

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.5	1.4	2.2	5.5	8.1	7.4	6.2
Capital Growth	-1.2	-4.9	-4.9	6.5	-0.6	-1.9	-0.3
Total Return	-0.8	-3.6	-2.6	12.0	7.5	5.4	6.0
Franking Credits [#]	0.3	0.7	1.1	2.2	3.5	2.9	2.3
Income Distribution including Franking Credits	0.8	2.1	3.3	7.7	11.6	10.3	8.5
Benchmark Yield including Franking Credits [*]	0.5	1.7	2.5	5.6	5.4	5.6	5.9
Excess Income to Benchmark[#]	0.3	0.4	0.8	2.1	6.2	4.7	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

Global markets were generally softer in November, with renewed uncertainty stemming from the emergence of the Omicron COVID variant seeing most major indices decline over the month. The Australian market was also slightly weaker in November, with the ASX300 Accumulation finishing the month down -0.5%.

Defensives tended to outperform cyclicals in the more cautious environment. However, the Resources sector was an exception, with the iron ore stocks rallying in anticipation of policy easing in China.

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 \$19 million
Distribution Frequency	Minimum Initial Investment
Monthly	\$25,000
Trust Inception Date	Fees APIR Code
December 2005	0.92% IOF0078AU

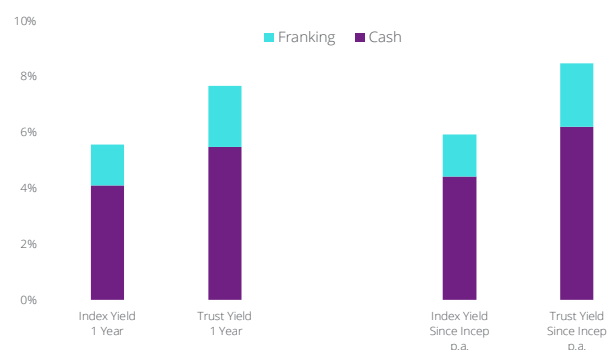
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	12.7	16.7
Price to Free Cash Flow (x)	10.4	15.3
Gross Yield (%)	7.5	5.0
Price to NTA (x)	2.5	2.9

Source: Perennial Value Management. As at 30 November 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.

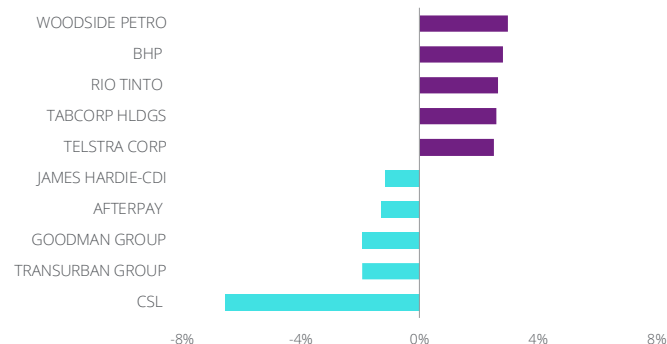
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

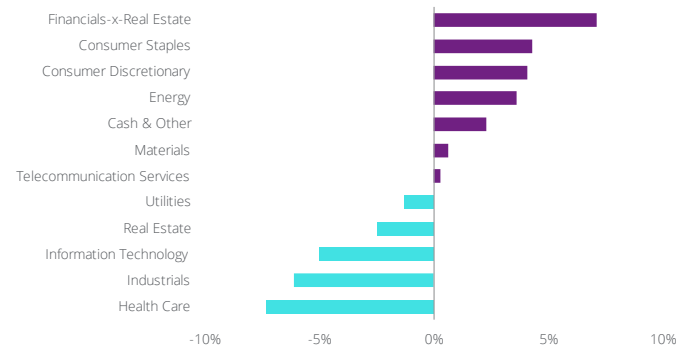


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Resources continued to be a key sector of interest in November, with the iron ore price finding a floor at around US\$100 per tonne. Importantly, there are early indications that the Chinese property market is stabilising, with lending to the sector beginning to increase once more. The importance of the Chinese property sector cannot be overstated, given the outside contribution construction in the sector makes to Chinese GDP and the proportion of people's wealth which is invested in residential property. It is also a key driver of iron ore demand and the improved sentiment saw strong outperformance by the iron ore majors, with Fortescue Metals (+22.1%), BHP (+7.6%) and Rio Tinto (+3.6%) all rallying.

Looking forward, we are positive on the outlook for the sector. We expect that demand will pick back up early in the new year, as construction activity increases, and steel production accelerates. Even at the current prices, these stocks are trading on attractive valuations and have very strong balance sheets. Further, the miners are behaving in a disciplined way and are likely to control the level of production during periods of weaker demand. For example, Brazil's Vale, the world's largest producer of iron ore, recently lowered its production guidance for 2022. This all suggests that the sector will be a strong generator of dividends in the year ahead.

Stocks exposed to the agricultural sector continued to enjoy strong conditions. Graincorp (+9.9%), outperformed after delivering a very strong FY21 result and significantly increased dividend, on the back of last year's bumper east coast grain harvest. This generated very strong earnings from its logistics operations, while high international grain prices saw healthy margins from its grain trading activities. Despite the potential impacts from recent heavy rains, the crop currently being harvested also looks set to be a near record, setting the company up for a very strong performance this financial year as well.

Fertiliser producer, Incitec Pivot (+7.0%) also outperformed, with fertiliser prices currently at historically high levels due to soaring global gas prices. Gas is the primary feedstock in the production of key fertilisers such as urea and DAP and, should gas prices remain elevated, there is significant upside to Incitec's earnings over the coming year. While fertilisers are indispensable to feeding the world's 7 billion people, their production contributes to greenhouse gas emissions. With this in mind, Incitec is exploring constructing a "green ammonia" plant at their Gibson Island facility, in conjunction with Fortescue Future Industries.

The banks underperformed during the month, down an average of -8.5%, after delivering their FY21 results. While the results showed a generally positive economic backdrop, with solid lending growth and strong credit quality, net interest margins were weak due to persistently low interest rates and competitive pressures. This was felt most acutely by CBA and Westpac, with their relatively larger home lending books. This headwind will abate when the RBA begins to lift interest rates. In the meantime, we remain overweight the sector and expect the banks to continue to pay attractive dividends.

Other holdings which underperformed during the month included some of our more cyclical names such as Ampol (-6.2%) and Woodside Petroleum (-7.9%), which were impacted by the sell-off due to concerns over the latest COVID variant. The Trust was also impacted by its underweight position in the defensive sectors, with Consumer staples, REITs and Utilities all outperforming in the risk-off environment.

Trust Activity

During the month, we increased our holdings in agricultural stocks Graincorp and Incitec, ahead of what we expected to be strong results. We also rotated some of our bank holdings from CBA into Westpac following its relative underperformance. At its result, Westpac announced an off-market buy-back, in which the Trust will participate. We also established a new position in Virgin Money UK. This is the leading challenger bank in the UK and is strongly leveraged to the UK's rapid economic reopening. At month end, stock numbers were 31 and cash was 2.3%.

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


Looking ahead to 2022, assuming that vaccines prove to be effective against the Omicron COVID variant, we see the outlook as positive, with ongoing economic recovery, underpinned by relatively low interest rates and continuing stimulus measures. Further, we look forward to the return to a more "normal" economic environment, as tapering and rate rises start to see the distortions caused by extremely low interest rates and unconventional monetary policy abate.

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. Key economic indicators continue to be strong and while there are some concerns around supply chain issues and inflationary pressures, both corporates and consumers are in good shape. 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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