Perennial Value Shares for Income Trust

MONTHLY REPORT NOVEMBER 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Income Distribution	0.4	1.4	2.3	5.3	9.3	7.7	6.3
Capital Growth	12.7	8.6	8.7	-11.5	-4.0	-3.1	-0.7
Total Return	13.1	10.0	11.0	-6.1	5.3	4.6	5.6
Franking Credits#	0.2	0.6	1.0	2.4	4.1	2.9	2.3
Income Distribution including Franking Credits	**0.6**	**2.0**	**3.3**	**7.7**	**13.4**	**10.6**	**8.6**
Benchmark Yield including Franking Credits*	0.3	0.9	1.8	3.7	5.3	5.7	6.0
Excess Income to Benchmark#	**0.3**	**1.1**	**1.5**	**4.0**	**8.1**	**4.9**	**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 rallied strongly in November, as the US election result and positive vaccine announcements caused markets to look optimistically towards a post-Trump, post-COVID future. This saw all major global indices deliver double-digit positive returns.
- The Australian market also performed strongly, with the ASX300 Accumulation Index delivering its strongest return in many years, finishing the month up +10.2% to be only 9% below its pre-COVID high.
- 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)	16.4	18.3
Price to Free Cash Flow (x)	14.8	16.5
Gross Yield (%)	5.9	4.3
Price to NTA (x)	2.1	2.4

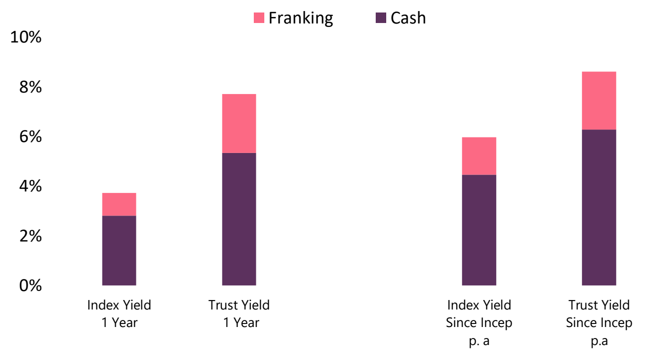
Source: Perennial Value Management. As at 30 November 2020

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 (%)

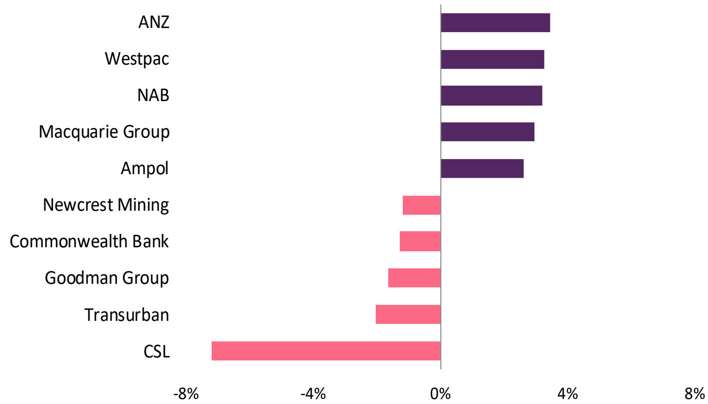
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9
FY18	99.2	FY15	88.4

Distribution Yield

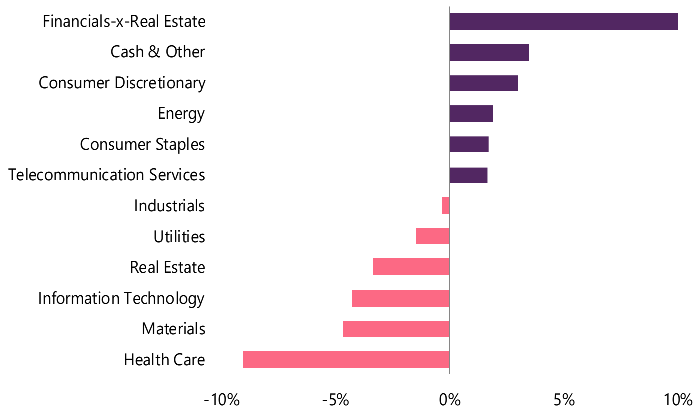


Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets rallied strongly in November, as US election result and positive vaccine announcements caused markets to look optimistically towards a post-Trump, post-COVID future. This saw all major global indices deliver double-digit positive returns on the prospect of a recovery in economic activity and growth as well as a return to a more stable global political environment.

