Perennial Value Shares Wholesale Trust

MONTHLY REPORT MARCH 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)	2.9	7.1	21.9	49.0	7.0	7.9	8.2
S&P/ASX 300 Accumulation Index	2.3	4.2	18.4	38.3	9.7	10.3	7.9
Value Added (Detracted)	**0.6**	**2.9**	**3.5**	**10.7**	**-2.7**	**-2.4**	**0.3**

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

Overview

- Global markets performed strongly in March, driven by continuing positive sentiment around vaccine rollouts and the prospect of large stimulus in the US, with all major indices delivering positive returns. This was despite the ongoing increase in bond yields.
- The Australian market also performed strongly, with the ASX300 Accumulation Index finishing the month up 2.3%. While there was no strong theme in the market, the more defensive sectors tended to outperform, while the more cyclical sectors lagged.
- The Trust delivered a return of 2.9%, outperforming the market by 0.6% after fees, bringing the total outperformance after fees for the last 12 months to 10.8%. This has been driven by strong performances from a large number of our holdings across a range of different sectors.
- Since the market's low in March 2020, the Trust has performed very well, returning +68.3% and outperforming the market by 13.6% after fees. 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 $570 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

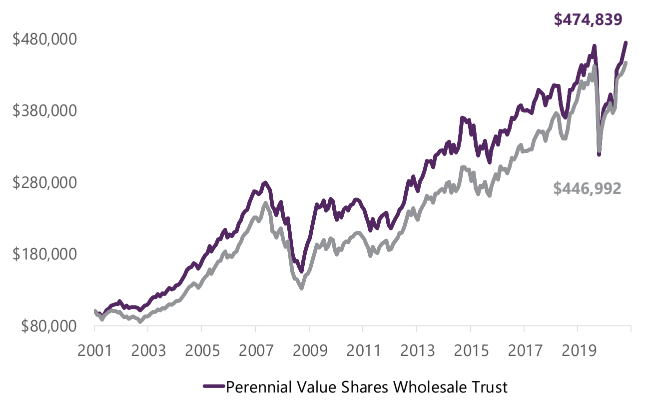
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	16.4	17.3
Price to Free Cash Flow (x)	13.3	15.0
Gross Yield (%)	5.1	4.9
Price to NTA (x)	2.5	2.6

Source: Perennial Value Management. As at 31 March 2021

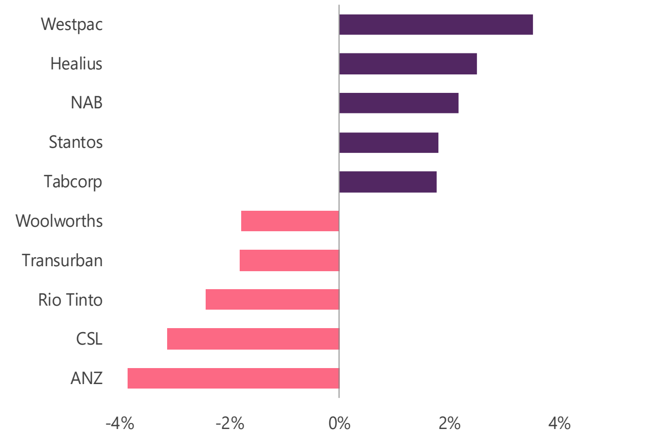
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

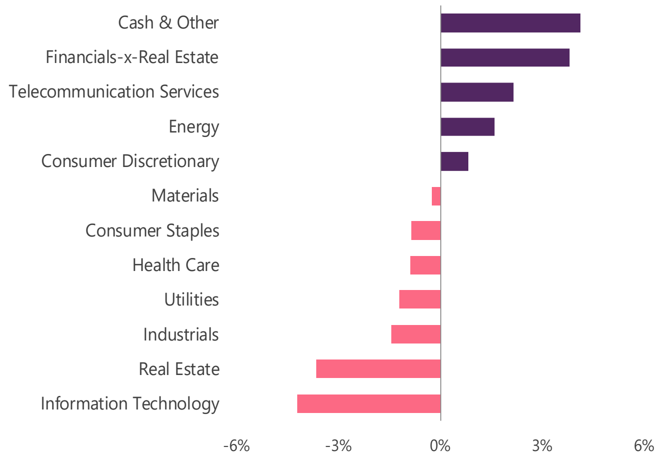


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Since the market's low in March 2020, the Trust has performed very strongly, returning +68.3% and outperforming the market by 13.6% after fees. 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 macroeconomic backdrop.

