

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.5	1.4	1.4	6.2	5.5	7.3	6.2
Capital Growth	-2.0	-2.0	-2.0	24.7	-1.5	-0.9	-0.1
Total Return	-1.5	-0.6	-0.6	30.9	4.0	6.4	6.2
Franking Credits [#]	0.2	0.5	0.5	2.5	2.3	2.9	2.4
Income Distribution including Franking Credits	0.7	1.9	1.9	8.7	7.8	10.2	8.6
Benchmark Yield including Franking Credits*	1.1	2.0	2.0	6.0	4.8	5.7	6.0
Excess Income to Benchmark[#]	-0.4	-0.1	-0.1	2.7	3.0	4.5	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

Markets were weak in September, with the S&P500 down -4.8%, as investors became concerned with a number of issues including the prospect of central bank tightening and rising bond yields, increasing inflationary pressures and supply chain disruptions, as well as slowing growth and issues in the Chinese property market.

The Australian market was also lower, with the ASX300 Accumulation Index, including franking, finishing down -1.6%. Despite this, the index has delivered a total return of +32.5% for the last 12 months.

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

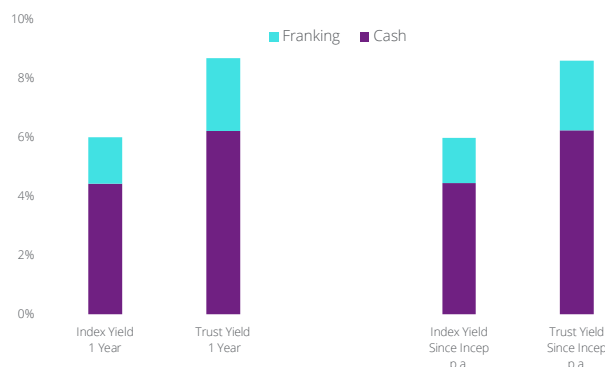
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.0	17.2
Price to Free Cash Flow (x)	11.5	15.8
Gross Yield (%)	7.0	4.8
Price to NTA (x)	2.7	2.9

Source: Perennial Value Management. As at 30 September 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.

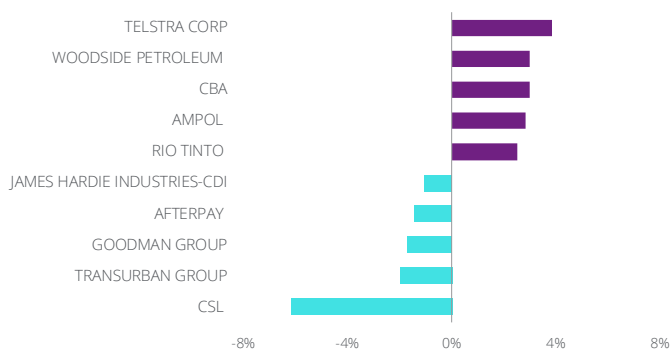
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

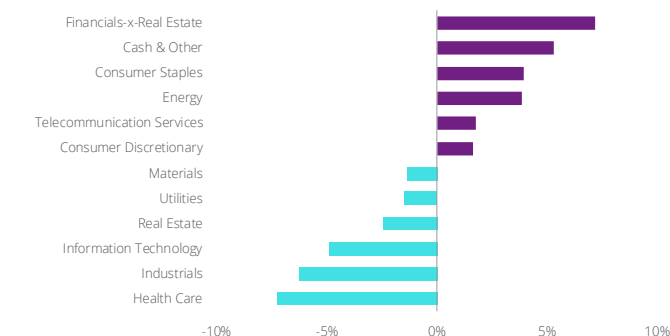


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered a total return after-fees and including franking of -1.3%, outperforming the index by +0.3%

Resources was the key area of interest in September, with Energy (+15.0%) being the best performing sector, while Metals and Mining (-10.5%) was the worst performer over the month. This divergence highlights the differing fortunes of energy prices and that of iron ore. Throughout the COVID period, strong demand for iron ore, principally from Chinese steelmakers, combined with supply disruptions, saw very strong iron ore prices, which recently peaked at over US\$200 per tonne. By contrast, declining activity levels, combined with ample supply, saw a sharp fall in demand for oil, causing prices to fall significantly. This was reflected in the share prices of mining and energy stocks, with the former performing very strong over the last 18 months, with the latter languished.

More recently, however, moves by the Chinese to reduce steel production and cool their property market, have seen the iron ore price fall sharply, and with it the prices of the iron ore miners, with BHO, Rio Tinto and Fortescue Metals down an average of -13.6% over the month. The Trust holds positions in each of these stocks as, even factoring in significantly lower long-term iron ore prices, they are trading on low valuation multiples and, importantly, will continue to pay very attractive levels of dividends. It is our expectation that their share prices will begin to recover as the situation in the Chinese property market stabilises over the coming months.

By contrast, a lack of investment by oil producers, has impacted supply at the same time as demand has been recovering as economies progressively reopen. The Trust benefitted via its holding in Woodside Petroleum (+22.5%), which has strong leverage to higher oil and gas prices. While there is a clear short-term money-making opportunity, it is important to note that we have a negative view on the long-term outlook for the sector, as the global energy mix transitions away from fossil fuels. As a result, we expect that the Trust's exposure to this sector will decrease over time.

Holdings which are set to benefit from the impending reopening of the economy also performed well during the month, with gaming operators, Tabcorp (+2.5%) and Aristocrat Leisure (+2.3%) both outperforming, while Ampol (+3.3%) also rallied on expectations of a pick up in fuel demand as lockdowns end.

Macquarie Group (+9.2%) rallied after delivering a strong trading update where they indicated that first half profit would be higher than market expectations, with strong asset realisation gains and favourable trading conditions in their Commodities and Markets business. The major banks, in which the Trust is overweight, also outperformed, up an average of +1.6%, with ongoing benign credit conditions and improving loan growth.

The Trust also benefited from not holding a number of expensive growth stocks, which sold off during the month on the back of higher bond yields. Examples included Afterpay (-9.9%) and Xero (-8.4%).

Holdings which underperformed during the month included United Malt (-9.1%), which fell after downgrading earnings due to weaker malt sales into Asia as a result of COVID-driven demand and logistical issues. Packaging company, Orora (-6.6%), was also softer despite there being no particular news, while Perpetual (-7.3%) was down in line with the weaker market. We remain comfortable with each of these holdings.

Trust Activity

During the month, we took profits and exited holdings in Metcash and Endeavour Group, both of which had performed strongly. We also sold out of rail operator, Aurizon, due to its deteriorating outlook. Proceeds were used to reinvest into packaging company, Orora, which is currently offering attractive value and to increase holdings in the major banks, which are in strong capital positions and are offering attractive dividend yields. At month end, stock numbers were 29 and cash was 5.3%.

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 continue to 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 continue to grow 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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Signatory of:

 PRI Principles for Responsible Investment



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