Perennial Value Shares Wholesale Trust

MONTHLY REPORT JANUARY 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Australian Shares Trust (Net)	0.8	15.2	14.9	-4.9	3.2	7.0	7.9
S&P/ASX 300 Accumulation Index	0.3	12.1	14.1	-2.7	7.1	10.1	7.7
Value Added (Detracted)	**0.5**	**3.1**	**0.8**	**-2.2**	**-3.9**	**-3.1**	**0.2**

Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Overview

- Global markets began the month strongly, driven by continuing positive sentiment around vaccine rollouts and the prospect of larger stimulus in the US, following the Democratic wins in the Senate. However, a sell-off later in the month saw most major global indices finish the month largely flat.
- The Australian market followed a similar path, rallying early in the month before pulling back, with the ASX300 Accumulation Index finishing the month up +0.3%. The consumer-facing sectors, along with the financials, led the market, while defensive, rate-sensitive sectors lagged.
- The Trust delivered a return of +0.8%, outperforming the market by +0.5%, as ongoing strong domestic economic data supported the outlook for many of our good value, cyclical holdings, which are leveraged to an improvement in the broader economy.
- Since the market's low in March, the Trust has performed well, returning +58.9% and outperforming the market by +9.9%. This performance highlights the Trust's leverage to the post-COVID economic recovery. Historically, value style investing has delivered significant outperformance during economic recoveries.

Perennial Value Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio Managers
Stephen Bruce, Damian Cottier, Andrew King

Trust FUM
AUD $556 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

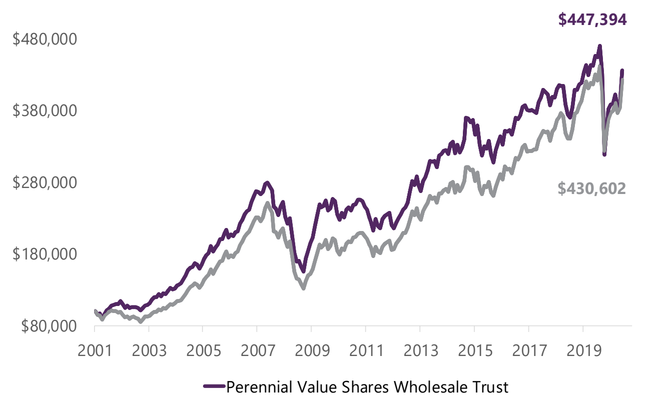
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	16.2	17.8
Price to Free Cash Flow (x)	13.8	15.6
Gross Yield (%)	4.8	4.5
Price to NTA (x)	2.2	2.5

Source: Perennial Value Management. As at 31 January 2021

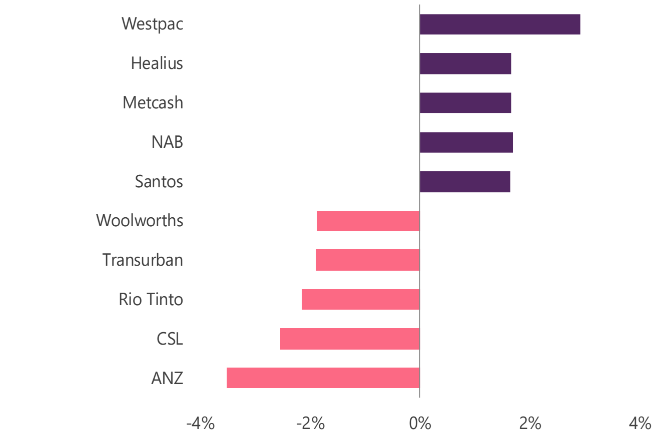
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

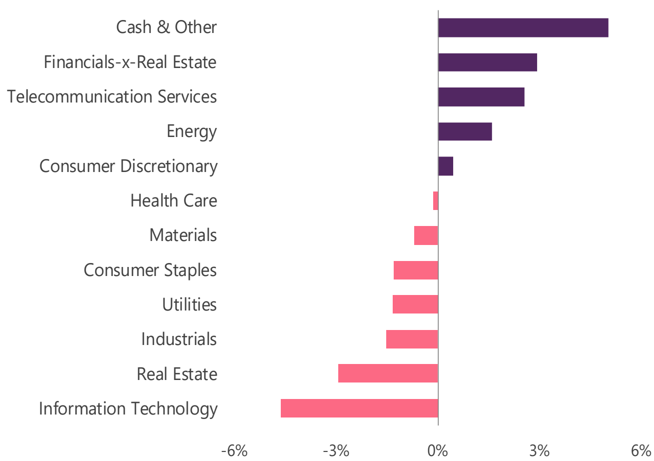


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets began the month strongly, driven by continuing positive sentiment around vaccines and the prospect of larger stimulus in the US, following the Democratic wins in the Senate. However, a sell-off later in the month saw most major global indices finish the month largely flat. Increasing inflation expectations and a rise in bond yields likely weighed on markets, along with profit-taking after the recent strong run. In addition, the social media-engineered short squeezes may also have led to some degree of de-risking in parts of the market.

