Perennial Value Australian Shares Trust

MONTHLY REPORT FEBRUARY 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)	3.2	5.8	18.7	6.9	4.6	8.4	9.2
S&P/ASX 300 Accumulation Index	1.5	3.2	15.8	7.1	7.5	10.8	8.1
Value Added (Detracted)	**1.7**	**2.6**	**2.9**	**-0.2**	**-2.9**	**-2.4**	**1.1**

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

Overview

- Global markets performed strongly in February, driven by continuing positive sentiment around vaccine rollouts and the prospect of large stimulus in the US, with all major indices delivering positive returns. This was despite a selloff in the later part of the month on the back of rising bond yields.
- The Australian market followed a similar path, rallying early in the month before pulling back, with the ASX300 Accumulation Index finishing the month up 1.5%. Cyclical sectors such as Resources, Energy and Financials led the market higher, while defensive, interest rate sensitive sectors lagged.
- The Trust delivered a return of +3.2%, outperforming the market by 1.7% after-fees, as ongoing strong domestic economic data and positive results during the reporting season, supported the outlook for many of our good value, cyclical holdings, which are leveraged to an improvement in the broader economy.
- Since the market's low in March, the Trust has performed well, returning +63.5% and outperforming the market by 12.4% 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.

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 $721 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92%

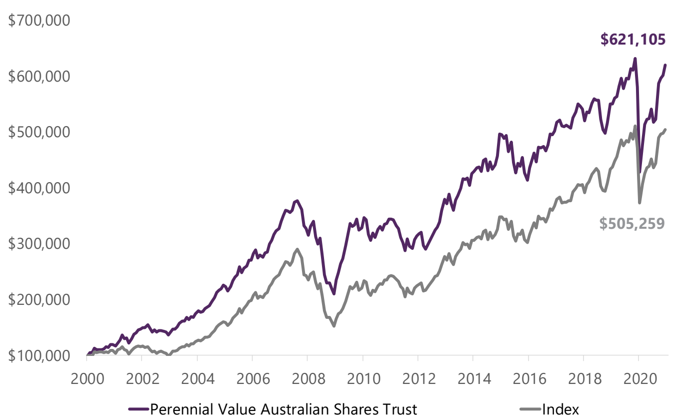
APIR Code
IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	16.5	17.6
Price to Free Cash Flow (x)	13.8	15.4
Gross Yield (%)	5.2	4.9
Price to NTA (x)	2.4	2.6

Source: Perennial Value Management. As at 28 February 2021

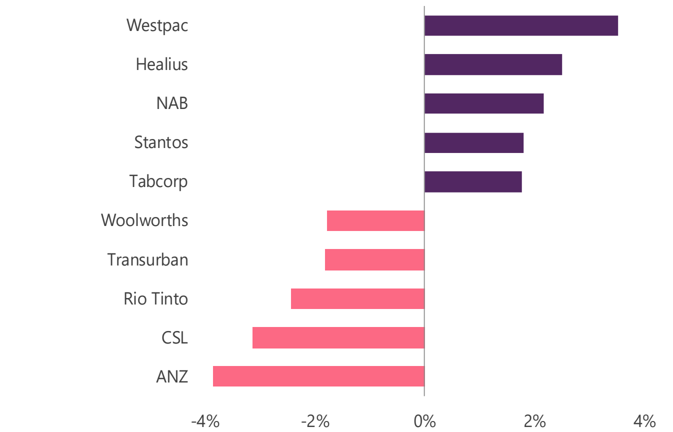
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

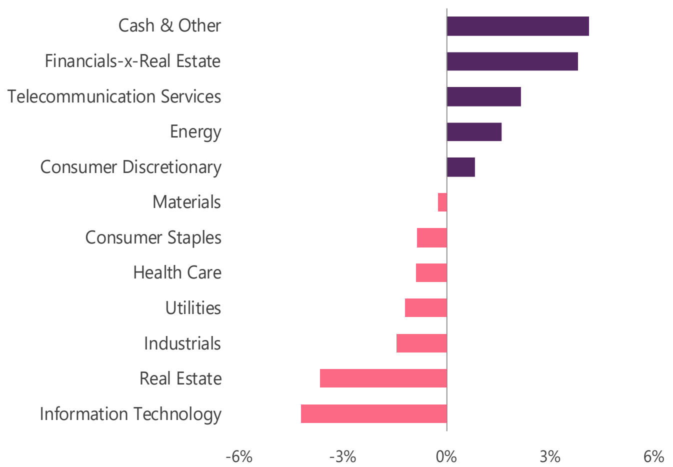


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered a return of +3.2%, outperforming the market by 1.7% after-fees, as ongoing strong domestic economic data and positive results during the reporting season supported the outlook for many of our good value, cyclical holdings, which are leveraged to an improvement in the broader economy.

