

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.5	1.4	0.9	6.0	5.6	7.6	6.3
Capital Growth	-0.6	1.6	0.0	21.6	1.0	-0.7	0.1
Total Return	-0.2	3.1	1.0	27.7	6.6	6.9	6.3
Franking Credits [#]	0.2	0.6	0.4	2.4	2.3	3.1	2.3
Income Distribution including Franking Credits	0.7	2.0	1.3	8.4	7.9	10.7	8.5
Benchmark Yield including Franking Credits [*]	0.8	1.0	0.8	5.1	4.6	5.6	5.9
Excess Income to Benchmark[#]	-0.1	1.0	0.5	3.3	3.3	5.1	2.6

[^]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

The Australian market rose again in August, with the ASX300 Accumulation Index making another record high, finishing the month up +2.6% and bringing the total return for the last 12 months to a very healthy +28.6%.

Company reporting season was the key event during the month, with market earnings rising strongly as the economy bounced back from the first round of COVID disruptions. Earnings growth was broad-based and dividends were up sharply,

Looking to the current financial year, the Trust is currently targeting a 30% increase in FY22 net distribution to 5.5 CPU. Based on the unit price at the start of the year, this equates to a cash distribution yield of around 5.5% and 7.5%, including franking credits.

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	Trust FUM	
Stephen Bruce	AUD \$20 million	
Distribution Frequency	Minimum Initial Investment	
Monthly	\$25,000	
Trust Inception Date	Fees	APIR Code
December 2005	0.92%	IOF0078AU

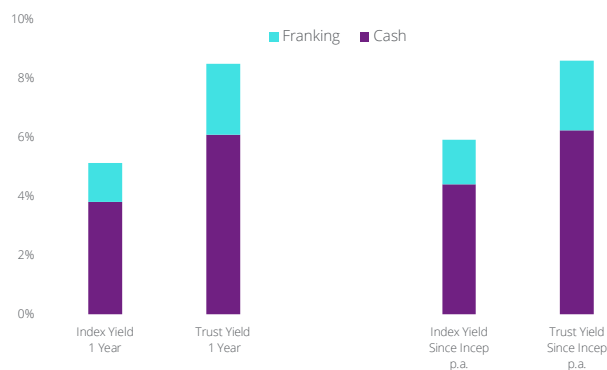
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.5	17.0
Price to Free Cash Flow (x)	11.7	15.3
Gross Yield (%)	6.9	4.9
Price to NTA (x)	2.8	3.0

Source: Perennial Value Management. As at 31 August 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.

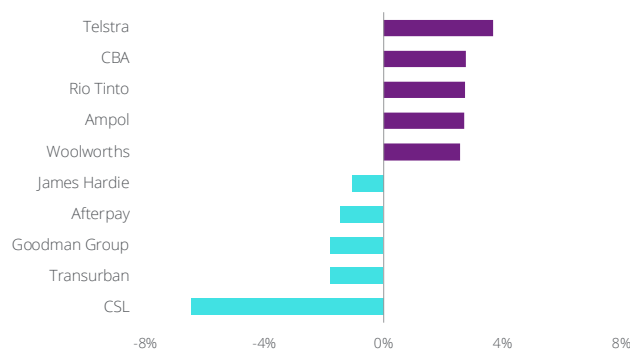
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

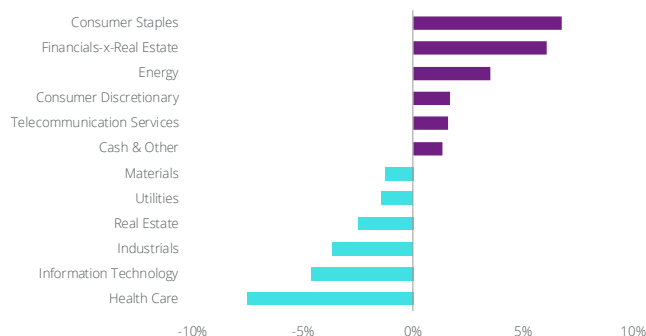


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The company reporting season was the highlight of the month. Investors had been anticipating strong results and were generally not disappointed, with all sectors of the market delivering earnings growth, as companies bounced back from the impacts of the first round of COVID disruptions.

