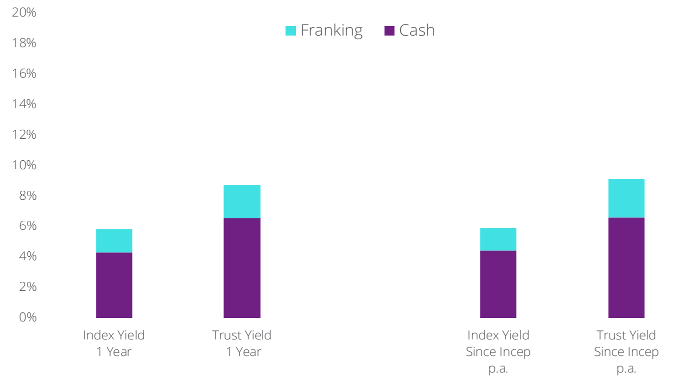
Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.9	16.0
Price to Free Cash Flow (x)	13.2	14.7
Gross Yield (%)	5.7	5.1
Price to NTA (x)	2.3	2.7

Source: Perennial Value Management. As at 31 January 2024

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.

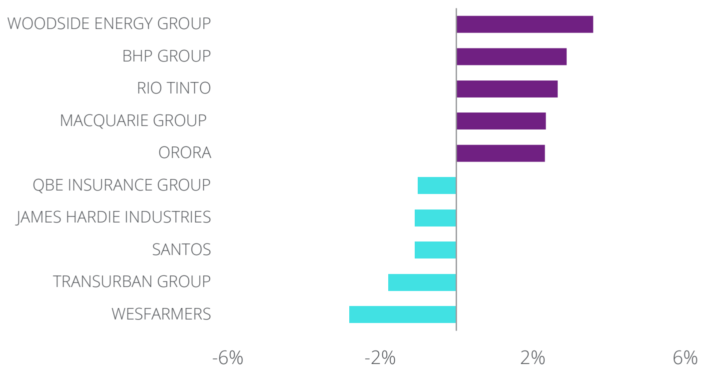
Franking Levels (%)			
FY23	74.3	FY20	94.4
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2

Distribution Yield

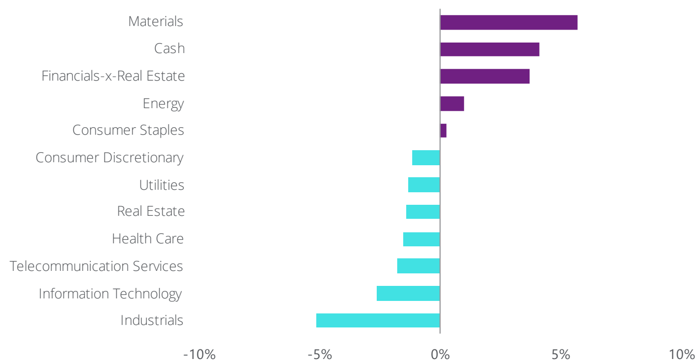


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +1.7%, including franking credits and after-fees in January, outperforming the benchmark by +0.6%.

Key contributors to performance over the month, included packaging company, Orora (+7.7%). This stocks has begun to recover some of the ground it lost after announcing the acquisition of a French bottle-maker, serving the high-end spirits market. The market is sceptical of this acquisition, and time will tell if this is concern is warranted, however with the company trading on a FY25 P/E of only around 12x, there is not a lot of optimism baked into the share price. Further, the pick-up in Australian wine export volumes is positive for its domestic glass bottle business and the ongoing strength in the US economy bodes well for its US packaging operations. This is in addition to the baked-in earnings growth from pre-contracted capacity expansions in its Australian aluminium can manufacturing business.

The rally in bond yields from their November lows, benefitted insurers, with holdings in QBE (+7.0%) and IAG (+6.7%) both outperforming. Insurers are positively leveraged to rising interest rates as this increases the earnings on their reserves, which are generally invested in fixed income securities. In addition, industry data suggests that the premium pricing cycle remains strong.

Gaming machine manufacturer, Aristocrat Leisure (+9.0%), was also strong, boosted by positive US economic sentiment (meaning lots of people likely to take vacations to Vegas!)

Leading health insurer, Medibank Private (+7.9%) also outperformed, with claim volumes remaining low, reflecting subdued activity levels across many parts of the domestic healthcare sector.

Also in the healthcare sector, CSL (+5.3%), outperformed on the back of positive industry data showing strong demand for their core plasma products.

The main detractors to performance over the month were our Resource holdings, which were weaker on the back of ongoing negative Chinese economic data. In contrast to sentiment around the soft-landing and cyclicals, which is at near euphoric levels, sentiment towards China and Resources is extremely negative. This is reflected in relative valuations, for example with CBA trading on a record valuation, while the bulk miners are trading on single-digit cash flow multiples based on spot commodity prices (and being virtually debt-free). As a result, we continue to see a good opportunity in the Resources sector.

Trust Activity

During the month, we took profits and reduced our holding in Seven Group and CBA, which had performed very strongly over recent times. Proceeds were used to increase our position in Woodside Energy and Lottery Corporation. 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.

Looking to the current financial year, while the economic outlook is more uncertain, most companies are in good financial shape, and we expect healthy dividends. The Trust is currently forecasting a flat monthly net cash distribution of 0.493 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 5.3%.

We do not expect the same level of buy-backs or special dividends in the current year compared to the high levels seen in recent years, as many companies have now restored their balance sheets to their desired gearing ranges.

Outlook

Despite higher interest rates, economic data continues to be robust in most key developed markets, while inflation continues to ease back towards the Central Banks' target levels. While there is some evidence of softening, the consensus view has become that rate cuts are in the offing and a soft landing will be achieved.

This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

The Australian economy continues to look reasonably healthy, however, GDP growth is weakening. While activity is receiving a strong boost from record immigration, per capita GDP growth is negative. On the positive, the prospect of RBA interest rate cuts is positive for sentiment and the upcoming tax cuts will also boost disposable income. Further, despite the Chinese economic woes, to date the Resources sector continues to be strong and the Agricultural sector is also experiencing positive conditions.

Given this backdrop, we are taking a neutral stance towards interest rates and balancing our cyclical exposures with solid defensives.

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.

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