

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.5	1.5	3.7	5.8	8.0	7.4	6.2
Capital Growth	2.1	2.3	-2.7	6.3	-2.2	-2.4	-0.1
Total Return	2.6	3.8	1.0	12.1	5.8	5.0	6.1
Franking Credits [#]	0.3	0.7	1.7	2.5	3.4	3.0	2.3
Income Distribution including Franking Credits	0.8	2.2	5.4	8.3	11.4	10.4	8.5
Benchmark Yield including Franking Credits [*]	1.4	1.5	4.0	6.1	5.2	5.6	5.9
Excess Income to Benchmark[#]	-0.6	0.7	1.4	2.2	6.2	4.8	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Global markets were weaker again in February, as concerns around interest rate increases were superseded by worries about the Russian invasion of Ukraine, with the S&P500 -3.1%, the NASDAQ -3.4% and the Nikkei 225 -1.8%.

However, a strong rally in commodities saw the Australian market rally, with the ASX300 Accumulation Index +2.1%. The February reporting season was also well-received with many companies reporting strong earnings and dividend increases.

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. Any surplus income will be distributed with the June distribution.

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

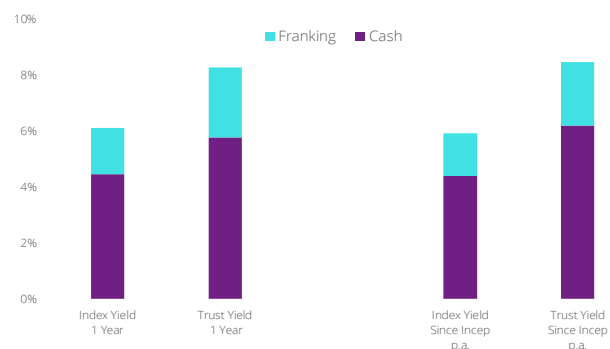
Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.0	15.3
Price to Free Cash Flow (x)	10.6	13.3
Gross Yield (%)	7.6	5.6
Price to NTA (x)	2.6	2.8

Source: Perennial Value Management. As at 28 February 2022

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.

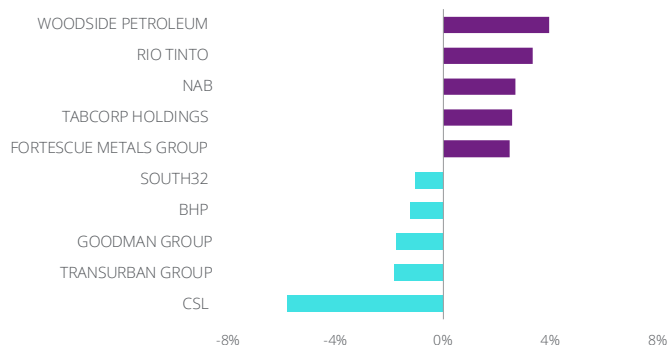
Franking Levels (%)			
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6
FY19	95.1	FY16	55.9

Distribution Yield

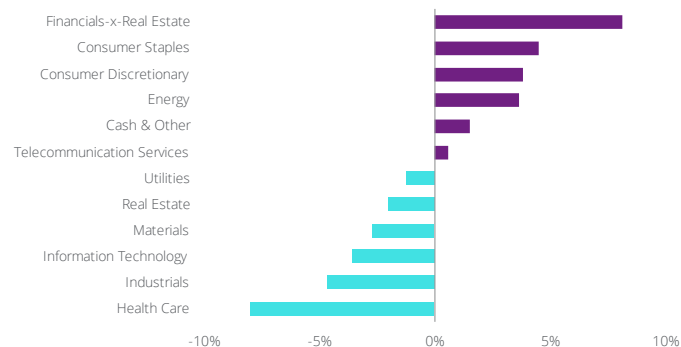


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust performed well during the month, returning +2.8% after-fee, outperforming the Index by +0.3%. For the last 12 months, the Trust has delivered a return of +14.6%, outperforming the Index by +2.7%. This demonstrates the Trust's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation will continue and still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

While overshadowed by other events, the February reporting season was generally well-received. The positive economic backdrop was overall supportive of corporate earnings and strong balance sheets saw generous dividends and capital returns. Resources stocks delivered particularly strong results on the back of strong commodity prices. While many companies were still being impacted by COVID-related disruptions, these are abating, and earnings are likely to recover strongly.

In terms of sector performance, Resources were the clear winner in February, with Energy +8.4% and Metals & Mining +6.0%. Commodity markets were already tight as demand recovered post-COVID in the face of limited supply growth. The invasion of Ukraine and sanctions on Russia have made this worse, with Russia being a major producer of oil and supplying around 40% of the EU's gas requirements.

This saw very strong performances from Woodside Petroleum (+19.7%), which rallied after delivering a very strong result as well as from the surge in the oil price, which is now over US\$100 per barrel. Woodside has significant leverage to higher prices, with around 25% of its production able to be sold into the spot market.

The agricultural sector continues to perform very strongly on the back of positive seasonal conditions and strong soft commodity prices. Both Russia and Ukraine are significant to global agriculture, being major exporters of wheat and other crops. The invasion has seen grain prices rise from already high levels. This benefits Graincorp (+15.4%), as it will increase demand and pricing of Australian wheat in global markets. This has locked in a very strong result for the current financial year, and all indications are that next year will be very good as well.

Other strong performers included Westpac (+12.4%), IAG (+9.9%), Orora (+7.8%), Perpetual (+7.6%) and Coles (+7.3%).

The Trust also benefited from not holding a number of expensive stocks which de-rated sharply over the month, including Domino's Pizza (-23.6%) and Xero (-17.0%). Given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks.

Holdings which underperformed during the month included, Aristocrat Leisure (-7.6%) after its proposed acquisition of Playtech failed. Despite this, the existing business continues to have very strong growth prospects. Wesfarmers (-7.1%) was also weaker after indicating increased cost pressures, while Incitec Pivot (-5.8%) fell after experiencing an outage at one of their ammonia plants, which would take 6-8 weeks to repair. We remain comfortable with each of these holdings.

Trust Activity

February 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 30 and cash was 1.5%.

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


On balance, we view the outlook as positive, with economies recovering strongly as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos and Consumer Staples.

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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