

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception [^] (% p.a.)
Income Distribution	0.5	1.6	4.7	12.6	8.1	8.3	8.3	7.5	6.6
Capital Growth	-2.1	-0.1	7.3	-4.7	0.5	-2.7	-0.7	-1.4	-0.4
Total Return	-1.6	1.5	12.0	7.9	8.6	5.6	7.6	6.1	6.2
Franking Credits [#]	0.2	0.7	2.0	5.5	3.5	3.6	3.4	2.9	2.5
Income Distribution including Franking Credits	0.7	2.3	6.7	18.1	11.6	11.9	11.7	10.4	9.1
Benchmark Yield including Franking Credits [*]	0.6	0.8	4.4	5.6	5.2	5.5	5.8	5.8	5.9
Excess Income to Benchmark[#]	0.1	1.5	2.3	12.5	6.4	6.4	5.9	4.6	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 continued to seesaw in February, with last month's optimism giving way to pessimism, as stronger economic data saw bond yields rise.

The Australian market eased in February, with the ASX300 Accumulation Index finishing the month down -2.5%. The market was weighed down by the Financials (-3.1%) and Resources (-6.2%) sectors, both of which sold off during the reporting season, after having performed relatively strongly over the last 12 months. Better performing sectors included Utilities (+3.4%), IT (+2.3%), Industrials (+1.2%) and Consumer Staples (+1.1%).

The Trust is currently targeting a 5% increase in FY23 net monthly distributions to 0.49 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% or 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

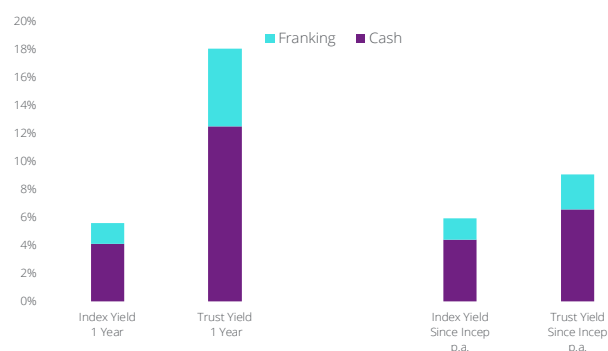
Portfolio Characteristics - FY23	Trust	Market
Price to Earnings (x)	14.1	14.6
Price to Free Cash Flow (x)	12.7	13.2
Gross Yield (%)	6.0	5.6
Price to NTA (x)	2.9	2.7

Source: Perennial Value Management. As at 28 February 2023

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.

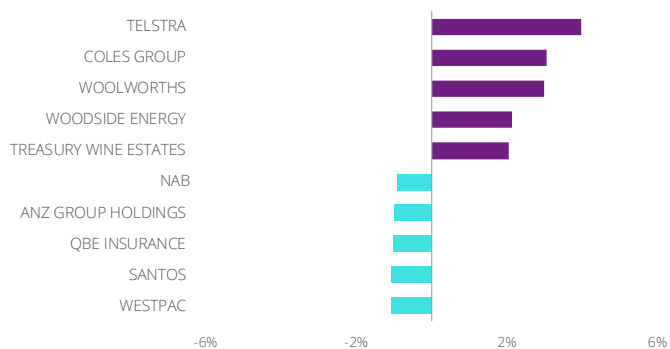
Franking Levels (%)			
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6

Distribution Yield

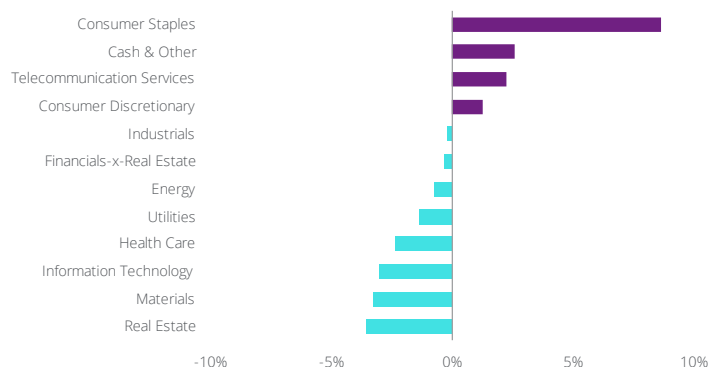


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -1.4%, including franking credits and after-fees in February, outperforming the benchmark by +1.0%.

The reporting season was the highlight of the month in the domestic market. For the past several reporting periods, results have come in slightly ahead of market expectations, with the stronger than expected economic backdrop providing good support to corporate earnings. This period, however, while results were solid, overall they came in slightly below market expectations, with the first signs of slowing starting to appear. While revenue growth was stronger than expectations, margins are beginning to be pressured by rising input costs and guidance indicated that consumer spending has eased in the early part of this year.

Key positive contributors to performance included packaging company, Orora (+18.5%), which delivered a solid result, reiterated its full-year guidance and increased the dividend by +6%. The market had been concerned that its US business would be experiencing some weakness, however, this has proven not to be the case. Their Australian operations also continue to perform well and have baked-in growth from capacity expansions in their can business, which are due to come online shortly. This expanded capacity has been pre-sold to existing customers under long-term contracts, locking in the necessary return on investment.

Medibank Private (+13.6%) rallied after delivering a strong result, with ongoing positive conditions in the private health insurance sector, where membership levels remain strong and claims remain subdued. The company increased its dividend by 3%.

Seven Group (+8.0%), delivered a strong result, with EPS +18%, driven by earnings growth across each of its key divisions. Westrac earnings increased +21%, supported by strong mining and construction activity. Coates earnings increased +25%, with strong demand from East Coast infrastructure projects. Boral, in which Seven Group holds a 73% stake, delivered a +23% increase in earnings through improved pricing discipline and cost reductions. The dividend was held flat for the period.

Telstra (+2.0%) delivered a solid result and reiterated its full year financial guidance. With the impacts of the NBN roll-out behind it, the company is able to grow earnings from its dominant mobiles division, which delivered good revenue growth in the half. The outlook for the mobile industry is positive, with a rational oligopoly structure following the merger of TPG and Vodafone. Telstra remains one of our preferred defensive exposures. The dividend was increased by 6%.

The main detractors from performance were holdings in the major banks which were weaker on concerns around the slowing economy. This was despite CBA delivering a very strong result, increasing their dividend by +20% and announcing a further \$1bn on-market buy-back. Further, the result highlighted the very strong financial position that CBA, and the other banks are in at the present time, with high levels of capital, liquidity and provisioning.

Resources stocks were also softer as lower commodity prices saw earnings and dividends decline from last period's very elevated levels. However, commodity prices remain at very healthy levels and these companies are set to continue generating very strong cash flows and dividends, particularly as the Chinese reopening gathers pace.

Trust Activity

During the month, we reduced our holdings in the major banks and reinvested the proceeds into defensive names such as Woolworths, Coles and Telstra. At month end, stock numbers were 33 and cash was 2.6%.

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.

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 0.49 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


Global growth is clearly slowing, as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are 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 post-COVID reopening, higher inflation, and higher interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions to select parts of the Resources, Financials 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.

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