Perennial Value Shares Wholesale Trust

MONTHLY REPORT APRIL 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)	3.2	9.5	26.0	37.8	7.1	8.0	8.3
S&P/ASX 300 Accumulation Index	3.7	7.6	22.8	31.6	9.7	10.4	8.0
Value Added (Detracted)	**-0.5**	**1.9**	**3.2**	**6.2**	**-2.6**	**-2.4**	**0.3**

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

Overview

- Global markets generally performed strongly in April, driven by strong economic data, expectations of further stimulus measures and the accelerating vaccine rollout in the US and UK. The market was also helped by a slight pull-back in bond yields.
- The Australian market also performed strongly, with the ASX300 Accumulation Index finishing the month up 3.7%. Sector performance was mixed, with strong performances from both cyclical sectors such as Resources, as well as growth sectors such as IT.
- The Trust delivered a return of +3.2%, underperforming the market by 0.5% after fees. However, over the last 12 months, the Trust has outperformed the index by 6.2% after-fees. 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 +73.7% and outperforming the market by 13.3% 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 $580 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

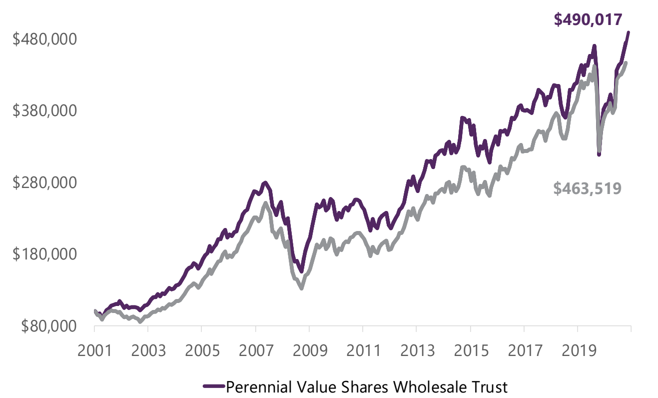
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	16.6	17.5
Price to Free Cash Flow (x)	13.5	15.3
Gross Yield (%)	4.9	4.8
Price to NTA (x)	2.5	2.7

Source: Perennial Value Management. As at 30 April 2021

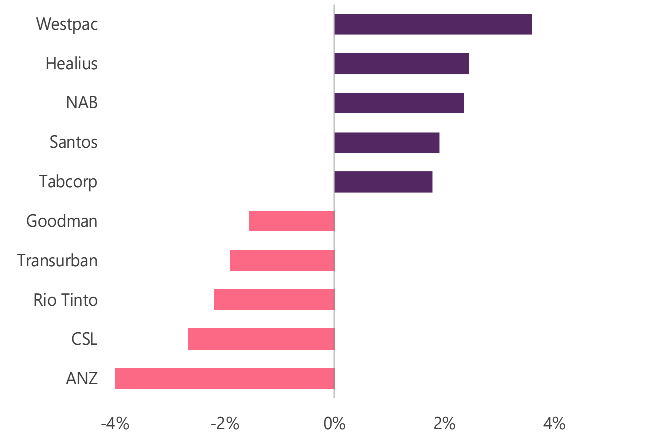
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

