

	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	6.0	6.7	8.3	8.6	8.1	7.8	6.6
Capital Growth	0.3	-0.6	1.8	3.1	-2.0	-2.5	-2.3	-2.3	-0.4
Total Return	0.8	1.0	7.8	9.8	6.3	6.1	5.8	5.5	6.2
Franking Credits [#]	0.1	0.5	1.9	2.0	3.2	3.5	3.3	2.9	2.4
Income Distribution including Franking Credits	0.6	2.1	7.9	8.7	11.5	12.1	11.4	10.7	9.0
Benchmark Yield including Franking Credits [*]	0.6	1.5	5.4	5.7	5.8	5.4	5.7	5.8	5.9
Excess Income to Benchmark[#]	0.0	0.6	2.5	3.0	5.7	6.7	5.7	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 rallied in May, recovering from last month's sell-off. The US market was particularly strong, with an "in line" CPI figure easing inflation fears and propelling the S&P500 (+4.8%) and NASDAQ (+6.9%) to new highs. Other markets were also positive, with the FTSE100 (+1.6%) and Nikkei 225 (+0.2%) both rising. The exception was the Chinese market, with the Shanghai Composite (-0.6%) down for the month.

The Australian market also posted a gain, with the ASX300 Accumulation Index rising +0.9%, to have delivered a healthy return of +12.8% over the last 12 months.

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

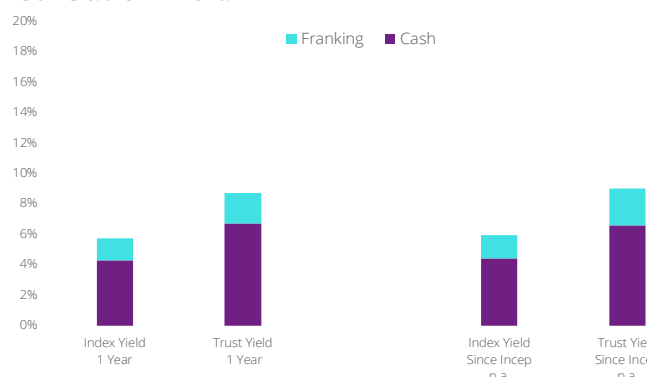
Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	15.1	16.2
Price to Free Cash Flow (x)	11.5	13.7
Gross Yield (%)	6.0	5.1
Price to NTA (x)	2.1	2.6

Source: Perennial Value Management. As at 31 May 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.

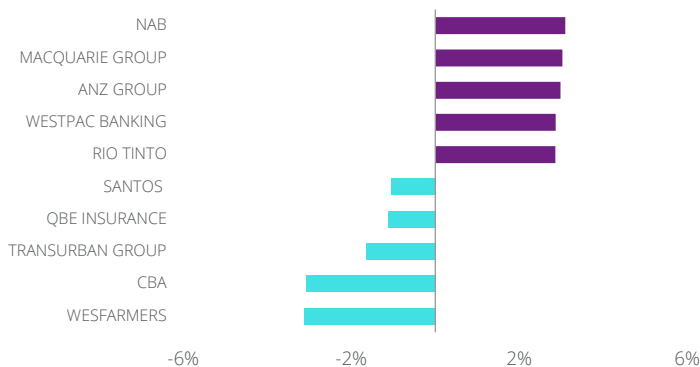
Franking Levels (%)			
FY23	74.3	FY20	94.4
FY22	100.2	FY19	95.1
FY21	90.3	FY18	99.2

Distribution Yield

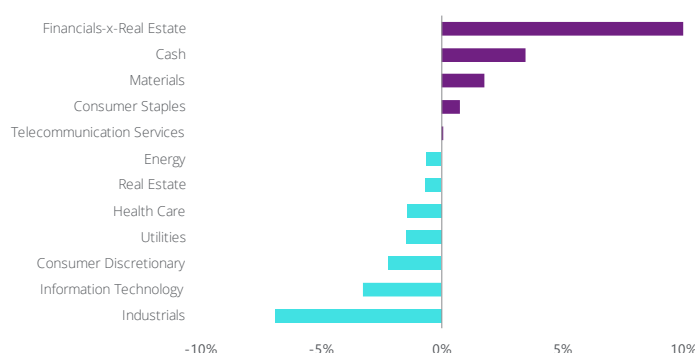


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +0.8%, including franking credits and after-fees in May, underperforming the benchmark by -0.2%.

Key contributors to performance over the month included gaming machine manufacturer, Aristocrat Leisure (+13.5%), which outperformed after delivering a solid half-year result. Despite overall market softness, the company continues to gain market share. Importantly, they continue to build their number of participation machines. This is where, rather than making an outright sale, Aristocrat provides the machine in exchange for a share of the revenue it generates. While more capital intensive, this creates a higher-quality, annuity-style revenue stream. The company also announced a review of certain non-core assets, which if sold, would further bolster the company's already debt-free balance sheet.

Resources holding had mixed fortunes in May. Strength in aluminium and manganese saw South32 (+10.6%) rally strongly. Ironically, the strength in the manganese price was largely driven by a ship crashing into the loading dock of South32's Groote Eylandt manganese operation, which will prevent any exports for the remainder of 2024. The iron ore price continued to be strong, rising +6% to US\$118/t. However, more negative China sentiment on the back of new tariffs, saw Rio Tinto (-1.2%) and Fortescue Metals (-5.0%) both underperform. By contrast, BHP (+3.4) outperformed after walking away from their bid for Anglo American. While the bid made strategic sense, as with any takeover, price matters, and it was good to see BHP being disciplined with use of shareholders' capital.

ANZ, NAB and Westpac reported their half-year results during the month. Overall, the results were in-line with, to marginally positive vs expectations, seeing the sector rise an average of +3.5%. With modest credit growth, and margins remaining under pressure, revenue growth is limited, and costs pressures continue. This means that earnings growth will be constrained in the near term. While credit quality is deteriorating slightly, it still remains strong, with the bad debt expense at very low levels by historical standards. Also on the positive, the banks all remain well-provisioned, and in strong balance sheet positions, with CET1 capital at the top of their target ranges and high levels of liquidity. This has allowed them to increase dividends and buy-backs.

The main detractors over the month were Orora (-6.4%), Treasury Wine Estates (-6.3%) and Telstra (-5.4%). We remain positive on the outlook for each of these companies.

Trust Activity

During the month, we took profits and reduced our holding in gold miner, Newmont, following its recent strong performance. Proceeds were used to increase our holding in the banks and Macquarie Group ahead of their dividend paying periods. At month end, stock numbers were 29 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 have continued to pay 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 have not seen 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.

While corporate earnings have generally proven resilient to date, outside of the US, there is clear evidence that growth is slowing. In Australia, economic growth has stalled, and the economy has been in a pre-capita recession for some time now. While the upcoming tax cuts will boost disposable income, there are signs the labour market is beginning to soften, leaving us cautious on the consumer. Further, immigration – a key plank of our growth – has become a political issue and is set to be reduced. In terms of Resources, demand for most commodities remains healthy and supply is generally constrained. However, while the Chinese Government has taken steps towards stabilising the property market, renewed trade tensions and the prospect of new tariffs puts a question over the outlook for growth in their manufacturing 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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Contact us



Level 27, 88 Phillip Street
Sydney NSW 2000



1300 730 032



invest@perennial.net.au



www.perennial.net.au

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