

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception <sup>^</sup> (% p.a.)
Income Distribution	0.5	1.5	6.3	12.1	8.3	8.4	8.4	7.6	6.6
Capital Growth	-3.2	-3.3	3.8	-9.8	3.6	-2.7	-2.4	-1.6	-0.6
Total Return	-2.7	-1.8	10.0	2.3	11.8	5.7	6.0	6.0	6.0
Franking Credits <sup>#</sup>	0.3	0.7	2.7	5.3	3.6	3.6	3.4	2.9	2.5
<b>Income Distribution including Franking Credits</b>	<b>0.8</b>	<b>2.2</b>	<b>9.0</b>	<b>17.4</b>	<b>11.9</b>	<b>12.0</b>	<b>11.8</b>	<b>10.5</b>	<b>9.1</b>
Benchmark Yield including Franking Credits <sup>*</sup>	0.6	1.9	6.5	6.1	5.7	5.5	5.7	5.8	5.9
<b>Excess Income to Benchmark<sup>#</sup></b>	<b>0.2</b>	<b>0.3</b>	<b>2.5</b>	<b>11.3</b>	<b>6.2</b>	<b>6.5</b>	<b>6.1</b>	<b>4.7</b>	<b>3.2</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 were mixed in May, with the Nikkei 225 up +7.0%, the NASDAQ up +5.8%, and the S&P500 up +0.2%, while the FTSE100 fell -5.4%, and the Shanghai Composite fell -3.6%.

The Australian market was weaker, with the ASX300 Accumulation Index finishing the month down -2.5%. As in the US, the Australian CPI reading came in higher than expected and the RBA surprised the market by raising interest rates again, adding to concerns over the outlook for the domestic economy.

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).

<b>Portfolio Manager</b>	<b>Trust FUM</b>	
Stephen Bruce	AUD \$18 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%	IOF0078AU

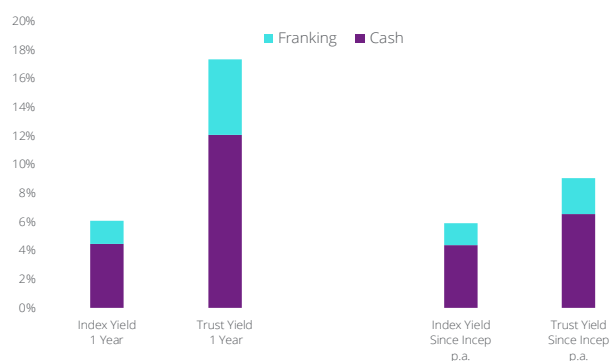
Portfolio Characteristics - FY24	Trust	Market
Price to Earnings (x)	13.3	14.7
Price to Free Cash Flow (x)	13.3	13.6
Gross Yield (%)	6.0	5.6
Price to NTA (x)	2.2	2.5

Source: Perennial Value Management. As at 31 May 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.

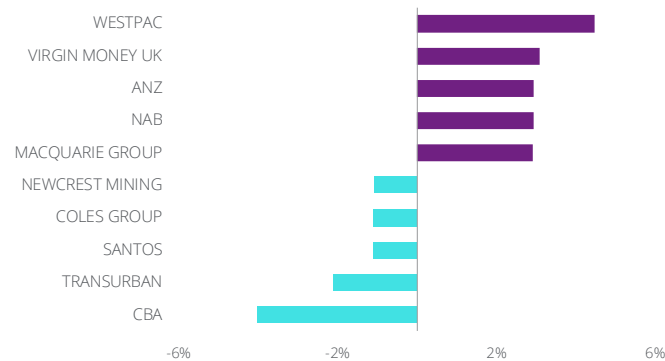
Franking Levels (%)			
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2
FY20	94.4	FY17	65.6