As expected, very large amounts of cash were returned to shareholders, with well-capitalised companies showering investors with a combination of higher and special dividends, on and off-market buy-backs and capital returns. In this regard, the resources sector was the standout, with record profits allowing the big three iron ore miners to pay over US\$24bn dividends in the June half year.

Despite delivering record profits and dividends, the share prices of the iron ore miners declined, down an average of -13.6% over the month, as the iron ore price fell sharply from its recent very high levels. The fall in the iron ore price followed the announcement that the Chinese were aiming to reduce steel production in the coming year. However, even factoring in a significant decline in the iron ore price, these stocks are trading on very cheap valuations and will deliver, very strong earnings and cash flows over the coming year. Given their already lowly-gearred balance sheets, we would expect this to again translate into very strong dividends in the year ahead.

Other portfolio holdings which delivered solid results and announced capital management included Woolworths (+7.7%), with a \$2.0bn off-market buy-back, Telstra (+3.7%), with a \$1.35bn on-market buy-back and Wesfarmers (-1.9%) with a \$2.0bn capital return.

The major banks outperformed marginally (up an average of +3.8%), with CBA (+2.5%) delivering a solid result, underpinned by improving loan growth and continuing strong credit quality. The result overall provided a positive signal about the underlying health of the economy. In addition to a 17% increase in its full-year dividend, CBA announced a \$6.0bn off-market buy-back, adding to the \$1.5bn and \$2.5bn on-market buybacks announced by ANZ and NAB respectively.

Insurers Suncorp (+12.3%), IAG (+10.7%) and QBE (+9.6%) all outperformed after delivering solid results on the back of strength in premium rates and positive claims experience. The insurers have been benefiting from relatively lower claims, with people spending more time in their homes and off the roads.

Graincorp (+21.0%) rallied strongly after upgrading earnings again on the back of the strength in the grain market, where it is benefitting from last years large crop, high wheat prices and strong export demand. Looking forward, conditions for the crop currently in the ground are very positive and this augurs well for earnings in the following financial also.

Aristocrat Leisure (+9.7%) outperformed as visitors returned in droves to US casinos post their reopening. This business is performing very strongly operationally and has a number of growth drivers, including its expanding online video game operations, which now account for nearly half of earnings.

Holdings which underperformed during the month included Seven Group Holdings (-8.6%) and Orora (-5.3%), both of which eased after strong recent share price performances and Woodside Petroleum (-8.6%) on the softer oil price. We remain comfortable with each of these holdings.

Trust Activity

During the month we took profits and reduced holdings in a number of outperformers, including MA Financial Group, Orora and Graincorp. Proceeds were used to increase our holdings in stocks which will benefit from the reopening of the global economy including Star Entertainment, Virgin Money UK, Ramsay Healthcare and Qantas. At month end, stock numbers were 55 and cash was 5.0%.

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.

Despite the current COVID outbreak, many businesses are seeing strong operating conditions. Further, corporate balance sheets are generally strong. In particular, the banks are holding significant surplus capital and the resources sector is largely debt free and generating very strong cash flows. This should underpin an attractive level of dividends in the year ahead. In addition, many companies are likely to undertake capital returns such as off-market buy-backs to return excess capital and franking credits to investors.

As a result, the Trust is currently targeting a 30% increase in FY22 net distribution to 5.5 CPU. At the opening unit price of \$1.02, this represents a net distribution yield of 5.5% or 7.5% including franking.

Outlook


We believe that 2021 may well mark a significant turning point for the global economy and markets, with the accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings. Further, this should also usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop.

Domestically, while the current COVID outbreak and associated lockdowns are a clear setback, key indicators around employment, business confidence 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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