

	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	4.4	6.5	8.4	8.6	8.0	7.8	6.6
Capital Growth	-1.9	5.0	2.4	0.4	0.6	-2.2	-2.3	-2.0	-0.3
Total Return	-1.4	6.6	6.8	7.0	9.0	6.5	5.7	5.8	6.3
Franking Credits [#]	0.1	0.4	1.3	2.0	3.2	3.6	3.2	2.9	2.4
Income Distribution including Franking Credits	0.6	2.0	5.7	8.5	11.6	12.2	11.2	10.7	9.0
Benchmark Yield including Franking Credits*	0.7	1.0	3.8	6.1	5.9	5.5	5.7	5.8	5.9
Excess Income to Benchmark[#]	-0.1	1.0	1.9	2.4	5.7	6.7	5.5	4.9	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 logged another strong performance in February. While bond yields moved higher over the month, this was more than offset by positive sentiment around better than expected company earnings and resilient economic data.

The Australian market was also positive, with the ASX300 Accumulation Index rising +1.0%, to an all-time high. Following the offshore lead, Tech was the best performing sector (+19.7%). The company reporting season was the highlight of the month, and saw results come in overall slightly better than expected, allaying fears of a looming slowdown in consumer spending.

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 \$18 million	
Distribution Frequency	Minimum Initial Investment	
Monthly	\$25,000	
Trust Inception Date	Fees	APIR Code
December 2005	0.92%	IOF0078AU

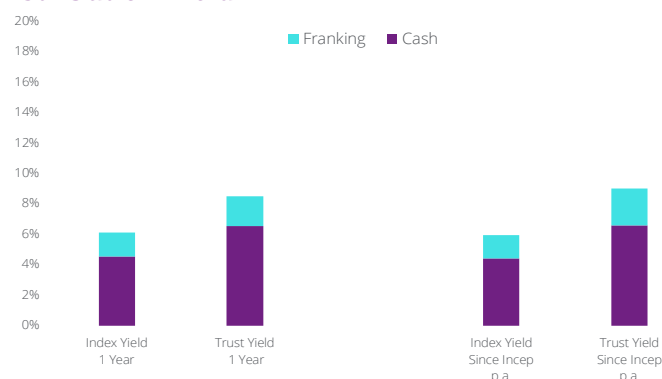
Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.9	16.4
Price to Free Cash Flow (x)	12.4	14.7
Gross Yield (%)	5.7	4.9
Price to NTA (x)	2.3	2.7

Source: Perennial Value Management. As at 29 February 2024

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.

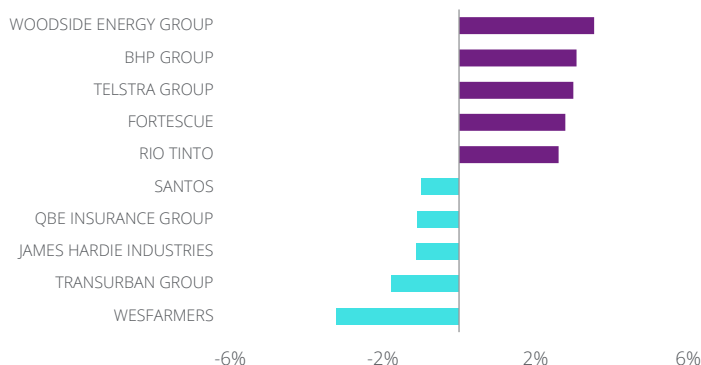
Franking Levels (%)			
FY23	74.3	FY20	94.4
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2

Distribution Yield

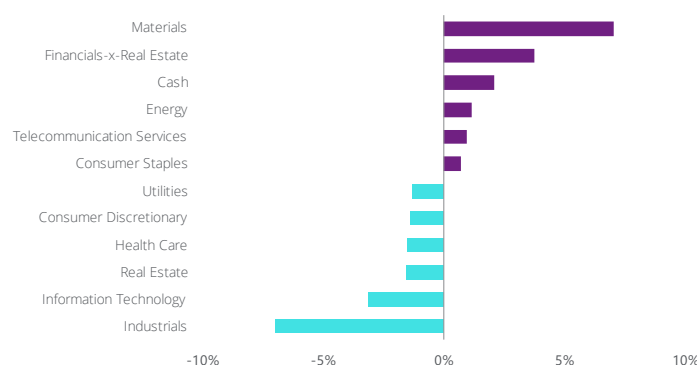


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -1.4%, including franking credits and after-fees in February, outperforming the benchmark by -2.7%.

Key contributors to performance over the month included Treasury Wines (+14.7%), which performed strongly, with expectation building that the Chinese tariffs will be removed shortly. Should this occur, there will be material earnings upside, as inventories of high-end wine such as Penfolds, are redirected back into the highest-margin market.

Engineering firm, Worley (+12.9%), outperformed after delivering a solid result, showing margin improvement and a strong pipeline of new work. This company is extremely well-placed as it serves both the traditional chemicals, oil and gas sectors as well as the renewable energy sector. Not only are renewables, which now account for nearly 40% of their work, growing rapidly, but it is also higher margin.

Insurers Suncorp (+10.2%) and IAG (+4.5%) both outperformed, with their results showing that premium increases remain strong and claims costs have moderated. The insurers also benefitted from the pushing out of expectations of the timing of interest rate cuts.

Discretionary spending appears resilient, with many consumer-facing companies, such as retailers, reporting better than expected results. This saw strong rallies in many of their share prices. The Trust is underweight the retailers, and this detracted from performance over the month. In our view, the outlook from here is only going to get tougher for these stocks as, while tax cuts and potential interest rate cuts will be positive, this will likely be more than offset by ongoing cost of living pressures and deteriorating sentiment as the unemployment rate ticks up. As a result, we are happy to remain underweight the sector.

The Trust was also impacted by our overweight position in the Resources sector. While sentiment towards the domestic outlook is extremely positive, the opposite is true of sentiment towards China. This is being reflected in the share prices of mining stocks, with South32 (-11.9%), Fortescue Metals (-9.6%), BHP (-7.1%) and Rio Tinto (-6.9%) all underperforming. While the outlook is indeed subdued, in our view, this is more than factored into current share prices, with the bulk miners trading on FY24 P/E multiples of around only 10x. At these levels, it would not take much in the way of positive news to see a re-rating of these stocks.

Trust Activity

During the month, we took profits and exited our holding in Seven Group, which had performed very strongly, returning +60% over the last 12 months. Proceeds were used to increase our positions in Telstra and Fortescue Metals. At month end, stock numbers were 30 and cash was 2.1%.

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

Globally, inflation continues to moderate, albeit at a slowing pace, as while goods inflation has fallen sharply, services inflation is proving more persistent. While the expected timing of interest rate cuts has been pushed out, the consensus view is that rate cuts are coming, and a soft landing will be achieved.

This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

Similarly, the Australian economy continues to look reasonably healthy, boosted by immigration, however, GDP growth is weakening, and per capita GDP growth is negative. While the prospect of RBA interest rate cuts is positive for sentiment and the upcoming tax cuts will also boost disposable income, there are signs the labour market is beginning to soften, leaving us cautious on the consumer.

Despite the Chinese economic woes, demand for most commodities remains healthy and supply is generally constrained. As a result, it would not take much for sentiment to improve significantly towards the sector.

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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