Perennial Value Shares Wholesale Trust

MONTHLY REPORT JULY 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)	1.3	5.0	1.3	31.8	7.3	7.8	8.5
S&P/ASX 300 Accumulation Index	1.1	5.8	1.1	29.1	9.7	10.1	8.2
Value Added (Detracted)	**0.2**	**-0.8**	**0.2**	**2.7**	**-2.4**	**-2.3**	**0.3**

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

Overview

- The Australian market rose again in July, with the ASX300 Accumulation Index making another record high, finishing the month up +1.1% and bringing the total return for the last 12 months to a very healthy +29.1%.
- Resources were the standout over the month, with the sector rising strongly on expectations of delivering very strong profits and dividends during the upcoming reporting season.
- Financials were weaker, as the recent COVID lockdowns weighed on sentiment towards the banks, while the Tech sector was the was the worst performing sector over the month.
- Since the market's low in March 2020, the Trust has performed very well, outperforming the market by 12.8% after fees. This performance highlights the Trust's leverage to the post-COVID economic recovery.
- We expect economic growth to continue to be strong and this should benefit the Trust going forward. 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 $581 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

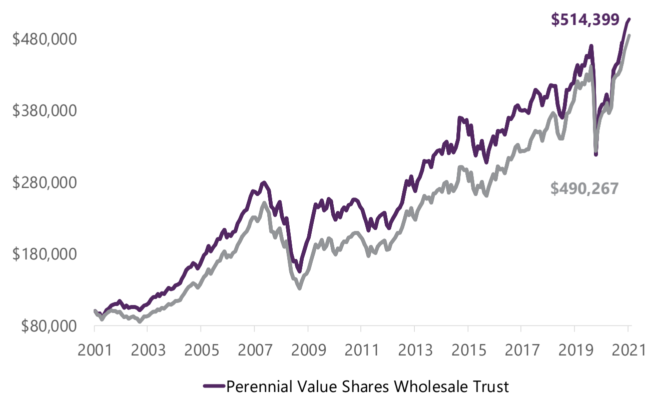
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	15.3	16.0
Price to Free Cash Flow (x)	13.1	14.1
Gross Yield (%)	5.7	5.5
Price to NTA (x)	2.7	2.9

Source: Perennial Value Management. As at 31 July 2021

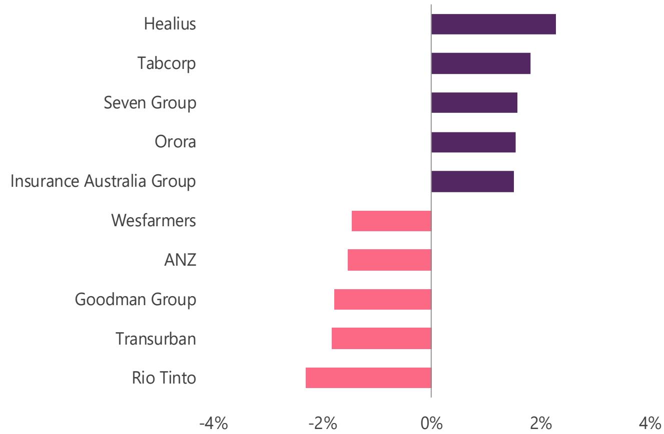
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

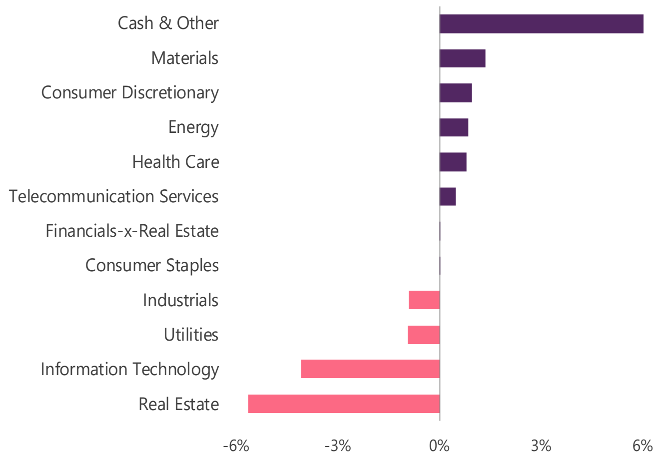


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Stocks which contributed positively over the month included Sydney Airport (+34.9%), which rallied after receiving a takeover bid from a consortium of infrastructure investors. We are underweight the infrastructure sector overall, however, we held an overweight position in Sydney Airport, being attracted by its single, very high-quality asset, long concession life and simple structure. Further, the ongoing uncertainty around the resumption of international travel meant that it continued to trade at a depressed level, offering good relative value.

