Perennial Value Shares for Income Trust

Monthly Report June 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Income Distribution	6.1	6.7	10.9	10.9	7.5	8.1	6.6
Capital Growth	-13.1	-16.1	-13.6	-13.6	-4.6	-3.9	-0.8
Total Return	-7.0	-9.4	-2.7	-2.7	2.8	4.2	5.8
Franking Credits#	2.6	2.9	5.0	5.0	3.2	3.5	2.5
Income Distribution including Franking Credits	**8.7**	**9.6**	**15.9**	**15.9**	**10.7**	**11.6**	**9.1**
Benchmark Yield including Franking Credits*	0.2	0.7	5.0	5.0	4.8	5.4	5.9
Excess Income to Benchmark#	**8.5**	**8.9**	**10.9**	**10.9**	**5.9**	**6.2**	**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 declined sharply in June, with most major indices falling, as the market began to worry about the impact of rising interest rates on the global growth outlook.

The Australian market also fell in June, with the ASX300 Accumulation Index declining by -9.0% over the month.

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 targeting a 5% increase in FY23 net monthly distributions to 4.9 CPU. Based on the month-end unit price, this equates to an annualised cash distribution yield of around 6.7% and 9.6%, including franking credits.

We do not expect to see the same level of buy-back or special dividend activity in the current financial year.

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

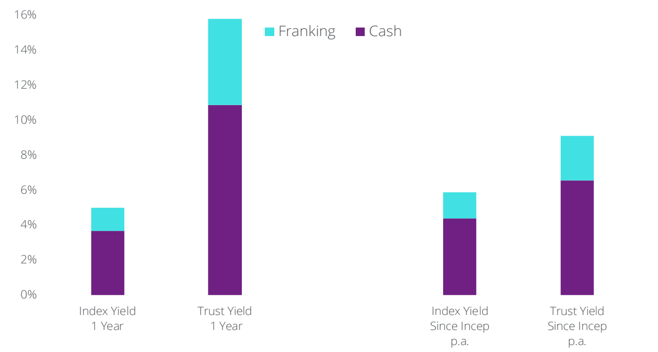
Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	12.8	14.4
Price to Free Cash Flow (x)	10.7	12.8
Gross Yield (%)	7.5	6.0
Price to NTA (x)	2.5	2.5

Source: Perennial Value Management. As at 30 June 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.

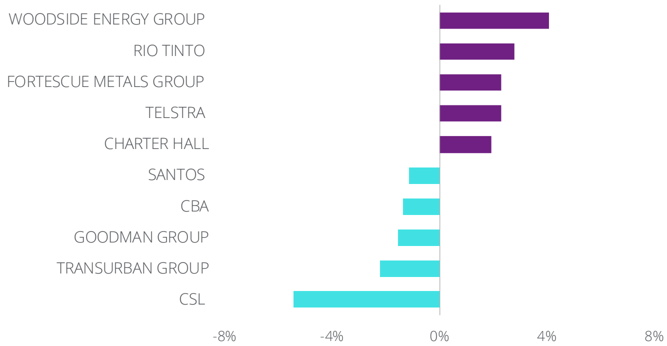
Franking Levels (%)			
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6

Distribution Yield

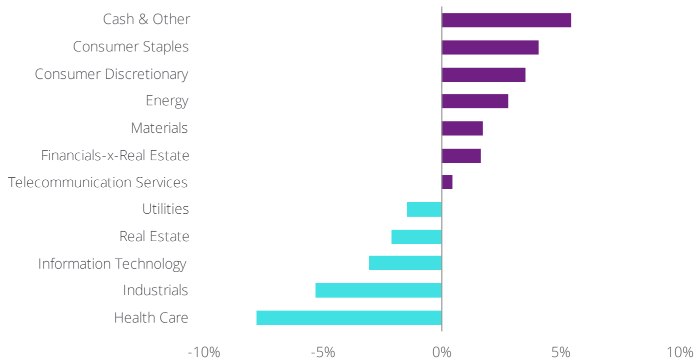


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned –4.5%, including franking credits and after-fees in June, outperforming the market by +4.5%.

Better performing stocks during the month included energy stock, Woodside Energy Group (+7.0%), which rallied on the continued strength in the oil price and the completion of its merger with the BHP Petroleum business. In addition to delivering significant cost savings, the merger has significantly increased the scale and diversification of Woodside's business.

While our portfolio is overall positioned to benefit from an ongoing cyclical recovery as COVID recedes, we balance this with a selection of high-quality defensive holdings. During the month, the flight to safety saw outperformance from our defensive holdings, with Woolworths (+2.7%), Coles (+1.6%), Telstra (-0.8%) and CSL (1.0%) all holding up well. Each of these stocks in experiencing positive drivers, with Woolworths and Coles likely to be benefitting from food inflation, Telstra seeing improved profitability in its mobile business and CSL recovering from the COVID disruption to its business. In selecting our defensive holdings, we are looking for stocks whose earnings will be relatively protected in a slower growth environment, but importantly will not be too impacted by rising interest rates. This means finding stocks which also have reasonable valuations and low levels of debt. Insurance holdings QBE (+1.0%) and Suncorp (-3.3%) also fit this bill, with earnings which are both relatively defensive and positively leveraged to rising interest rates, which boost the returns on their investment portfolios.

Holdings in gaming stocks also performed well, with wagering company, Tabcorp (+14.5%), rallying strongly post its demerger from Lotteries Corporation (-4.5%), which also outperformed. The demerger aims to realise value by creating two businesses with quite different characteristics. Lotteries Corporation provides a very stable, annuity-like revenue stream, underpinned by long-term licences, worthy of a high valuation. By contrast, the Tabcorp wagering business, which has been challenged by competition in recent years, is likely to be taken over as part of the consolidation which is occurring in the sector. Aristocrat Leisure (+1.7%) also outperformed over the month.

Other outperformers included Ampol (+2.6%), which is currently enjoying very strong refining margins and Medibank Private (+0.9%), which is experiencing lower than average claims as people defer medical procedures while at the same time improving retention of existing policyholders as people's focus on access to healthcare increases due to COVID etc. Treasury Wine Estates (-4.6%), also performed relatively well,

Resources holdings detracted from performance over the month, with most metal prices declining on fears of a global slowdown impacting demand as well as the near-term impacts of the ongoing lockdowns in China. The iron ore stocks underperformed modestly, while South32 (-21.2%) fell sharply.

While the risks to global growth are clearly increasing, we believe that demand for commodities will remain strong as the Chinese roll out increasingly aggressive stimulus measures to boost growth in the second half of the year. We expect these measures will likely focus on the infrastructure and property sectors and be positive for resources demand and commodity prices. Further, supply is expected to remain constrained in most commodities, with rising costs and ongoing disruptions to production being supportive of prices.

Trust Activity

During the month, we took profits and reduced our holding in Lotteries Corporation, reinvesting the proceeds to increase our holding in Tabcorp as, post-demerger, this looks to offer the greater amount of upside. We also initiated positions in CSL and South32. Both of these companies have been sold off sharply and we believe offer significant upside. CSL is entering an earnings upgrade cycle, while South32 is trading on an extremely cheap valuation. At month end, stock numbers were 35 and cash was 5.4%.

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 5% increased in monthly net cash distributions to 4.9 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 6.7% or 9.6%, including franking credits.

We do net expect the same level of off-market buy-backs or special dividends in the coming year compared to the high level seen in FY22, as many companies have now restored their balance sheets to their desired gearing ranges.

Outlook

While growth is clearly slowing, on balance, we view the outlook as sound, with economies recovering as COVID recedes. Economic data continues to be sound 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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