

	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	1.7	3.4	6.8	8.3	8.8	7.9	7.7	6.6
Capital Growth	6.0	5.8	3.4	4.6	1.4	-0.2	-2.0	-1.7	-0.3
Total Return	6.5	7.6	6.8	11.5	9.8	8.5	5.9	5.9	6.3
Franking Credits [#]	0.3	0.7	1.0	2.2	3.3	3.5	3.2	2.8	2.4
Income Distribution including Franking Credits	0.8	2.4	4.4	9.0	11.6	12.3	11.1	10.5	9.0
Benchmark Yield including Franking Credits*	0.2	0.9	2.9	6.1	5.9	5.6	5.7	5.8	5.9
Excess Income to Benchmark[#]	0.6	1.5	1.5	2.9	5.7	6.7	5.4	4.7	3.1

[^]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 their rally in December, with the S&P500 up another +4.4% and the NASDAQ lifting another +5.5%. The FTSE 100 rose +3.7%, while the Japanese market eased slightly following its strong run last month, with the Nikkei 225 -0.1%. Ongoing concerns over the outlook saw the Shanghai Composite down -1.8%, leaving it as the only major index to finish down for the year.

The Australian market was also very strong, with the ASX300 Accumulation Index rising +7.2%, to finish the year up +12.5%, as the market factored in potential interest rate cuts in 2024.

The Trust is currently targeting FY24 net monthly distributions of 0.493 CPU. Based on the unit price at the start of the financial year, this equates to an annualised cash distribution yield of 5.3%.

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

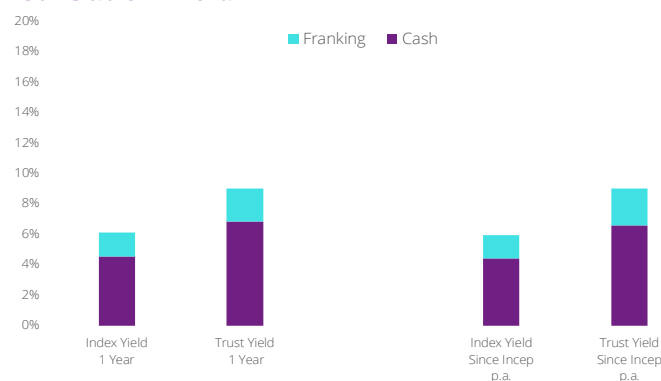
Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.8	16.0
Price to Free Cash Flow (x)	13.3	15.1
Gross Yield (%)	5.6	5.1
Price to NTA (x)	2.3	2.7

Source: Perennial Value Management. As at 31 December 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.

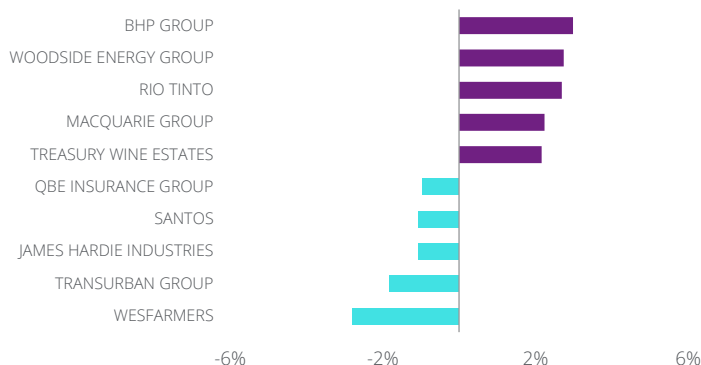
Franking Levels (%)			
FY23	74.3	FY20	94.4
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2

Distribution Yield

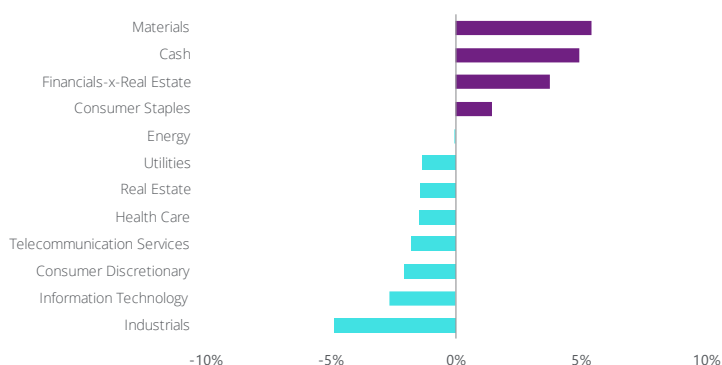


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +6.7%, including franking credits and after-fees in December, underperforming the benchmark by -0.5%.

