

	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)	-4.2	-1.0	-1.0	-13.1	0.7	3.9	8.3
S&P/ASX 300 Accumulation Index	-3.6	-0.1	-0.1	-10.0	4.9	7.4	7.4
<b>Value Added (Detracted)</b>	<b>-0.6</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-3.1</b>	<b>-4.2</b>	<b>-3.5</b>	<b>0.9</b>

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

## Overview

- Global markets were weaker in September, with most major indices declining on the back of increasing COVID-19 infections in many countries and the uncertainty caused by the looming US election.
- The Australian market was also weaker, with the ASX300 Accumulation Index declining -3.6%. This was despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings, which will be important in supporting domestic economic activity.
- The market has now recovered over half of its losses from the COVID-induced sell-off and now appears to be in a holding pattern as it attempts to weight up the increasingly positive domestic outlook with increasing global risks.
- The Trust has performed strongly since the market began to recover, outperforming the index by +6.0% since the market's low and continues to be positioned to benefit from any sustained recovery in the outlook.

## 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                      Trust FUM  
 Stephen Bruce, Damian Cottier,      AUD \$651 million  
 Andrew King

Distribution Frequency                  Minimum Initial Investment  
 Half yearly                                  \$25,000

Trust Inception Date                      Fees  
 March 2000                                  0.92%

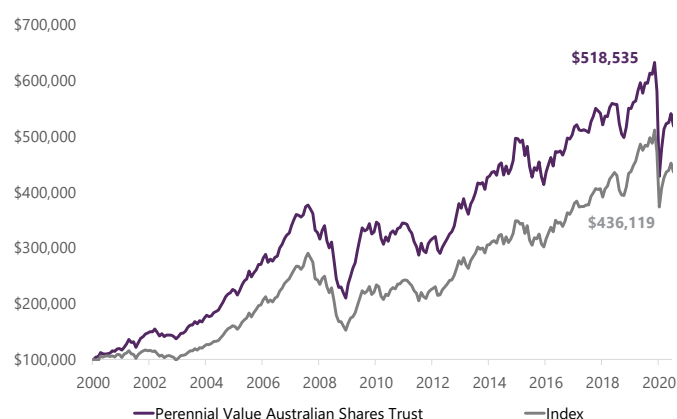
APIR Code  
 IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	14.0	16.5
Price to Free Cash Flow (x)	13.1	15.7
Gross Yield (%)	5.1	4.7
Price to NTA (x)	1.8	2.2

Source: Perennial Value Management. As at 30 September 2020

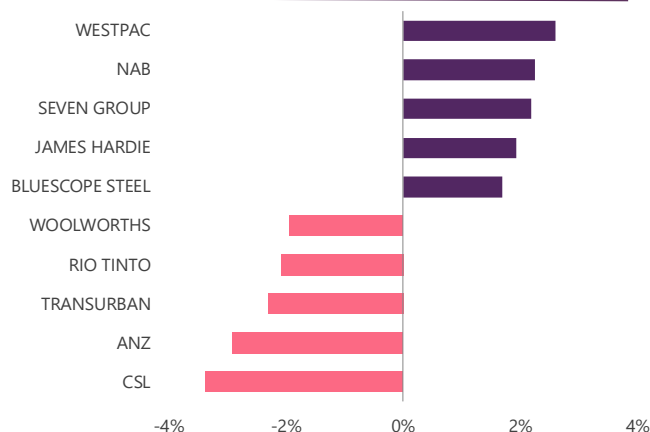
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

## Growth of \$100,000 Since Inception

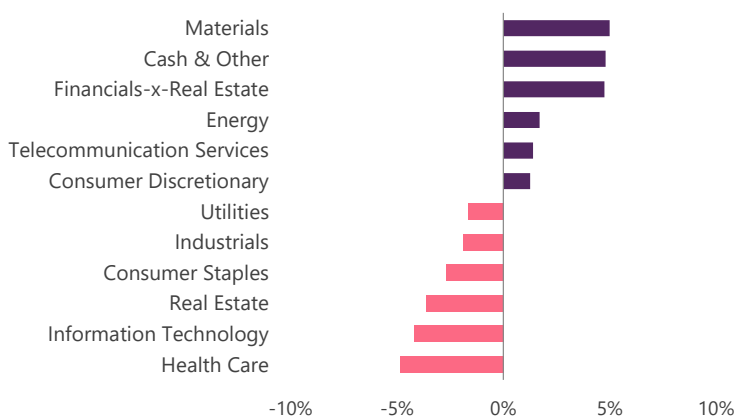


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

Global markets were weaker in September, with most major indices declining on the back of "Second wave" fears, due to increasing COVID-19 infections in many countries as well as the uncertainty caused by the looming US election and a failure to agree on a further round of stimulus measures. Economic data was softer in Europe and the spectre of Brexit also returned as an issue for the UK.