Seven Group Holdings (+14.3%) performed well, moving to a 70% shareholding in Boral at the conclusion of its takeover offer. This is sufficient to give Seven Group operational and strategic control over Boral and we believe that there is the opportunity for them to significantly improve its performance over the coming years. Further, Boral's Australian businesses are a good fit with Seven's industrial operations and increase its exposure to the expected increase in infrastructure investment over coming years.

Resources holdings performed strongly over the month. While the iron ore price declined from its recent very high levels, the major miners were stronger, with our preferred exposure, BHP (+10.0%), Fortescue Metals (+6.7%) and Rio Tinto (+5.4%) all higher on expectations of very strong profit results and dividends during the upcoming reporting season. The combination of generally higher commodity prices and strong quarterly production results also saw strong performances from a number of other resources holdings.

Independence Group (+22.0%) rallied after delivering a strong June quarter production report. This stock provides exposure to the full suite of new energy metals, producing lithium, copper, cobalt and nickel. Demand for these is expected to be very strong in coming years and the company has low-cost, well-located assets. Iluka Resources (+8.5%) also rose after delivering its June quarter report which showed that pricing for its key commodity, zircon, rose sharply. This market is expected to remain strong, as the industry experiences ongoing supply disruptions, in particular at Rio Tinto's South African operations. This highlights the value of having assets located in stable, well-regulated geographies such as Australia.

Bluescope Steel (+10.2%) was also stronger after upgrading earnings on the back of very strong global steel demand. All segments of the business were performing strongly, in particular the US, where demand remains very strong and Australia, where an increasing proportion of their sales are being made into the high margin coated steel segment. This also provides a very positive readthrough to the Australian economy more broadly, where strength in the construction sector saw their domestic steel volumes reach the highest levels since 2008.

The current COVID outbreaks in NSW and elsewhere saw Healius (+5.2%) continue to outperform. As the second largest pathology services provider in Australia, the company stands to benefit from the associated increase in COVID testing during this period. While this will hopefully be only temporary, it is providing a helpful boost to earnings while the company undertakes steps to improve its operational performance and lift margins following the sale of its medical centre business.

Other stocks which contributed to performance included online platform Carsales (+10.7%), with shortages of new cars leading to strong demand for second-hand vehicles. Packaging company Orora (+8.1%) and agribusiness Graincorp (+2.9%) were also stronger.

The major banks were weaker in July, underperforming by an average of -3.0%. Early in the month, we moved underweight the sector, anticipating negative sentiment around the potential impacts of the current lockdowns. While this has borne out, we believe that this will be short-lived and expect the banks to recover strongly once the COVID outbreak is brought under control. While lockdowns will clearly have an impact on the economy, the banks are in a very strong financial position. This has been demonstrated by the fact that both ANZ and NAB announced on market buy-backs of $1.5bn and $2.5bn respectively during the month. The fact that the regulator signed off on this in the face of the current uncertainty indicates they have a high level of confidence in the strength of the sector.

Holdings which underperformed during the month included retailer Kathmandu (-10.6%), which delivered a profit warning on the back of lockdown impacts on its store network. Energy stock Santos (-9.0%) was weaker on a fall in the oil price plus news that it had approached Oil Search about a potential merger. Worley (-6.6%), IAG (-6.0%) and Nufarm (-5.9%) were also lower. We remain comfortable with each of these holdings.

Trust Activity

During the month, in addition to moving tactically underweight the major banks, we locked in profits and trimmed holdings in a number of stocks which had performed very strongly in recent times including Healius, Integral Diagnostics and Carsales. Proceeds were used to increase our holdings in a number of stocks including Telstra, Brambles and Woolworths. These three stocks possess generally defensive characteristics in the face of currently heightened uncertainty, while trading on reasonable valuations. At month end, stock numbers were 55 and cash was 7.0%.

Outlook

We believe that 2021 may well mark a significant turning point for the global economy and markets, with the accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings. Further, this should also usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop.

Domestically, while the current COVID outbreak and associated lockdowns are a clear setback, key indicators around employment, business confidence 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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