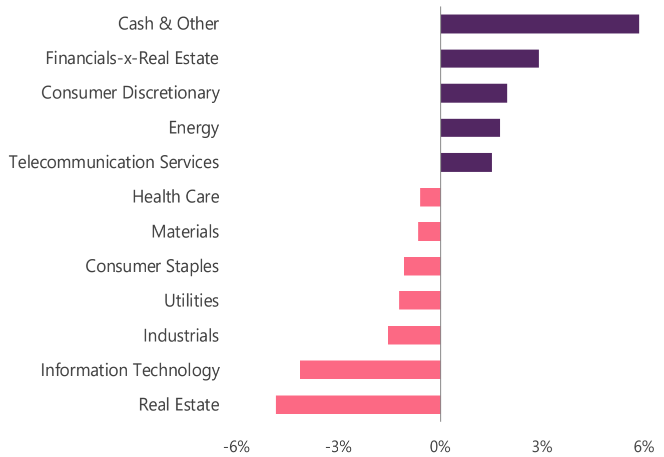


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

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 +73.7% and outperforming the market by 13.3% 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 not appearing strongly in the official economic data as yet, updates from companies are now beginning to highlight strong inflationary pressures. 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 and Healthcare sectors. 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 Resources stocks, with Independence Group (+19.3%), rising after announcing the sale of its Tropicana Gold mine for a higher-than-expected price. Following the sale, the company is entirely focussed on clean energy minerals, producing lithium, nickel, copper and cobalt. Fortescue Metals (+13.0%) and BHP (+5.3%) both outperformed, as the iron ore price hit new highs. BlueScope Steel (+11.7%) rallied after delivering a profit upgrade, with very strong conditions being experience across all of its global operations. Steel prices are rising sharply and, while good for BlueScope, this is an example of the cost pressures that are beginning to feed into the economy and which are likely to drive higher inflation and higher interest rates. Iluka Resources (+7.4%) and Oz Minerals (+4.8%) also performed well.

Strength in the domestic economy saw strong performances from a number of consumer-facing stocks, with women's fashion retailer City Chic Collective (+17.6%), hotel and cinema operator, Event Hospitality (+11.5%) and outdoor wear retailer, Kathmandu (+9.3%) all ahead. The auto sector was also stronger, with online marketplace Carsales (+11.7%) and leasing services company Smartgroup (+11.2%) rising.

Gaming stocks were stronger, with Tabcorp (6.2%), continuing to rally after the takeover offer for its wagering division was increased to $3.5bn. This is a sector undergoing significant corporate activity globally. Aristocrat Leisure (+8.2%), also rose ahead of what is expected to be a strong result. This company is well-placed to grow in the digital gaming space over the coming years.

Global malt producer, United Malt Group (+12.3%) continued its strong run. This company is leveraged to the global reopening, as malt demand will increase as the hospitality industry recovers post-pandemic.

Gold stocks Northern Star Resources (+10.9%) and Newcrest Mining (+8.6%), rallied on the higher gold price. These are both world-class gold companies and we continue to regard the gold sector as a preferred defensive option as it can be expected to outperform in an inflationary environment, while other interest-rate sensitive defensive sectors would lag.

Downer (+9.7%), rose after hosting an investor day which highlighted the progress the business has made divesting its capital-intensive and volatile businesses and refocussing on its urban services and asset management operations. Demand for these services are expected to grow over time, with increased government infrastructure investment.

Holdings which detracted from performance included Seven Group Holdings (down 4.5%), which declined after undertaking a $500m equity raising to increase balance sheet flexibility. We view the outlook for this company positively, with its leverage to both the strength of the iron ore market through its Westrac Caterpillar franchise, as well as increased infrastructure investment through its Coates Hire business and its 23% stake in Boral. Agricultural stocks Graincorp (down 2.9%) and Nufarm (down 1.5%) both eased following recent strong runs. We remain positive on the outlook for each of these holdings.

The Trust was also impacted by not holding Afterpay (+15.9%), which rallied strongly during the month. We do not hold this stock on the basis of valuation, with the company having an unproven business model and being yet to make a profit. Further, it faces increased competition from a range of other payments providers, as well as the likelihood of increased regulation. To our mind, this stock in no way justifies a valuation north of $30bn.

Trust Activity

During the month, the Trust participated in in the equity raising by Seven Group. As mentioned above, we see this company as having a strong outlook. Holdings were also increased in a number of good value stocks, including Star Entertainment. Star is trading on an attractive valuation, is well placed to benefit from the economic reopening and has a solid pipeline of medium-term growth projects. Further, it may also be able to realise value through separating out its property assets from its operating business in a similar way to many casino groups globally. At month end, stock numbers were 57 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 rollout 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

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