The Australian market followed a similar path, rallying early in the month before pulling back, with the ASX300 Accumulation Index finishing the month up +0.3%. The consumer-facing sectors, along with the financials led the market, while defensive, rate-sensitive sectors lagged as bond yields rose. The Trust delivered a return of +0.8%, outperforming the market by +0.5%, as ongoing strong domestic economic data supported the outlook for many of our good value, cyclical holdings, which are leveraged to an improvement in the broader economy.

Since the market's low in March, the Trust has performed well, returning +58.9% and outperforming the market by +9.9%. This performance highlights the Trust's leverage to the post-COVID economic recovery. Historically, value style investing has delivered significant outperformance during economic recoveries. The Trust has also benefited from very strong performances from a number of stocks acquired at very attractive prices during the selloff. In particular, many of the Trust's mid and small cap holdings performed very well. This is an area of particular focus for the Trust, as many of these smaller stocks have strong stock-specific drivers, independent of the broader macro-economic backdrop.

Continuing improvement in the domestic economy saw consumer-facing stocks perform strongly, with the Consumer Discretionary sector (+4.8%), the best performing sector over the month. A number of retailers delivered very strong trading updates during the month, reflecting the strong recent consumer spending data. The unemployment rate continues to decline, with strong jobs growth, while consumer confidence reached a 10-year high. The Trust is exposed to the sector through holdings in Bunnings' owner, Wesfarmers (+8.4%), Super Retail Group (+6.9%) and Woolworths (+3.9%).

The Financials were also a beneficiary of the strong domestic economic data, with the major banks all outperforming, rising an average of +4.9%. House prices are rising and borrowing for new housing has picked up strongly, on the back of government incentives. The improving employment market, along with the strength in the property market means that the bad debt outcomes are likely to be significantly better than initially feared. The banks are well-provisioned and well-capitalised, meaning that they will be able to significantly increase their dividends over the coming years. Further, the banks will soon be in a position to focus on their cost bases, once the post-Royal Commission compliance spend begins to abate.

The Telco sector also performed well, led by Telstra (+4.7%). The company stands to benefit from the rollout of its 5G network and has significant opportunities to realise value through the sale of network assets over the coming years. These types of assets, such as mobile phone towers, can attract very high valuations from infrastructure investors.

Other holdings which outperformed included healthcare stocks Healius (+4.0%) and Integral Diagnostics (+3.9%). These companies operate in the pathology and diagnostic imaging sectors which are currently experiencing strong demand as people catch up on medical procedures deferred due to COVID.

Holdings which detracted from performance included several of our Resources holdings, which eased after strong performances over recent months, with Deterra (-10.2%) and Alumina Ltd (-7.6%) notable mentions, while mining services companies were also generally weaker. We still see attractive value in the Resources sector. Gold holdings St Barbara (-6.4%) and Newcrest (-2.6%) declined on the weaker gold price. Gold remains one of our preferred defensive exposures in the portfolio, as we expect it to perform well in the event of either increasing inflation or a renewed bout of uncertainty.

Trust Activity

During the month, we added building materials company CSR to the portfolio. This stock provides exposure to the Australian detached housing market, which is currently growing strongly. This was funded by switching out of the remainder of our holding in James Hardie, with its predominantly US exposure. This stock had performed very strongly and no longer represented attractive value. We also increased our holdings in gaming company Tabcorp, telcos Telstra and TPG, Insurer IAG and private hospital operator Ramsay Healthcare. These purchases were funded by taking profits and reducing holding in a number of stocks which had performed strongly recently including Fortescue Metals, BlueScope Steel, Smartgroup, Seven Group and Ingenia Communities. At month end, stock numbers were 60 and cash was 3.9%.

Outlook

The start of 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term roll-out of an effective COVID vaccine underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop. The election result of a Biden presidency and Democratic Senate means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

Fortunately, the recent COVID outbreak in NSW seems to have been brought under control, with restrictions having now been eased, meaning the impact on activity levels may not be significant or long-lasting. Further, key indicators around employment, loan deferrals and the property market are all surprising to the upside. Finally, the economy is underpinned by historically low interest rates and meaningful fiscal stimulus. If this improvement continues, then corporate earnings and dividends are likely to rebound strongly over the coming year.

The Trust is positioned to benefit from an ongoing economic improvement and our focus remains on investing in quality companies with proven business models and 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

Contact Us

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