Perennial Value Shares for Income Trust

MONTHLY REPORT MARCH 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.2	4.2	7.2	9.1	7.9	6.3
Capital Growth	2.3	3.8	13.9	31.9	-4.7	-1.7	-0.4
Total Return	2.7	5.0	18.1	39.1	4.4	6.2	5.9
Franking Credits#	0.2	0.4	1.8	3.0	4.0	2.9	2.4
Income Distribution including Franking Credits	**0.6**	**1.6**	**5.9**	**10.2**	**13.0**	**10.8**	**8.6**
Benchmark Yield including Franking Credits*	0.9	1.6	3.9	5.0	4.9	5.7	6.0
Excess Income to Benchmark#	**-0.3**	**0.0**	**2.0**	**5.2**	**8.1**	**5.1**	**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

- Global markets performed strongly in March, driven by continuing positive sentiment around vaccine rollouts and the prospect of large stimulus in the US, with all major indices delivering positive returns. This was despite the ongoing increase in bond yields.
- The Australian market also performed strongly, with the ASX300 Accumulation Index finishing the month up 2.3%. While there was no strong theme in the market, the more defensive sectors tended to outperform, while the more cyclical 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 Stephen Bruce	**Trust FUM** AUD $20 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)	16.1	17.3
Price to Free Cash Flow (x)	13.0	15.0
Gross Yield (%)	6.1	4.9
Price to NTA (x)	2.4	2.6

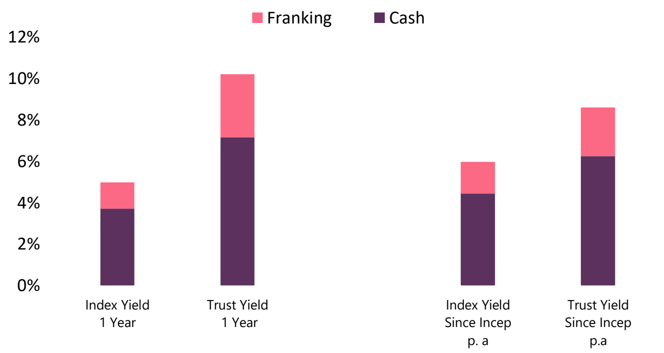
Source: Perennial Value Management. As at 31 March 2021

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 (%)

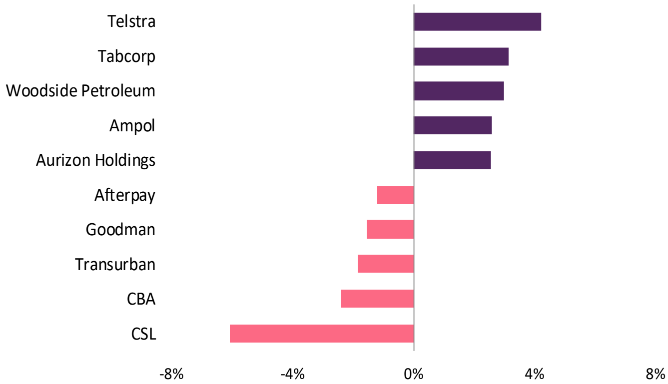
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

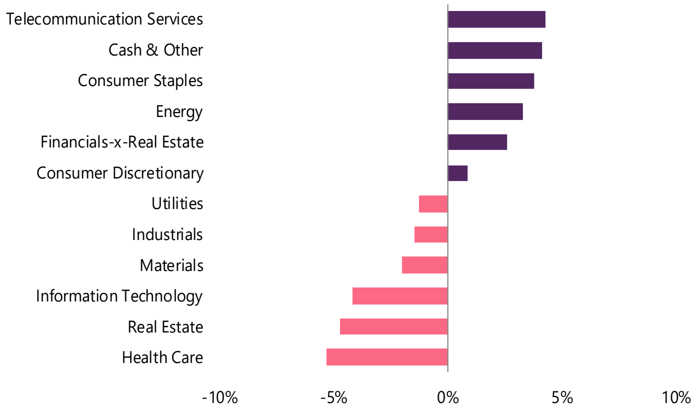


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

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 2.8% in March, outperforming the index by 0.2%. Over the last 12 months, the Trust has performed strongly, delivering a return of +42.0%, outperforming the index by 2.4%. This performance highlights the Trust's leverage to the improving, post-COVID economy. Historically, value style investing has delivered significant outperformance during economic recoveries.

As the economy recovers, inflation expectations are likely to increase and this will lead to higher bond yields and increasing interest rates. While rising rates will present a headwind to growth, the most at-risk sectors are those with the most extreme valuations such as the Technology sector. By contrast, the more cyclical sectors of the market are likely to outperform given their leverage to an improving growth environment and their less-demanding valuations. This is the environment in which value investing typically outperforms.

Stocks which contributed positively over the month included several agricultural stocks, including Graincorp (+24.4%), which is experiencing very strong operating conditions due to improved seasonal conditions. While management has made significant improvement to the business over recent years, the benefits had been obscured by the drought. Going forward, however, the company has upgraded expectations for mid-cycle earnings. Further, the business owns strategically valuable port assets and has a very strong balance sheet. Global malt producer, United Malt Group (+11.5%) also performed well. This company is leveraged to the global reopening, as malt demand will increase as the hospitality industry recovers post-pandemic.

Telstra (+10.4%) performed well, with the company announcing further progress on its internal restructure to separate the network assets from the operating business. This process is setting the business up to sell off certain of these assets such as the mobile phone towers. Selling these assets to financial investors such as infrastructure funds presents an opportunity for the company to realise a significant valuation uplift and underpins dividend payments.

Other holdings which performed well included Aristocrat Leisure (+13.1%), Sonic Healthcare (+11.7%), Platinum Asset Management (+10.6%), Perpetual (+10.3%), Macquarie Group (+7.3%), Wesfarmers (+7.0%), Orora (6.3%) and Tabcorp (+5.2%).

The Trust also benefitted from not holding a number of expensive growth stocks which underperformed, including Afterpay (down 15.1%) and A2 Milk (down 12.9%). Growth stocks such as these have performed very strongly in the low-rate, low-growth environment of recent years. However, life may become significantly more difficult for them should rates continue to rise and growth recovers in the broader economy. Further, these sorts of stocks pay little in the way of dividends

The Trust's iron ore holdings weakened following the announcement of steel production cuts in parts of China. However, we continue to view the outlook for the resources sector earnings and dividends positively. While the strength in the iron ore price to date has primarily been driven by Chinese demand, which has remained strong throughout the pandemic, further demand is likely as demand from the rest of the world picks up again. Similarly demand for copper, which is produced by both BHP and Rio Tinto is likely to remain strong.

Other holdings which detracted from performance included energy stock Woodside Petroleum (down 2.3%), which eased on a slight pull back in the oil price after a strong run and IAG (down 6.2%). We remain positive on the outlook for each of these holdings.

Trust Activity

During the month, we increased our holdings in BHP and Rio Tinto, whose share prices had eased following news of steel production cuts. As mentioned previously, we remain positive on the outlook for the earnings of the resources sector and expect it to be a strong source of dividend income. This was funded by taking profits and trimming our holdings in Macquarie Group and packaging company Orora. At month end, stock numbers were 32 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 March of 0.35cpu, bringing the total income return for the 9 months of the financial year to date to 4.2% or 5.9% 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

The start of 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, 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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Signatory of:

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