Key contributors to performance over the month included the Trust's resources holdings. The economic data out of China continues to be weak, however, additional stimulus measures continue to be put in place. While government policy is to focus on fostering growth in new industries such as Tech, AI etc, these are currently too small to be meaningful and, as a result, the stimulus measures are targeted at traditional growth drivers such as property and infrastructure, which drive commodities demand. Against this backdrop, the iron ore price climbed to over US\$140/t intramonth, seeing strong performance from the bulk miners, with Fortescue Metals (+16.1%), BHP (+8.9%) and Rio Tinto (+8.5%). At current commodity prices, these stocks are trading on very low earnings and cash flow multiples.

Lithium producer, Pilbara Minerals (+8.5%), also performed strongly over the month. While the lithium price has fallen sharply from its previous highs, there is early evidence supply is beginning to respond and the long-term demand fundamentals remain strong. It is worth noting that Pilbara is exceptionally well-placed, being a well-located, low-cost, large-scale producer, with around \$3bn cash on the balance sheet. Further, the stock is extremely heavily shorted, suggesting the potential for a sharp rally, should lithium pricing turn upwards. South32 (+8.1%) also outperformed over the month, however, has lagged significantly over the past year. This stock is also trading on a very undemanding valuation and has a debt-free balance sheet, suggesting significant upside should sentiment towards the outlook for base metals improve.

Gold miner, Northern Star (+7.2%), rallied as the gold price settled at over US\$2,000/oz. Northern Star is a global top-10 gold miner and will likely see further buying demand should Newmont's weighting in the Australian indices reduce over time.

Other outperformers included Seven Group (+14.8%), which continued to rally on the back of its FY24 guidance upgrade at last month's AGM, and Virgin Money UK (+11.5%), which continues to trade on an extremely cheap valuation.

Holdings which detracted from performance over the month included those positively correlated with interest rates, such as the insurers, with IAG (-4.7%) and Suncorp (-0.9%). Woodside Energy (+0.2%), lagged on the lower oil price as well as on news they were exploring a merger with Santos. These discussions are at an early stage, and Woodside investors will take some convincing that this is a good idea. In the meantime, with the northern hemisphere winter deepening and what is going on in the Red Sea and Ukraine, it wouldn't take much for energy prices to rebound.

Trust Activity

During the month, we took profits and exited our holding in James Hardie, which had performed very strongly over the past 12 months. Proceeds were used to increase our position in South32, which is currently offering very good value and paying an attractive dividend yield. At month end, stock numbers were 31 and cash was 5.0%.

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 flat monthly net cash distribution of 0.493 CPU. Based on the month end unit price, this represents an annualised cash distribution yield of 5.3%.

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

Outlook

After proving surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions, there are early signs of softening in key US economic data such as employment growth. The combination of this softening of the labour market with inflation generally tracking in the right direction, has seen yields sold off sharply and a dramatic change in sentiment towards the outlook for interest rates going forward.

The Australian economy continues to look reasonably healthy, however, GDP growth is weakening. While activity is receiving a strong boost from record immigration, per capita GDP growth is negative. On the positive, the Resources and Agricultural sectors continue to experience positive conditions and a stabilisation in interest rates will be positive for sentiment.

Markets are now pricing in significant cuts to interest rates in 2024. However, we suspect it would only take a couple of data points for this to swing back the other way. In terms of positioning, we have adopted a more neutral stance to bond yields. We continue to have a positive view on the Resources sector, with the strong cash flows of the majors and many of the smaller miners having strategically valuable assets.

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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