

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception <sup>^</sup> (% p.a.)
Income Distribution	0.5	1.3	1.8	6.1	8.0	7.3	6.2
Capital Growth	-1.8	-4.3	-3.7	21.4	-1.2	-1.0	-0.2
Total Return	-1.3	-3.0	-1.9	27.5	6.8	6.3	6.0
Franking Credits <sup>#</sup>	0.2	0.7	0.8	2.4	3.4	3.0	2.3
<b>Income Distribution including Franking Credits</b>	<b>0.7</b>	<b>2.0</b>	<b>2.6</b>	<b>8.5</b>	<b>11.4</b>	<b>10.3</b>	<b>8.5</b>
Benchmark Yield including Franking Credits <sup>*</sup>	0.0	2.0	2.0	5.9	5.4	5.7	5.9
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.7</b>	<b>0.0</b>	<b>0.6</b>	<b>2.6</b>	<b>6.0</b>	<b>4.6</b>	<b>2.6</b>

<sup>^</sup>Since inception: December 2005. Past performance is not a reliable indicator of future performance. <sup>#</sup>Franking credits are an estimate as tax components will only be known with certainty at the end of the financial year. <sup>\*</sup>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

Global markets were generally positive in October, led by the S&P500, which rallied +6.7%, on the back of a strong US earnings season. The US economy continues to recover well despite rising inflationary pressures and supply chain disruptions. Importantly, labour market conditions remain very robust.

The Australian market inched higher in October, with the ASX300 Accumulation finishing up +0.1%. The market was weighted down by the miners, which lagged as the iron ore price declined.

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).

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

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.8	17.1
Price to Free Cash Flow (x)	11.5	15.7
Gross Yield (%)	7.0	4.8
Price to NTA (x)	2.7	3.0

Source: Perennial Value Management. As at 31 October 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

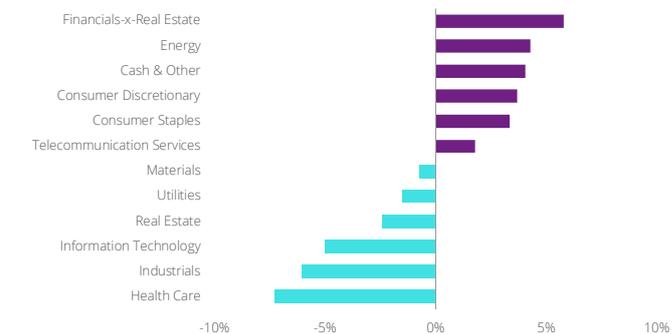


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

### Top 5 Over / Underweight Positions vs Index



### Sector Active Exposure vs Index



## Trust Review

During the month, Macquarie Group (+8.7%) reported a record first half profit of just over \$2.0bn. The company also more than doubled its interim dividend. Macquarie is currently experiencing very favourable operating conditions, with buoyant markets supporting high levels of M&A activity and strong gains from the sale of assets – both within their managed funds and from their own balance sheet. The high levels of volatility in commodity prices, particularly in the energy sector, is also benefitting their large commodities trading operation. On a longer-term view, Macquarie is very well placed to benefit from the energy transition as a result of its established position as a global leader in the financing and development of renewable energy assets and other infrastructure related to the energy sector.

Packaging company, Orora (+6.1%), outperformed after providing positive commentary at its AGM which confirmed that its US operations were continuing to improve and that the overall business remained on track to grow earnings despite the impacts of the Chinese wine tariffs on its glass bottle business. This is a well-managed, defensive business, with strong cash flow generation which we believe could become a takeover target at some point.

Ampol (+9.3%), also performed strongly. This stock stands to benefit as fuel demand increases with the end of lockdowns. Further, the company's planned acquisition of New Zealand's Z Energy, is expected to deliver significant earnings benefits over time.

Resources were again a key area of interest in October, with the slowing of the Chinese property sector, combined with other restrictions on steel-making capacity seeing demand for iron ore continue to fall, with the price down nearly 50% from its June peak. This saw the iron ore miners sold off, with BHP (-2.7%), Rio Tinto (-9.0%) and Fortescue Metals (-6.9%) all underperforming over the month. The Trust holds an overweight position in these stocks as, even factoring in significantly lower, long-term iron ore prices, they are trading on attractive valuation multiples and will generate very large amounts of cash which can be paid out as dividends. For example, assuming an iron ore price of US\$70/t (compared to the month end price of US\$113/t), the major miners are trading on an average FY22 P/E multiple of 10.5x and offering an average gross dividend yield of 9.6%. Even factoring in these lower earnings, the valuations are dramatically more attractive than that of the broader market.

Bank reporting season kicked off, with ANZ (+0.0%) delivering its full-year result. While ANZ's loan growth had been muted due to operational issues which saw them grow slower than the market, the operating environment for the banks has been improving. Credit growth has been picking up, margins have been stabilising and credit quality remains extremely strong. Falling interest rates have been a headwind for the sector for several years. However, this is now beginning to reverse and will likely become a tailwind over the coming periods as rates begin to rise.

The banking sector is very well capitalised and as a result, is well-placed to continue paying attractive levels of dividends to shareholders. ANZ more than doubled its full-year dividend to be back close to pre-COVID levels. This was on top of the \$1.5bn on-market buy-back previously announced. Based on the current share price, ANZ is offering a very attractive FY22 gross dividend yield of 7.3%. We remain positive on the sector overall and expect it to benefit as the economy continues to reopen.

## Trust Activity

During the month, we participated in the CBA and Woolworths off-market buy-backs. Not only did this generate a positive after-tax return, but it was a convenient way to take profits and reduce our holdings in stocks which had performed strongly. Proceeds were used to establish new positions in retailer Kathmandu, which is well-placed to benefit from the resumption of travel and outdoor activities and chemical company, Incitec Pivot, which stands to benefit from the current very strong fertiliser demand and pricing conditions. At month end, stock numbers were 31 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.

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.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and we would expect the economy to bounce back strongly, just as it did following previous lockdowns. Importantly, key indicators around employment, business confidence and the property market are all surprising to the upside. While there are some concerns around supply chain issues and inflationary pressures, 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.

**Invest Online Now**

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