



IOOF/Perennial Value Shares Trust records lower franking levels for 2004-05

by John Murray, portfolio manager of the IOOF/Perennial Value Shares Trust

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The Australian share market's record run in recent times has generated handsome rewards for investors in the IOOF/Perennial Value Shares Trust. During the market's rise last financial year, Perennial Value's investment process has seen the Trust lock in significant capital gains on certain stocks. These realised gains have automatically lowered the Trust's franking level for 2004-05.

The Trust recorded a franking level of 26.44% during 2004-05 compared with 45% last financial year and 93.7% in 2002-03.

Perennial Value's investment process entails selling many of the stocks that went from "cheap" to "expensive" during the share market's surge of 53.4% over the past two financial years (as measured by the S&P/ASX 300 Accumulation Index).

As a value manager that seeks *cheap stocks that are good businesses*, Perennial Value naturally sells stocks that become "expensive", thereby realising the capital gains which in turn lower franking levels.

Some of the rising stocks that Perennial Value sold last financial year included resources companies BHP Billiton Ltd. and Woodside Petroleum Ltd. and surfwear and accessories company Billabong International Ltd.

The Trust sold its Billabong shares, for example, at an average price of \$11.94 due to valuation concerns and a desire to limit the Trust's exposure to consumer-discretionary stocks in a slowing retail environment. The Trust purchased its Billabong holdings at an average cost of \$6.94 in recent years, thereby locking in a sizeable gain.

Perennial Value is aware that tax outcomes are important to many investors. But it believes a focus on returns must triumph over targeting franking levels, which tell investors how much of a tax rebate they can claim on the Fund's income distribution.

If, for example, a stock rises from being "cheap" at \$5 to "expensive" at \$10, Perennial Value's first consideration is to sell the stock on valuation concerns. The worst result would be that the stock slides from \$10 and investors miss out on a potential realised capital gain.

Planners will undoubtedly find that most Australian share managers posted lower-than-usual franking levels last financial year for the same reasons stated above. Value managers typically have higher franking levels than other share-management styles because dividend returns usually figure more prominently in their investment processes.



Perennial Value's generally low stock turnover also enhances franking levels. The table below shows franking levels for the IOOF/Perennial Value Shares Trust and the share market's performance for the financial years since the inception of the IOOF/Perennial Value Shares Trust in June 2001.

Franking levels for IOOF/Perennial Value Shares Trust

Period	Franking level *	S&P/ASX 300 Accumulation Index
2004-05	26.4%	26.0%
2003-04	45.0%	21.7%
2002-03	93.7%	-2.0%
2001-02	31.5%	-3.1%

*Calculated in accordance with IFSA Standards

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