# Perennial Value Shares for Income Trust

**Monthly Report**
30 November 2015

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception^ |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Shares for Income Trust* | -0.8 | -1.5 | -5.7 | 1.1 | 11.1 | 9.7 | 6.9 |
| S&P/ASX 300 Accumulation Index | -0.7 | 0.7 | -3.0 | 2.1 | 9.2 | 6.9 | 5.3 |
| **Value Added (Detracted)** | **-0.1** | **-2.2** | **-2.7** | **-1.0** | **1.9** | **2.8** | **1.6** |
| Capital Growth | -0.8 | -5.7 | -9.8 | -7.0 | 4.6 | 3.3 | 0.6 |
| Income Distribution | 0.0 | 4.1 | 4.0 | 7.5 | 5.7 | 5.6 | 5.5 |
| Net Performance^^ | -0.8 | -1.6 | -5.8 | 0.5 | 10.3 | 8.8 | 6.1 |

*Gross Performance. ^Since inception: December 2005. Past performance is not a reliable indicator of future performance.

## Perennial Value Shares for Income Trust

The Trust aims to provide investors with an attractive level of tax effective income, which the Trust aims to pay via quarterly distributions. The Trust aims to provide a dividend yield, adjusted for applicable franking credits and before fees, above that provided by the S&P/ASX 300 Accumulation Index*.

Portfolio manager:
Stephen Bruce

Risk profile:
High

Trust FUM (as at 30 November 2015):
AUD 43 million

Income distribution frequency:
Quarterly

Team FUM (as at 30 November 2015):
AUD 6.6 billion

Minimum initial investment:
$25,000

Trust inception date:
December 2005

APIR code:
IOF0078AU

*Gross dividend yield.

- **Over the twelve months to September 2015, the Trust has delivered a pre-tax distribution yield (i.e. including franking credits and after fees) of 7.5%.This compares very favourably to twelve month term deposit rates of 3.3% available over the same period.**
- **In Australia, the October jobs report was very strong, delivering an unexpected near 60,000 net gain in employment and a fall in the jobless rate back below 6.0%.**
- **Amalgamated Holdings (up 7.6%) was the best performing stock in the portfolio.**

### Trust Characteristics

In line with the objective, the Perennial Value Shares for Income Trust (the Trust) continues to invest in a portfolio of financially sound companies which demonstrates superior dividend yield characteristics to the overall stock market.

### Stock and Portfolio Performance

Over the twelve months to September 2015 (date of the last quarterly distribution), the Trust has delivered a pre-tax distribution yield (i.e. including franking credits and after fees) of 7.5%. This compares very favourably to the gross yield of the market of 5.9% and to twelve month term deposit rates of 3.3% available over the same period (Source: Reserve Bank of Australia).

During November, markets were quiet, with the S&P500 up 0.1%, FTSE down 0.1%, Nikkei up 3.5% and Shanghai Composite up 1.9%. Globally, the clear highlight of the month was the release of a strong US employment report, with 271,000 jobs added in October, and the jobless rate slipping to 5.0%, strengthening expectations that the Federal Reserve (the Fed) will start raising rates in December.

In Australia, the S&P/ASX300 Accumulation Index (the Index) fell 0.7%. In addition, the October jobs report was also very strong, delivering an unexpected near 60,000 net gain in employment and a fall in the jobless rate back below 6.0%. The strong results were uniform across states and align with leading indicators of employment, which have been positive. There have also been healthy results for business conditions, which held at recent highs, and consumer confidence, which bounced, despite the banks' recent mortgage rate hikes. Retail sales data for September, however, was sluggish. Overall, this is consistent with our more positive outlook for the domestic economy as the transition to the non-resources sector takes place. The Reserve Bank of Australia (RBA) left the cash rate steady at 2.0% and the Australian Dollar (AUD) drifted slightly higher over the month to close at 72.3 US cents, despite further falls in key commodity prices.

Sector performance was mixed, with healthcare (up 5.2%) the best performing sector, followed by information technology (up 4.5%), financials (up 2.5%), industrials (up 1.0%) and consumer discretionary (up 0.5%). Resources lagged, with metals and mining (down 16.5%) and energy (down 1.3%), while Real Estate Investment Trusts (REITs) (down 2.8%), utilities (down 1.4%), consumer staples (down 1.3%) and telecommunications (down 0.5%) all detracted.

