Perennial Value Australian Shares Trust

MONTHLY REPORT JUNE 2020

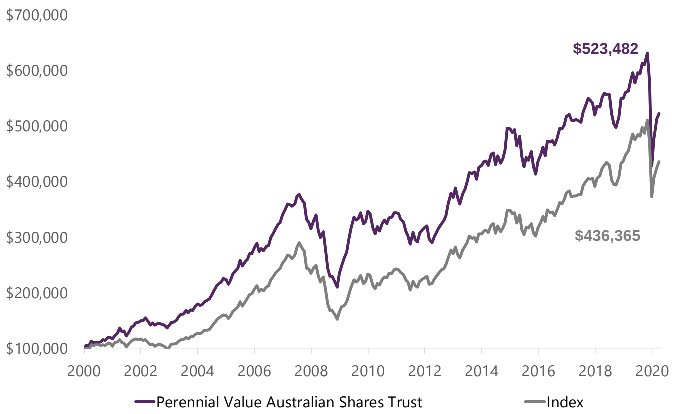
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Australian Shares Trust (Net)	1.9	22.2	-10.2	-10.2	0.8	2.4	8.5
S&P/ASX 300 Accumulation Index	2.4	16.8	-7.6	-7.6	5.2	6.0	7.5
Value Added (Detracted)	**-0.5**	**5.4**	**-2.6**	**-2.6**	**-4.4**	**-3.6**	**1.0**

Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Overview

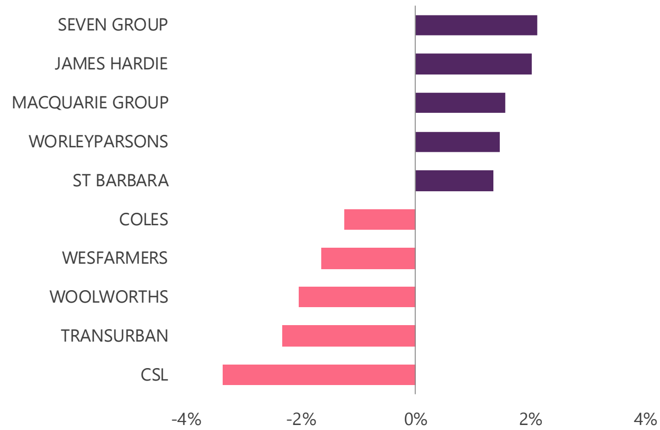
- Global markets continued to recover in June, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies.
- The Australian market was also strong, with the ASX300 Accumulation Index logging its third consecutive positive month, rising +2.4% in June and having now risen +30.6% from its March low.
- Since the market's low, the Trust has performed strongly, returning +38.0%, outperforming the market by +7.4%, driven by a rotation to value style stocks as well as very strong performances from a number of stocks where we increased our holdings at very attractive prices during the selloff.
- In particular, many of the Trust's mid and small cap holdings performed very strongly. The Trust is overweight the ex-Top 50 segments of the market and it is here that we are seeing the most significant upside.

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



Perennial Value Australian Shares 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 $688 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92%

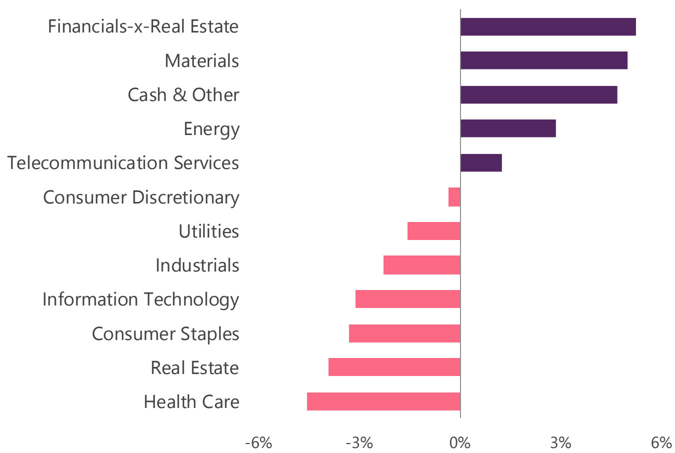
APIR Code
IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.5	16.2
Price to Free Cash Flow (x)	12.5	15.3
Gross Yield (%)	5.2	4.8
Price to NTA (x)	1.8	2.1

Source: Perennial Value Management. As at 30 June 2020

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.

Sector Active Exposure vs Index



Trust Review

Global markets continued to recover in June, as many countries began moving to ease lockdowns and restart their economies. While the continuing rise in the number of COVID cases in the US is causing significant concern, markets have been comforted by ongoing support from the Federal Reserve and other Central Banks.