As the economy recovers, inflation expectations are likely to increase and this will lead to higher bond yields and increasing interest rates. While rising rates will present a headwind to growth, the most at-risk sectors are those with the most extreme valuations such as the Technology sector. By contrast, the more cyclical sectors of the market are likely to outperform given their leverage to an improving growth environment and their less-demanding valuations. This is the environment in which value investing typically outperforms.

Stocks which contributed positively over the month included several agricultural stocks, including Graincorp (+24.4%), which is experiencing very strong operating conditions due to improved seasonal conditions. While management has made significant improvement to the business over recent years, the benefits had been obscured by the drought. Going forward, however, the company has upgraded expectations for mid-cycle earnings. Further, the business owns strategically valuable port assets and has a very strong balance sheet. Nufarm (+10.6%) is also benefitting from strong seasonal conditions as well as operational improvements. In addition to its core crop protection business, Nufarm is developing a revolutionary Omega-3 canola oil. This could have great environmental benefits, as Omega-3 oil is currently derived from wild-caught fish, the stocks of which are under increasing pressure. Global malt producer, United Malt Group (+11.5%) also performed well. This company is leveraged to the global reopening, as malt demand will increase as the hospitality industry recovers post-pandemic.

BlueScope Steel (+16.0%) continued its strong performance, with steel prices remaining buoyant. The company has a very well-positioned US asset which is benefitting from very strong demand, while recently announced production cuts in China should also be positive for pricing.

Telstra (+10.4%) performed well, with the company announcing further progress on its internal restructure to separate the network assets from the operating business. This process is setting the business up to sell off certain of these assets such as the mobile phone towers. Selling these assets to financial investors such as infrastructure funds presents an opportunity for the company to realise a significant valuation uplift.

Other holdings which performed well included Aristocrat Leisure (+13.1%), Newscorp (+9.7%), Metcash (+9.2%), Alumina Ltd (+7.4%), Macquarie Group (+7.3%), Orora (6.3%) and Tabcorp (+5.2%).

The iron ore names weakened following the announcement of steel production cuts in parts of China. We view the outlook for the resources sector positively, however, given the very high level of the iron ore price we see better opportunities outside of the bulks. Whereas iron ore is primarily driven by Chinese demand, which has remained strong throughout, other metals are likely to be driven more by rest of the world growth which we expect is still to come.

The Trust also benefitted from not holding a number of expensive growth stocks which underperformed, including Afterpay (-15.1%) and A2 Milk (-12.9%). Growth stocks such as these have performed very strongly in the low-rate, low-growth environment of recent years. However, life may become significantly more difficult for them should rates continue to rise and growth recovers in the broader economy.

Holdings which detracted from performance included gold stocks Northern Star (-6.2%) and Newcrest (-0.9%), on the weaker gold price. We continue to regard the gold sector a preferred defensive option as it can be expected to outperform in an inflationary environment, while other interest-rate sensitive defensive sectors would lag. Other holdings which underperformed included insurer IAG (-6.2%) on flood impacts, energy stock Santos (-1.8%) and engineering services firm Worley (-3.2%), which eased on a slight pull back in the oil price after a strong run. We remain positive on the outlook for each of these holdings.

Trust Activity

During the month, we increased our holdings in IAG and QBE. The insurance sector has been an underperformer in recent times due to concerns over business interruption insurance claims related to lockdowns, as well as the recent floods. However, these companies are well provisioned against these issues and the stocks offer attractive value, especially given the ongoing strength in the premium rate cycle. We also increased our holdings in a number of other stocks which had lagged recently, including Woolworths, whose demerger of its Endeavour Drinks business is expected to be a positive catalyst. This was funded by taking profits in Metcash which had performed strongly. We also took profits in holdings which had performed well, exiting insurance broker Steadfast and reducing our holdings in Medibank Private, Ingenia Communities, Virgin Money UK, Oz Minerals and PWR Holdings. At month end, stock numbers were 58 and cash was 5.3%.

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.

Domestically, 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

Level 27, 88 Phillip Street, Sydney NSW 2000 invest@perennial.net.au www.perennial.net.au 1300 730 032