Amalgamated Holdings (up 7.6%) was the best performing stock in the portfolio. With its exposure to domestic tourism, it offers an excellent way to capitalise on the expected long-term growth of this sector, driven by the growth of the middle-classes in Asia, thus providing a way to benefit from regional growth in a "post-resources boom" environment. Boral (up 5.2%) also rallied and is well-placed to benefit from ongoing elevated levels of housing activity and the coming increase in infrastructure investment. Aristocrat Leisure (up 2.8%) also outperformed after delivering a strong FY15 result with Earning per Share (EPS) up 61.0%, driven by market share gains in the key US and Australian markets and the acquisition of the VGT business. This stock has been a strong contributor to the portfolio, delivering a total return of 48.4% over the past twelve months.

The major banks all outperformed, rising by an average of 3.3%. Post their sell-off in recent months, they are offering attractive valuations with a sector average FY16 P/E of 12.1x and gross yield of 8.7%. The banks have all significantly increased their capital levels in recent times and, while we expect only modest earnings growth, dividends should be sustainable absent a material increase in bad debts. Given our benign outlook for the domestic economy, we do not expect this to occur.

The main detractors from performance were our resource holdings, with BHP (down 21.4%) the worst performing stock in the portfolio due to weaker commodity prices and the tailings dam failure in Brazil. We are very disappointed by the issue at Samarco and will continue to monitor developments from an Environmental, Social and Corporate Governance (ESG) perspective. Rio Tinto (down 9.4%) and Iluka Resources (down 10.4%) also underperformed.

The outperformance of the healthcare sector also weighed on our relative performance, as we remain underweight this sector which trades on an average FY16 P/E of 22.8x and, in our view, does not offer attractive valuation. This compares to our portfolio which is trading on a FY16 P/E of 14.0x. Investors should note that while healthcare stocks do have defensive characteristics on the demand side, they are subject to a high levels of regulatory risk given the significant proportion of their revenue derived from government funding

## Portfolio Activity

During the month we exited our holding in South32, as the decline in commodity prices has reduced the likelihood of the company paying dividends. Proceeds were used to increase our holdings in ANZ (FY16 gross yield 9.6%), Westpac (9.1%) and Macquarie Group (5.6%).

At month end, stock numbers were 25 and cash was 4.3%.

## Market Outlook

While there has been a heightened level of volatility in markets recently, the economic fundamentals of major economies overall seem to be improving slowly and this should drive economic and earnings growth. Further, we believe the current very low interest rates highlight the relative attractiveness of financially sound, high dividend yielding equities.

## Top 10 Holdings

| Stock name | Trust weight % | Index weight % |
|---|---|---|
| Commonwealth Bank. | 9.1 | 9.9 |
| Westpac Banking Corp | 8.9 | 7.8 |
| ANZ Banking Grp Ltd | 8.2 | 5.7 |
| Telstra Corporation. | 8.0 | 4.8 |
| National Aust. Bank | 7.7 | 5.6 |
| BHP Billiton Limited | 5.7 | 4.2 |
| AGL Energy Limited. | 5.2 | 0.8 |
| Amalgamated Holdings | 4.9 | 0.0 |
| Woodside Petroleum | 4.6 | 1.6 |
| Macquarie Group Ltd | 4.5 | 2.0 |

## Asset Allocation

| Sector | Trust weight % | Index weight % |
|---|---|---|
| Energy | 4.6 | 4.4 |
| Materials | 12.4 | 12.3 |
| Industrials | 0.8 | 8.2 |
| Consumer Discretionary | 10.2 | 4.8 |
| Consumer Staples | 1.8 | 6.8 |
| Health Care | 0.0 | 7.0 |
| Financials-x-Real Estate | 47.9 | 39.5 |
| Real Estate | 4.9 | 8.3 |
| Information Technology | 0.0 | 1.1 |
| Telecommunication Services | 8.0 | 5.3 |
| Utilities | 5.2 | 2.3 |
| Cash & Other | 4.3 | |

Rounding accounts for small +/- from 100%.

For all other enquiries. please contact us on 1300 730 032
or visit www.perennial.net.au

Signatory of:

PRI Principles for Responsible Investment

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