The Australian market also performed strongly, with the ASX300 Accumulation Index delivering its strongest return in many years, finishing the month up +10.2% to be only 9% below its pre-COVID high. The Trust delivered a very strong return of +13.1%, outperforming the market by 2.9%, as improving global growth prospects saw markets begin to rotate out of expensive growth stocks and towards the better value, more cyclical parts of the market.

Energy (+28.2%) was the best performing sector over the month, as the prospect of economic reopening lifted the oil price, which had been languishing at low levels since the onset of COVID. The Trust's holdings in Woodside Petroleum (+27.7%) performed strongly as a result.

Financials (+16.1%) also performed strongly, led by the major banks, which were up an average of +18.9%. Profits results and trading updates from the banks during the month highlighted that, while earnings were under pressure due to slow credit growth and low interest rates, the ultimate outcome in terms of bad debts due to COVID impacts is likely to be significantly less bad than initially feared. This is best highlighted by the fact that the vast majority of both mortgages and business loans have been able to resume full repayments once their deferral period has ended. Importantly, capital positions were strong and dividend payments were resumed. Given the high level of provisioning undertaken, and the strong capital positions, as conditions improve it is likely that the banks will be able to increase their dividends significantly over the coming years. Combined with their undemanding valuations, we still see meaningful upside and remain overweight the sector.

Other financial stocks which performed strongly on the rising market included asset managers Platinum (+36.4%) and Perpetual (+23.1%), while Tabcorp (+16.7%) rallied on takeover speculation and Telstra (+14.6%) rose following an investor day which highlighted the latent value in its infrastructure assets.

Agricultural stock Graincorp (+25.4%), rallied on the prospect of a very large east coast grain crop driving strong earnings over the coming year and into the following one and tourism and leisure stock Event Hospitality (+29.7%) performed well with the reopening of borders and easing of other restrictions. Mining services companies Monadelphous (+39.9%) and Seven Group (+13.3%) also gained on continued strength in the resources sector.

Ampol (+18.2%) outperformed after announcing a $300m off-market buy-back, in which the Trust will participate. These transactions are used to distribute surplus franking credits to investors and are structured in such a way as to generate attractive after-tax returns to investors on low tax rates.

Holdings which detracted from performance over the month tended to be the more defensive holdings, including Sonic Healthcare (-5.4%) which eased after a strong run, Woolworth (-3.1%), Coles (+0.6%), Orora (+2.7%) and Amcor (+3.9%). We remain comfortable with each of these holdings.

Trust Activity

November was a quiet month in terms of portfolio activity, with the only changes being taking profits and reducing holdings in Amcor and Sonic Healthcare as well as reducing the holding in Suncorp, which faces some risk from business interruption insurance claims. Proceeds were used to increase the holding in Macquarie Group. At month end, stock numbers were 35 and cash was 4.0%.

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.

The Trust declared a distribution for November of 0.35cpu, bringing the total income return for the last 12 months to 5.3% or 7.7% including franking credits.

Looking forward, the outlook for dividends for FY21 will become clearer over the next few months. While it is certain that many companies will be reducing their dividends, the market overall should still be expected to generate an attractive level of dividend income in the year ahead, particularly compared to other alternative sources of yield. In addition, we may seek to enhance the income generation of the Trust by undertaking limited call-writing. At this stage, we are targeting a pre-tax distribution yield of approximately 7.0% for FY21.

Outlook

November may well mark a significant turning point for the global economy and markets, with the prospects of a near-term roll-out of an effective COVID vaccine underpinning the reopening of economies and a return to growth. Importantly, 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 win with a Republican Senate means there is likely to be increased fiscal stimulus, although not of the scale originally proposed. Similarly, tax increases are less likely and interest rates are likely to remain low. On balance, this should be positive for economic growth, corporate earnings and markets overall.

The domestic outlook seems increasingly positive, with COVID largely under control, activity levels increasing, restrictions being eased and borders reopening. Key indicators around employment, loan deferrals and the property market are all surprising to the upside. Further, 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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Significant Investor Visa (SIV) Compliant

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