Perennial Value Australian Shares Trust

MONTHLY REPORT NOVEMBER 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)	12.3	8.6	12.1	-4.3	3.1	5.9	9.0
S&P/ASX 300 Accumulation Index	10.2	8.3	12.2	-1.6	7.1	9.1	8.0
Value Added (Detracted)	**2.1**	**0.3**	**-0.1**	**-2.7**	**-4.0**	**-3.2**	**1.0**

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

Overview

- Global markets rallied strongly in November, as the US election result and positive vaccine announcements caused markets to look optimistically towards a post-Trump, post-COVID future. This saw all major global indices deliver double-digit positive returns.
- The Australian market also performed strongly, with the ASX300 Accumulation Index delivering its strongest return in many years, finishing the month up +10.2% to be only 9% below its pre-COVID high. The month also saw a large number of positive trading updates from companies across a range of sectors.
- The Trust delivered a very strong return of +12.3%, outperforming the market by 2.1%, as improving global growth prospects saw markets begin to rotate out of expensive growth stocks and towards the better value, more cyclical parts of the market.
- Since the market's low, the Trust has performed well, returning +54.8% and outperforming the market by +8.2%. Over this period, many of the Trust's holdings outperformed strongly, as it is during recovery phases that value stocks often deliver significant outperformance.

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 $711 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92%

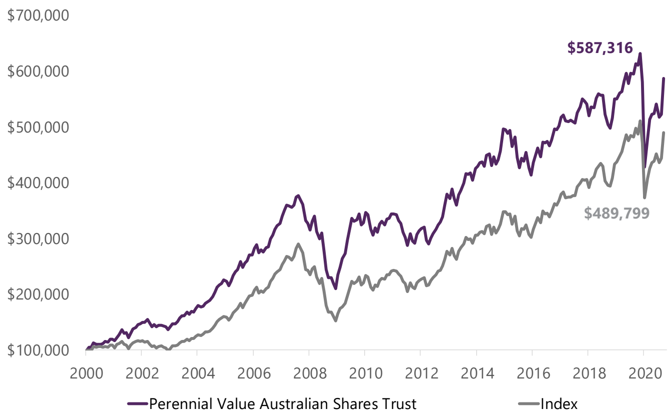
APIR Code
IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	15.9	18.3
Price to Free Cash Flow (x)	13.6	16.5
Gross Yield (%)	4.9	4.3
Price to NTA (x)	2.1	2.4

Source: Perennial Value Management. As at 30 November 2020

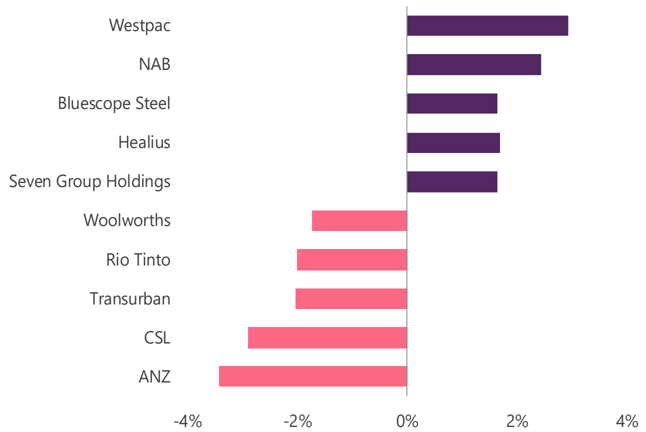
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

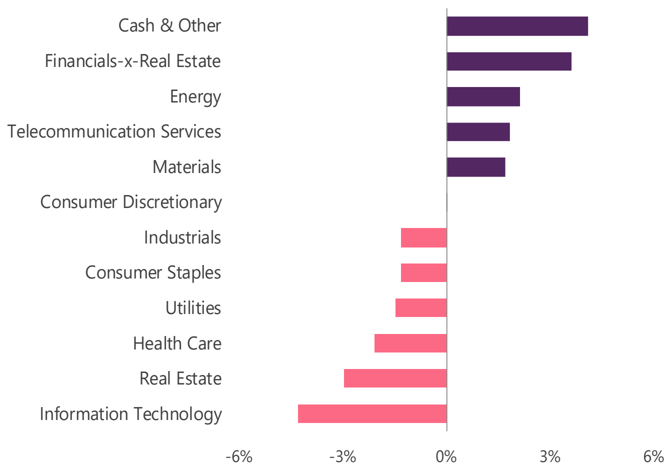


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets rallied strongly in November, as the US election result and positive vaccine announcements caused markets to look optimistically towards a post-Trump, post-COVID future. This saw all major global indices deliver double-digit positive returns on the prospect of a recovery in economic activity and growth as well as a return to a more stable global political environment.