The Australian market fell in sympathy with global markets, with the ASX300 Accumulation Index declining -3.6%. This was despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings, which will be important in driving a resumption of domestic economic activity. The Australian unemployment rate positively surprised during the month, although this is distorted by stimulus measures, which are now beginning to taper off.

The Trust delivered a return of -4.2% in September, underperforming the market by 0.6%. Since the market's low in March, however, the fund has performed strongly, returning +36.4% and outperforming the market by +6.0%. Over this period, many of the Trust's holdings rallied strongly, as it is during recovery phases that value stocks often deliver significant outperformance. In addition, the Trust has benefitted from very strong performances from a number of stocks which we acquired at very attractive prices during the selloff. In particular, many of the Trust's mid and small cap holdings performed very well, with strong stock-specific drivers.

In line with the more cautious mood in September, defensive sectors of the market tended to outperform, with Healthcare (+0.8%) the only sector to deliver a positive return. The REITs (-1.1%) outperformed, although this was more driven by potential upside from a re-opening rather than their supposed defensive characteristics, which have been brought into question in this downturn. More cyclical sectors tended to underperform, with Energy (-10.7%) and Metals & Mining (-4.0%) both lagging on concerns over the global outlook, while Financials (-6.1%) also lagged, weighed down by the banks.

The IT sector (-6.4%) also underperformed, with market darling Afterpay (-12.5%), giving back some of its recent gains. We have previously commented on this stock, which boasts a market capitalisation of over \$20bn, despite generating negligible earnings and operating in a sector with minimal barriers to entry. Time will tell, but our guess is that this stock still has a long way to fall and is emblematic of the excessive valuations being seen in some parts of the market. By contrast, the market's fall means a significant amount of bad news is now factored into the share prices of many less "exciting" companies, suggesting significant upside for the patient investor.

Holdings which contributed positively to performance included Event Hospitality (+16.0%), which rallied on the potential for a recovery in its hotel and cinema operations should restrictions be lifted. In addition, the company was recently included in the ASX300 Index for the first time. James Hardie (+7.5%) continued to outperform, with ongoing strength in the US housing market adding to its strong operational performance market share gains. Aristocrat Leisure (+5.6%) also outperformed, on the expectation of ongoing strong growth in its digital gaming business as well as the potential for one of its key competitors to reduce their focus on traditional land-based gaming activities. Other strong performers included United Malt Group (+5.1%), Moelis Australia (+5.0%) and Janus Henderson (+4.3%).

Holdings which detracted from performance included Virgin Money UK (-24.9%) on UK second wave concerns, QBE Insurance (-18.9%), following the shock departure of the CEO and energy stocks Origin Energy (-21.4%) and Santos (-13.9%) on the softer oil price. We continue to see significant upside in these stocks.

The banks have continued to struggle (down an average of 4.4%) on concerns over bad debts once loan deferral periods end. The Trust maintains a modest overweight position in the banks as we continue to believe that the ultimate impact of credit losses will be less than feared due to the highly coordinated actions being taken by the Government, RBA and the banking regulators. In this event, the banks offer significant upside over the medium term. We also regard the Government's announcement that it plans to amend the Responsible Lending laws as a positive development for both the sector and the broader economy, as these regulations were, in many cases, unnecessarily impacting the timely availability of credit.

## Trust Activity

During the month, the Trust added to or increased its holdings in a number of stock which are exposed to a recovery in the domestic economy including Dexus, with its portfolio of high quality office buildings, Mirvac with its exposure to a recovery in residential property and Qantas, which stands to benefit should domestic air travel resume. The Trust also rotated some of its bank holdings from ANZ into NAB and Westpac, which are more purely exposed to the domestic economy. This was funded by exited a number of holdings including Rio Tinto and Woodside Petroleum, where we prefer to gain exposure to iron ore and oil through holdings such as BHP, Santos and Fortescue Metals, which are exhibiting better operational performance. At month end, stock numbers were 59 and cash was 4.5%.

## Outlook

The market has recovered over half of its losses from the COVID-induced sell-off and now appears to be in a holding pattern as it attempts to weight up the increasingly positive domestic outlook with increasing global risks.

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. 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. The Trust continues to be positioned to benefit from any sustained recovery in the domestic and global outlook.

Finally, the silver lining of a downturn such as 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.**

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