Perennial Value Shares Wholesale Trust

Monthly Report August 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	2.1	4.4	3.4	30.5	8.1	8.4	8.5
S&P/ASX 300 Accumulation Index	2.6	6.1	3.7	28.6	10.1	11.1	8.3
Value Added	**-0.5**	**-1.7**	**-0.3**	**1.9**	**-2.0**	**-2.7**	**0.2**

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

Overview

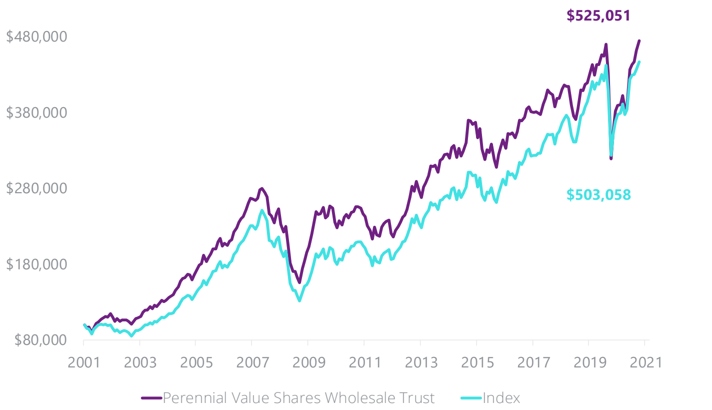
Global markets were strong in August, with most major indices delivering positive returns, with vaccines being rolled out, growth recovering and the prospect of ongoing low interest rates.

The Australian market rose again, with the ASX300 Accumulation Index making another record high, finishing the month up +2.6%, bringing the total return for the last 12 months to a very healthy +28.6%.

Company reporting season was the key event during the month, with market earnings rising strongly, as the economy bounced back from the first round of COVID disruptions. Earnings growth was broad-based and dividends were up sharply across all segments of the market. The Resources sector was the standout after a year of rising commodity prices.

Since the market's low in March 2020, the Trust has performed very well, outperforming the market by +12.2% 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.

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.

Fund Characteristics

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 $590 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

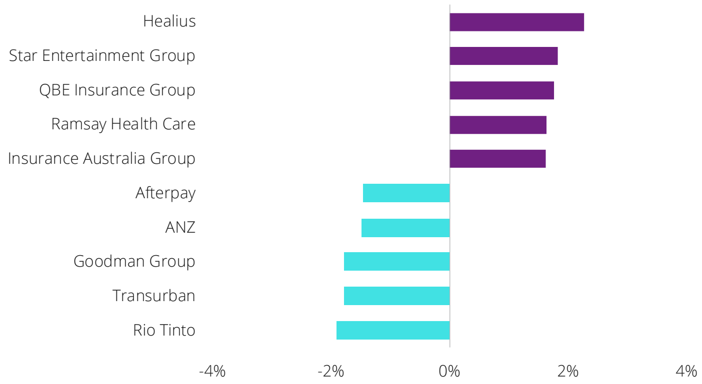
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust*	Market**
Price to Earnings (x)	16.0	17.0
Price to Free Cash Flow (x)	14.4	15.3
Gross Yield (%)	5.0	4.9
Price to NTA (x)	2.6	3.0

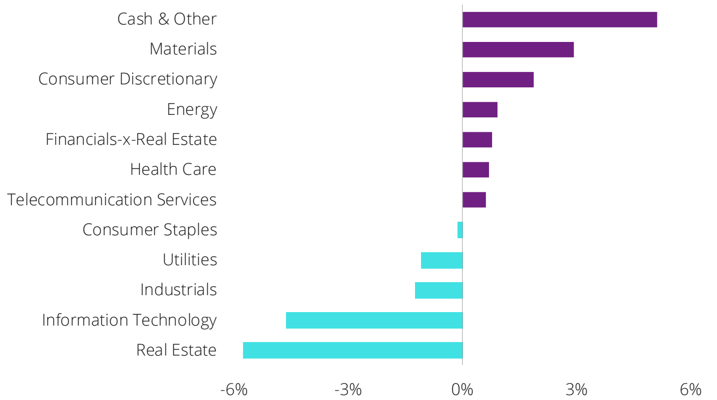
***Source:** Perennial Value Management as at 31 August 2021. **FACTSET forecast as at 31 July 2021.