Since the market's low in March 2020, the Trust has performed well, returning +63.5% and outperforming the market by 12.4%. This performance highlights the Trust's leverage to the post-COVID economic recovery. Historically, value style investing has delivered significant outperformance during economic recoveries.

The February reporting season was the main highlight of the month, with companies reporting their results for the half-year to December. In line with the improving economic backdrop, the majority of results were reasonably positive. Sectors such as retail, which have been clear beneficiaries of COVID-related stimulus, delivered very strong results. Resources stocks also delivered bumper results, driven by high commodity prices. Financials were also strong, with the CBA result and Q1 trading updates from the other banks highlighting that credit quality remains very good. While many companies were adversely impacted by COVID, the trends were clearly improving.

Stocks which contributed positively over the month tended to be those leveraged to economic reopening. Virgin Money UK (+39.5%) was the best performing stock in the portfolio. During the month, the company delivered a trading update which highlighted its positive operating trends and strong capital position. This company is highly leveraged to a recovery in the UK economy, where the vaccine rollout is currently occurring at a very rapid rate.

Other holdings with leverage to economic reopening included high specification cooling system maker PWR Holdings (+23.3%) and hotel and cinema operator Event Hospitality (+18.6%). Packaging company Orora (+16.3%) rallied as its struggling US operations have begun to recover, while medical imaging company Integral Diagnostics (+6.4%) delivered a strong result with a pick-up in patient numbers. COVID disruptions saw many essential medical procedures deferred. These will need to be caught up, meaning that activity levels in the healthcare sector are likely to remain elevated for some time. This will also benefit holdings such Ramsay Healthcare (+4.8%) and Healius (+3.4%).

Resource holdings performed well, with Oz Minerals (+20.1%), Iluka Resources (+15.0%), BHP (+12.8%), Fortescue Metals (+10.6%), Independence Group (+9.5%) and South32 (+9.1%) on stronger commodity prices. We view the outlook for the resources sector positively. However, given the very high level of the iron ore price, we see better opportunities outside of the bulks. Whereas iron ore is primarily driven by Chinese demand, which has remained strong throughout, other metals are likely to be driven more by rest of the world growth, which we expect is still to come.

Other holdings which performed well included Newscorp (+18.3%), which rallied after delivering a very strong result, underpinned by its digital news media and online real estate platforms. We believe that there is significant unrecognised value in the assets of Newscorp which could be realised at some point. Along this line, Tabcorp (+13.4%) also rallied after receiving an offer to acquire its wagering business. While this division has struggled in recent times, it is a very attractive asset in a sector undergoing consolidation. We have long believed that a separation of Tabcorp's businesses would realise value by allowing a significant re-rating of the lotteries business, which has very stable earnings underpinned by long-term licences.

The Trust also benefitted from not holding a number of expensive growth stocks which underperformed over the month, including Appen (-25.3%), A2 Milk (-16.0%), Altium (-14.5%), Wisetech (-12.8%), Afterpay (-11.5%) and Xero (-8.8%). Growth stocks such as these have performed very strongly in the low-rate, low-growth environment of recent years. However, life may become significantly more difficult for them should rates continue to rise and growth recover in the broader economy.

Holdings which detracted from performance included gold stocks Northern Star (-20.5%), St Barbara (-5.1%) and Newcrest (-1.1%) on the weaker gold price. We continue to regard the gold sector as a preferred defensive option, as it can be expected to outperform in an inflationary environment, while other, more interest-rate sensitive defensive sectors would likely lag. Other holdings which underperformed included United Malt (-9.0%), which downgraded earnings due to the impact on malt demand from European lockdowns and Ampol (-6.1%), which continues to be impacted by its loss-making refining division, which we expect to be closed.

Trust Activity

During the month, we added packaging company Orora to the portfolio. This company has a very solid business as the leading glass and can producer in Australia as well as a US operation whose performance is improving. The company has a very strong balance sheet and may well become a break-up target at some point. The Trust also added to its holdings in Fortescue Metals and United Malt after their share prices pulled back, insurers QBE and IAG and building materials company CSR, with its exposure to the strength of the detached housing market. These purchases were funded by taking profits and reducing holding in a number of stocks which had performed strongly recently including Steadfast, Newscorp, Oz Minerals, South32 and Super Retail Group. At month end, stock numbers were 58 and cash was 3.4%.

Outlook

The start of 2021 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 global 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 presidency and Democratic Senate means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

Domestically, key indicators around employment, loan deferrals 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.

Contact Us

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