## Distribution Yield

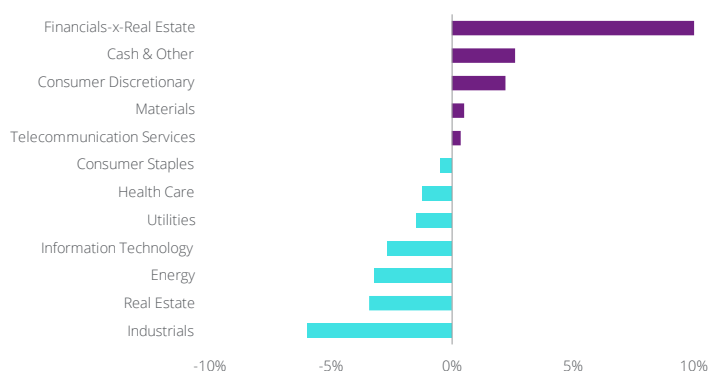


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

The Trust returned -2.5%, including franking credits and after-fees in May, underperforming the benchmark by 0.1%.

Positive contributors to performance included James Hardie (+13.1%), which rallied on indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. James Hardie is primarily exposed to the renovation, as opposed to new construction market, however, it has still been impacted by the current slowdown. While the company is subject to the cycle, over time it has consistently outgrown the overall market as its premium, differentiated products take share from other building materials. Management continue to focus on investing in the brand and distribution channels and we expect this to continue to drive double-digit earnings growth over the medium term.

Healthcare stocks were stronger during the month, with diagnostics company Healius (+5.7%) outperforming as industry data showed that patient volumes were recovering from COVID disruptions. CSL (+1.9%) also outperformed, with plasma collections having rebounded to above pre-COVID levels. This will boost the volume of product they have available for sale in coming periods and enable them to meet pent up patient demand.

Other outperformers included Woodside Energy (+1.8%), which rose as the oil price stabilised towards the end of the month, and insurance stocks, Suncorp (+6.6%) and IAG (+4.2%), with the sector benefiting from strong premium rate increases and rising interest rates.

The Financials (-3.2%) underperformed over the month, dragged down by the major banks (ave. -4.3%). The banks reported during the month and, while the results for the half year to March were strong, they indicated that net interest margins had peaked during the half. With margins now contracting again, the sector has lost its key positive driver as it faces into a slowing economy and the likelihood of rising bad debts. However, despite these headwinds, the banks are well-placed, with strong capital positions, high levels of provisioning and abundant liquidity. As a result, we expect that the sector will continue to pay a high level of dividends to investors over the coming periods.

The bulk miners were weaker over the month, with BHP (-5.4%), Rio Tinto (-4.7%), Fortescue Metals (-8.2%) all lower, as sentiment towards the Chinese economy weakened. While the pace of the post-COVID recovery has slowed, we expect to see a range of measures, particularly focussed on supporting activity in the property sector. In the meantime, the Trust currently holds a mild underweight in the bulks. Diversified base metals miner, South32 (-8.5%), also underperformed as commodity prices sold off across the board.

Gold miner, Northern Star (-4.1%), was weaker as the gold price eased after a strong run, with rising bond yields and a stronger USD.

The other main detractor over the month was Treasury Wines (-16.6%), which fell after indicating that, while their luxury wine sales remained strong, they were seeing some softening in demand for their low-end commercial wines in Australia and the UK, and for their entry-level premium wines in the US. We continue to find the stock attractive as they rebalance their portfolio towards luxury and premium brands. Further, the removal of Chinese tariffs would be a material positive catalyst.

## Trust Activity

During the month, we took profits and exited our holding in Qantas. Proceeds were used to increase our holdings in the major banks ahead of their dividend paying period. At month end, stock numbers were 30 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 current 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 the challenges of energy costs and other supply issues. Recent stresses in the banking sector have also been of concern and, given the high levels of indebtedness and the long lags associated with the transmission of monetary policy, we are unlikely to be out of the woods. On the positive, while inflation is proving sticky, it appears to have peaked, and unemployment rates remain very low in most major markets. Despite record interest rate rises, the Australian economy continues to perform strongly, and the unemployment rate remains low. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost. However, while house prices have stabilised, retail sales are beginning to weaken and building approvals have fallen sharply.

While the backdrop is currently sound, the level of uncertainty is elevated, and it seems that the rate rise cycle is not yet complete. As a result, a degree of caution is warranted and we prefer holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions in the Diversified Financials, Resources, and very select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

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.

**Invest Online Now**

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