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Given the ongoing rollout of effective vaccines, the market is, at present, prepared to look through the impact of the lockdowns in Australia and the resurgence of COVID infections globally due to the delta variant. As a result, while the reporting season was strong, many of the better performing holdings over the month were those set to benefit the most from the eventual reopening of the economy, rather than those which had delivered the best results, or those with the strongest near-term prospects.

Casino operator, Star Entertainment (+19.3%), for example, rallied despite reporting depressed earnings, as it stands to benefit when restrictions are eased. Further, the company has a large pipeline of growth projects and a valuable portfolio of property assets. Separating the operating businesses from the property assets is common offshore and may well be a means of realising value in Star. Finally, there is a good chance that they could benefit from the troubles at Crown, with whom they recently proposed a merger. Also in the gaming sector, Aristocrat Leisure (+9.7%) outperformed as visitors returned in droves to US casinos post their reopening. This business is performing very strongly operationally and has a number of growth drivers, including its expanding online video game operations, which now account for nearly half of earnings.

Ramsay Healthcare (+7.4%) also outperformed despite the fact that the curtailment of elective surgery in Australia will have a negative impact on current year earnings. However, once restrictions are lifted, it is expected that there will be a strong bounce back in surgical volumes as people undergo procedures which had been deferred due to COVID. Ramsay are experiencing this in their UK operations, where the reopening has seen strong demand to clear waiting lists which have blown out to very high levels.

While on the topic of the UK, the leading challenger bank in that market, Virgin Money UK (+7.2%), also outperformed after delivering a solid Q3 trading update, highlighting its strong capital position and the continuing low level of bad debts being incurred. To date, the reopening in the UK appears to be a success as, while COVID infection rates remain high, hospitalisations and deaths remain low due to the high rate of vaccination.

Also on the reopening theme, Qantas (+10.9%) rallied despite current earnings being severely impacted by lockdowns. The company has been aggressively reducing costs and will emerge from this period in very good shape and ready to take on what is likely to be a wave of pent-up demand for travel.

Fashion retailer, City-Chic Collective (+15.0%), with its largely online model and growing global footprint, continued to perform strongly and delivered a result which showed very strong sales and earnings growth. This business has proven highly adept at taking advantage of opportunities presented during COVID to expand into new geographic markets.

Asset manager MA Financial Group (+46.1%), was a great performer over the month, delivering a strong interim result and upgrading full-year earnings guidance on the back of strong growth in funds under management.

Graincorp (+21.0%) rallied strongly after upgrading earnings again on the back of the strength in the grain market, where it is benefitting from last years large crop, high wheat prices and strong export demand. Looking forward, conditions for the crop currently in the ground are very positive and this augurs well for earnings in the following financial year also.

The resources sector was the standout in terms of results delivered, with high commodity prices driving record profits and massive dividends. Despite this, however, the share prices of the iron ore miners declined, down an average of -13.6% over the month. This was due to the iron ore price falling sharply from its recent very high levels following the announcement that the Chinese were aiming to reduce steel production in the coming year. The Trust holds an underweight position in the iron ore stocks, preferring exposure to other commodities, given how hard the iron ore price had run over the last year. Resources holdings which performed well included Alumina Ltd (+9.4%) and South32 (+5.7%) as the alumina price began to rise, having previously lagged many other commodities.

The major banks outperformed marginally (up an average of +3.8%), with CBA (+2.5%) delivering a solid result, underpinned by continuing strong credit quality, which provides a positive signal about the underlying health of the economy. CBA also announced a $6.0bn off-market buy-back, adding to the $1.5bn and $2.5bn on-market buybacks announced by ANZ and NAB respectively. The Trust currently holds a slightly underweight position in the major banks.

Holdings which underperformed during the month included radiology provider Integral Diagnostics (-12.8%), Seven Group Holdings (-8.6%) and Orora (-5.3%), all of which eased after strong recent share price performances. We remain comfortable with each of these holdings.

Trust Activity

During the month we took profits and reduced holdings in a number of outperformers, including MA Financial Group, Orora and Graincorp. Proceeds were used to increase our holdings in stocks which will benefit from the reopening of the global economy including Star Entertainment, Virgin Money UK, Ramsay Healthcare and Qantas. At month end, stock numbers were 55 and cash was 5.0%.

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. As a result, the economy and corporate earnings are likely to rebound strongly once the current restrictions are eased.

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

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