The Australian market also performed strongly, with the ASX300 Accumulation Index delivering its strongest return in many years, finishing the month up +10.3% to be only 9% below its pre-COVID high. The Trust delivered a very strong return of +12.4%, outperforming the market by +2.1%, as improving global growth prospects saw markets begin to rotate out of expensive growth stocks and towards the better value, more cyclical parts of the market.

Since the market's low, the Trust has performed well, returning +54.8% and outperforming the market by +8.2%. Over this period, many of the Trust's holdings have rallied strongly, as it is during recovery phases that value stocks often deliver significant outperformance. The Trust has also 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.

Energy (+28.2%) was the best performing sector over the month, as the prospect of economic reopening lifted the oil price, which had been languishing at low levels since the onset of COVID. The Trust is overweight the Energy sector, with holdings in Santos (+30.2%) and Origin Energy (+29.5%), which both performed strongly. Engineering firm Worley (+37.1%) also contributed well over the month. This stock has both leverage to a near-term pick-up in oil and gas sector activity, as well as being very well placed over the medium term to participate in transition to renewables, where its technical skills will be equally applicable.

Financials (+16.1%) also performed strongly, led by the major banks, which were up an average of +18.9%. Profit results and trading updates from the banks during the month highlighted that, while earnings were under pressure due to slow credit growth and low interest rates, the ultimate outcome in terms of bad debts due to COVID impacts is likely to be significantly less bad than initially feared. This is best highlighted by the fact that the vast majority of both mortgages and business loans have been able to resume full repayments once their deferral period has ended. Importantly, capital positions were strong and dividend payments were resumed. Given the high level of provisioning undertaken, and the strong capital positions, as conditions improve, it is likely that the banks will be able to increase their dividends significantly over the coming years. Combining this with their undemanding valuations, we still see meaningful upside and remain overweight the sector.

Virgin Money UK (+40.9%) rallied very strongly due to a combination of increased optimism around the UK economic outlook as well as moves by the UK banks to increase mortgage pricing to protect margins. The UK government and regulator have implemented very similar policies to Australia to support banks and borrowers. Assuming a recovery scenario, this stock is extremely cheap and offers very significant upside. Other strong performers included Newscorp (+32.7%), with the market finally beginning to recognise some of the hidden value in its digital media assets. The improved outlook saw commodity prices rise and solid gains from resources stocks, with holdings in Alumina (+22.0%), South32 (+18.2%), Bluescope Steel (+16.6%) and BHP (+12.7%) all outperforming.

Mining services companies Monadelphous (+39.9%), Perenti (+24.9%) and Seven Group (+13.3%) also gained on continued strength in the resources sector. Agricultural stock Graincorp (+25.4%), rallied on the prospect of a very large east coast grain crop driving strong earnings over the coming year and into the following one, while tourism and leisure stock Event Hospitality (+29.7%) performed well, with the reopening of borders and easing of other restrictions.

Holdings which detracted from performance over the month included gold stocks, Northern Star (-15.1%), Newcrest (-7.9%) and St Barbara (-7.5%), with the sector selling off as the market moved to risk-on mode. Other holdings which underperformed included Carsales (-2.1%), Integral Diagnostics (-0.7%), Ramsay Healthcare (+1.1%), Ingenia Communities (+2.2%) and Iluka Resources (+3.7%). We remain comfortable with each of these holdings.

Trust Activity

During the month, the Trust added a position in Healius, a leading Australian provider of pathology and diagnostic imaging services. These are high quality businesses and, while near-term earnings are being boosted by COVID testing, there is a medium-term opportunity for operating performance to be significantly improved. Further, the company has an ungeared balance sheet and may well become a takeover target at some point. Holdings were also increased in Metcash and Telstra, both of which are trading on attractive valuations and offer significant potential upside. This was funded by taking profits and reducing or exiting a number of stocks which had performed strongly, including James Hardie, JB Hi-Fi and Qantas. At month end, stock numbers were 60 and cash was 3.4%.

Outlook

November may well mark a significant turning point for the global economy and markets, with the prospects of a near-term roll-out of an effective COVID vaccine underpinning the reopening of economies and a return to 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 win with a Republican Senate, means there is likely to be increased fiscal stimulus, although not of the scale originally proposed. Similarly, tax increases are less likely and interest rates are likely to remain low. On balance, this should be positive for economic growth, corporate earnings and markets overall.

The domestic outlook seems increasingly positive, with COVID largely under control, activity levels increasing, restrictions being eased and borders reopening. Key indicators around employment, loan deferrals and the property market are all surprising to the upside. Further, 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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