The Australian market was also strong, as infection rates fell to very low levels in most parts of the country and restrictions began to be eased. The ASX300 Accumulation Index logged its third consecutive positive month, rising +2.4% in June and having now risen +30.6% from its March low.

The Trust delivered a return of +1.9% in June underperforming the market by 0.5%. Since the market's low in March, however, the Trust has performed strongly, returning +38.0%, outperforming the market by +7.4%. This outperformance has been driven by a rotation to value style stocks as sentiment towards the outlook improved, as well as very strong performances from a number of stocks in which we increased our holdings at very attractive prices during the selloff. Examples include James Hardie, Seven Group, City Chic Collective and Kathmandu.

The best performing sectors in the market in June were Consumer Discretionary (+5.1%) and Consumer Staples (+4.8%). The Trust benefited from strong performances from holdings in consumer exposed stocks such as Carsales.com (+9.8%) and Kathmandu (+6.7%). In addition to benefitting from any sustained improvement in consumer spending, both of these companies have strong stock-specific growth drivers.

The generally more positive sentiment to the outlook for the domestic economy saw the Financials (+4.3%) also outperform. This was led by the major banks (up an average of +4.9%), which continued to rally on optimism that the ultimate extent of bad debts would be less than expected. The major banks have faced significant headwinds in recent years, exacerbated by the impacts of the Royal Commission. Critically, however, the banks have entered the current crisis in a very strong financial position and have the opportunity to perform a crucial role in nursing the economy through this difficult period. We maintain our view that, in spite of its various shortcomings, the Australian banking system is unquestionably one of the best in the world, and the stability that it has provided to the economy is often underappreciated in public debate. Over the medium term, we see significant valuation upside to the banks from current levels and the Trust holds an overweight position in the sector.

Macquarie Group (+7.8%), one of our largest active positions, also performed well. One thing that can be said of Macquarie is that they never waste a good crisis. It is likely that they will be using the current market disruptions to acquire assets a very attractive prices, which will deliver significant profits in year to come. This is on top of the long-term growth to be delivered by their global leadership position in infrastructure investment. This is likely to be a key focus area for governments seeking to support economic activity, creating yet more opportunities for Macquarie.

Other strong performers included James Hardie (+6.1%), which rallied after reporting a strong first quarter result which showed resilient sales volumes and strong margins. Importantly, they noted a steady improvement in the North American housing market.

Seven Group Holdings (+5.8%) also provided a positive trading update, highlighting strong demand in its Westrac mining equipment business. Interestingly, Seven Group was also revealed as having acquired a 10% stake in Boral. The Boral share price has fallen sharply in recent times, as a result of issues in its US operations. Seven Group has proven itself to be a savvy investor and clearly sees an opportunity for realising value in Boral.

Holdings which detracted from performance included Nufarm (-24.3%), which indicated that earnings from its European operations are being impacted by a combination of dry weather and logistical issues. Gold holdings, Northern Star Resources (-9.7%) and Evolution Mining (-7.0%) also lagged, after performing strongly in recent months, while Newcrest (+3.1%) and St Barbara (+1.0%) fared better. The Trust remains overweight the gold sector, viewing it as a preferred defensive exposure in the portfolio. We continue to question the valuations of many of the other defensive sectors of the market, such as Healthcare and Consumer Staples, which are trading at very expensive multiples. While their earnings may be relatively resilient, their stretched valuations both limit their upside and present the risk of a material de-rating should they stumble. Further, the valuations of these stocks are at significant risk should interest rates begin to rise at some point.

Trust Activity

During the month, we took profits and reduced holdings in stocks which had outperformed such as Carsales, Aristocrat Leisure, Integral Diagnostics, Oz Minerals and Fortescue Metals. Proceeds were used to increase our holding in a range of good value opportunities such as Smartgroup, United Malt Group, St Barbara, PWR Holdings and Dexus. At month end, stock numbers were 68 and cash was 4.6%.

Outlook

Despite the rally, the market is still well down from its February highs. While the sharp slowing of activity means that forecasting near-term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. While it is impossible to know how this will ultimately play out, signs are emerging that worst of the health crisis may be behind us and the first steps towards normalisation may not be too far away.

Further, Australia has so far fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity.

Finally, the silver lining of a downturn such a this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, we have been taking the opportunity to add a number of new stocks to the portfolio which we are confident will deliver strong returns to investors over time.

As always, our focus will continue to be 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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