

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception <sup>^</sup> (% p.a.)
Income Distribution	0.5	1.4	2.8	5.7	8.2	7.3	6.2
Capital Growth	3.5	0.4	-1.6	9.2	1.2	-1.9	0.0
Total Return	4.0	1.8	1.2	14.9	9.4	5.4	6.2
Franking Credits <sup>#</sup>	0.3	0.8	1.3	2.4	3.6	2.9	2.3
<b>Income Distribution including Franking Credits</b>	<b>0.8</b>	<b>2.2</b>	<b>4.1</b>	<b>8.1</b>	<b>11.8</b>	<b>10.2</b>	<b>8.5</b>
Benchmark Yield including Franking Credits <sup>*</sup>	0.2	0.7	2.7	5.7	5.4	5.6	5.9
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.6</b>	<b>1.5</b>	<b>1.4</b>	<b>2.4</b>	<b>6.4</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

Markets rallied in December, with most major global indices rising strongly. This was despite the rapid spread of the Omicron COVID variant, as early indications are that vaccination provides effective protection against serious disease, suggesting that the economic recovery is unlikely to be derailed.

The Australian market was also strong in December, with the ASX300 Accumulation index finishing the month +2.7%. This brought the total return for the 12 months to a healthy +17.5%, with all sectors delivering positive returns.

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%	I0F0078AU

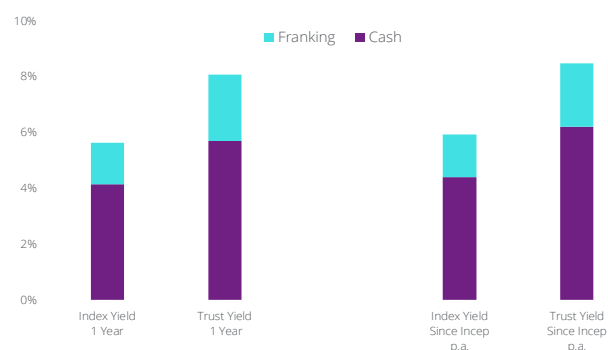
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.0	17.0
Price to Free Cash Flow (x)	10.6	15.5
Gross Yield (%)	7.2	4.8
Price to NTA (x)	2.6	3.0

Source: Perennial Value Management. As at 31 December 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.

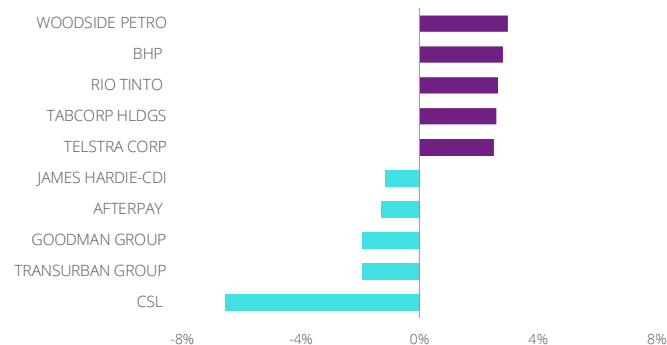
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

### Distribution Yield

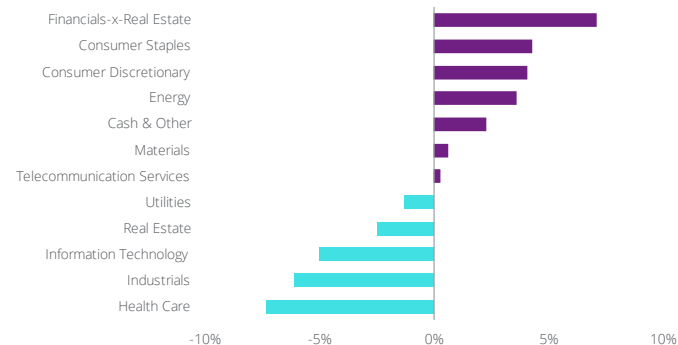


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

### Top 5 Over / Underweight Positions vs Index



### Sector Active Exposure vs Index



## Trust Review

The Resources sector was again the standout in December, with broad-based commodity price strength driving rallies in many of our holdings. Having fallen sharply over the past 6 months, the iron ore price has now begun to recover, with the Chinese beginning to take steps to support their property market. This saw the prices of the iron ore miners rally, with Fortescue Metals (+12.9%), Rio Tinto (+7.1%) and BHP (5.4%) all outperforming over the month.

The Trust currently holds a significant overweight position in the resources sector. Not only do we believe that the current demand outlook for commodities is positive, but historically, commodities have performed strongly in more inflationary periods, such as we are currently experiencing.

Stocks exposed to the agricultural sector continued to enjoy strong conditions, with Graincorp (+21.5%), continuing to rally. The recent wet weather has not significantly impacted the volumes of grain entering their storage and handling system and, importantly, sets the scene for another good planting this year.

Fertiliser producer, Incitec Pivot (+3.8%), marginally outperformed over the month. Global fertiliser prices are currently at historically high levels, driven by high European gas prices. This is seeing Incitec generating very strong margins, and we expect earnings upgrades over the coming months. During the month, Incitec also announced that it would be ramping up production of "AdBlue", a critical fuel additive. Australia normally imports around 90% of its requirements, however there is a global shortage at present. This highlights the importance of maintaining some domestic production of key industrial products.

Medical diagnostics company, Healius (+9.3%), outperformed, driven by the enormous volumes of COVID tests they are currently performing. While this will (hopefully) be a short-lived benefit, the cash they are generating can be used to fund acquisitions. For example, during the month, the company announced the acquisition of a niche pathology business, specialising in performing tests for clinical trials. This is a high growth, high margin business and is complementary to their core pathology operations.

United Malt (+6.2%) rallied on speculation that it could become a takeover target. There is increasing consolidation in the global malting industry, as malt producers aim to increase their scale to effectively service an increasingly consolidated global brewing industry. The potential for corporate activity has long been part of the investment thesis for this stock. However, this aside, the stock will be a clear beneficiary of eventual economic reopening and we believe it has significant upside.

The banks regained some of the ground lost in November, rising an average of +5.3% over the month. In our view, expectations of moves by the RBA to raise the cash rate will be the catalyst for the sector to outperform as this will alleviate some of the margin pressure they are currently experiencing. In the meantime, the Trust holds an overweight position in the banks, with their fair valuations, attractive dividend yields and likely ongoing capital management.

The main detractors from performance over the month were the more defensive holdings in the Trust such as Woolworths (-6.9%), IAG (-3.8%) and Medibank Private (-2.9%).

## Trust Activity

December was a quiet month, with no significant changes to the portfolio. We are comfortable with our key exposures to the resources and banking sector, which should both generate attractive levels of dividend income and provide leverage to the ongoing economic recovery. We also see significant upside in the Energy sector to which we are exposed through Woodside Petroleum. These more cyclical exposures are balanced with high quality defensive holdings such as Woolworths and Telstra. At month end, stock numbers were 31 and cash was 1.6%.

## 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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