

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.6	7.0	0.6	11.2	7.5	8.2	6.6
Capital Growth	2.6	-13.6	2.6	-11.9	-4.2	-3.7	-0.7
Total Return	3.2	-6.6	3.2	-0.7	3.3	4.5	5.9
Franking Credits [#]	0.2	3.0	0.2	5.0	3.2	3.6	2.5
Income Distribution including Franking Credits	0.8	10.0	0.8	16.2	10.7	11.8	9.1
Benchmark Yield including Franking Credits [*]	0.0	0.7	0.0	5.2	4.8	5.5	5.9
Excess Income to Benchmark[#]	0.8	9.3	0.8	11.0	5.9	6.3	3.2

[^]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 rallied in July, partially reversing June's sharp sell-off, as investors took the view that we may be close to peak inflation and therefore that the rate hiking cycle may not be a steep and prolonged as had been feared.

The Australian market also rallied in July, with the ASX300 Accumulation Index rising by +6.0% over the month.

Looking to the current financial year, while the economic outlook is more uncertain, most companies are in good financial shape and we expect healthy dividends, albeit with less buy-back activity.

The Trust is currently targeting a 5% increase in FY23 net monthly distributions to 4.9 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of around 6.7% and 9.6%, 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

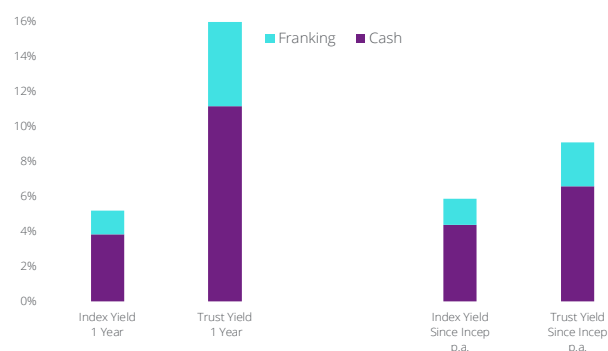
Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	13.3	15.1
Price to Free Cash Flow (x)	11.1	13.5
Gross Yield (%)	7.1	5.6
Price to NTA (x)	2.5	2.6

Source: Perennial Value Management. As at 31 July 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.

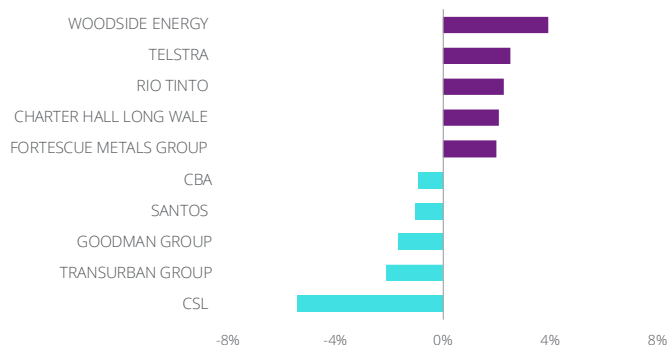
Franking Levels (%)			
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6

Distribution Yield

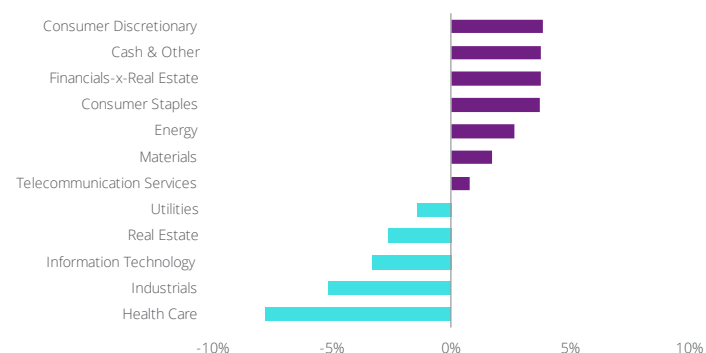


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +3.4%, including franking credits and after-fees in July, underperforming the market by 2.6%. While the Trust delivered a solid absolute return, its relative performance was impacted by the Trust's underweight positions in a number of expensive growth and interest rate sensitive stocks, which rallied during the month on the pull-back in bond yields.

Leading UK challenger bank, Virgin Money UK (+12.2%) outperformed over the month. Sentiment towards banks has oscillated between optimism, based on the earnings benefits from higher interest rates and pessimism, based on the potential impacts of those higher rates on economic activity and therefore lending growth and bad debts. While there are definitely concerns over the state of the UK economy, this is more than factored into Virgin's share price, with the stock trading at less than 5x earnings and at less than 0.5x book value.

Macquarie Group (+10.1%), performed well after providing a first quarter trading update at its AGM. While conditions were mixed across its various divisions, its commodities trading operations were performing very strongly on the back of the high levels of volatility in commodity prices. In particular, the company benefits from movements in US gas prices, which have been surging in recent times. Longer-term, there is an enormous opportunity for Macquarie to participate in the energy transition, as a leading global investor in and developer of renewable energy projects.

In the building material sector, James Hardie (+10.8%) outperformed over the month as bond yields fell. The short-term performance of James Hardie's share price is highly correlated to US bond rates which drive mortgage rates and, in turn, housing activity. Longer-term, however, this business has a proven ability to grow market share, with its innovative products and effective marketing strategies. Having been sold off sharply, the stock is offering very good long-term value at these levels.

Fertiliser producer, Incitec Pivot (+8.8%), rallied as rising global gas prices pushed up the cost curve and with it the price of fertilisers, whose main input is natural gas. Further, relatively high soft commodity prices are likely to underpin strong demand for fertilisers and other agricultural inputs.

Treasury Wine Estates (+7.9%) again outperformed. The company has experienced a number of setbacks in recent years, including the introduction of tariffs on Australian wine sales into China. However, earnings growth is set to resume, with the company having grown sales in new markets, exited its unprofitable commercial wine division and restructured its distribution arrangements. Further, the company is set to benefit from lower costs due to falling grape prices over the coming years.

The main detractors over the month were the Trust's Resources holdings, with the iron ore stocks lower as Chinese demand decreased due to COVID lockdowns. Energy holdings, Santos (-1.6%) and Woodside Energy (+0.4%), also underperformed as the oil price softened on the prospect of weakening global demand. We maintain an overall positive view on the outlook for resources, with constrained supply in most commodities and an expectation for demand to recover as China emerges from COVID lockdowns.

Trust Activity

During the month, we took profits and exited the remainder of our holding in Graincorp, following very strong performance over the last 12 months. With global grain prices thankfully easing, it is likely that the company's earnings have now peaked.

The Trust also participated in ANZ's capital raising to fund the acquisition of Suncorp Bank. This transaction should prove positive over the long-term, significantly increasing ANZ's market share. At month end, stock numbers were 34 and cash was 3.5%.

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.

Looking to the current financial year, while the economic outlook is more uncertain, most companies are in good financial shape and we expect healthy dividends. The Trust is currently forecasting a 5% increase in monthly net cash distributions to 4.9 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 6.7% or 9.6%, including franking credits.

We do not expect the same level of off-market buy-backs or special dividends in the coming year compared to the high level seen in FY22, as many companies have now restored their balance sheets to their desired gearing ranges.

Outlook


Economic growth is clearly slowing, however, on balance, we view the outlook as sound. While interest rates are rising, economies stand to benefit as COVID disruptions continue to recede. Critically, despite mixed data, unemployment rates remain very low in most major markets. 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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