PERENNIAL

Perennial Value Australian Shares Trust

MONTHLY REPORT MAY 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)	2.7	9.0	29.4	31.9	8.1	7.9	9.5
S&P/ASX 300 Accumulation Index	2.3	8.5	25.7	28.7	10.1	10.2	8.4
Value Added (Detracted)	**0.4**	**0.5**	**3.7**	**3.2**	**-2.0**	**-2.3**	**1.1**

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

Overview

- Markets continued their upward march in May, driven by strong economic data, expectations of further stimulus measures and the accelerating vaccine rollouts. This saw most major indices post positive returns. The market was also helped by a slight pull-back in bond yields.
- The Australian market also performed strongly, with the ASX300 Accumulation Index finishing the month up 2.3%. Sector performance was mixed, with strong performances from both cyclical sectors such as Financials, as well as growth sectors such as Healthcare.
- The Trust delivered a return of +2.7%, outperforming the market by 0.4% after fees. Over the last 12 months, the Trust has returned +31.9%, outperforming the index by +3.2% after fees. This has been driven by strong performances from a large number of our holdings across a range of different sectors.
- Since the market's low in March 2020, the Trust has performed very well, outperforming the market by 14.4% 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 $751 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92%

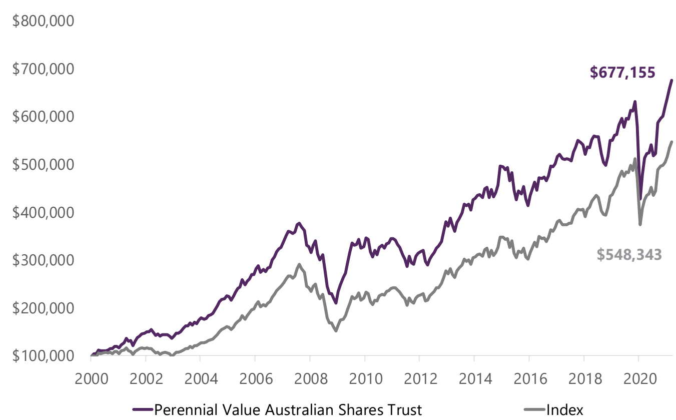
APIR Code
IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	17.6	17.6
Price to Free Cash Flow (x)	14.5	15.6
Gross Yield (%)	5.1	4.9
Price to NTA (x)	2.7	2.8

Source: Perennial Value Management. As at 31 May 2021

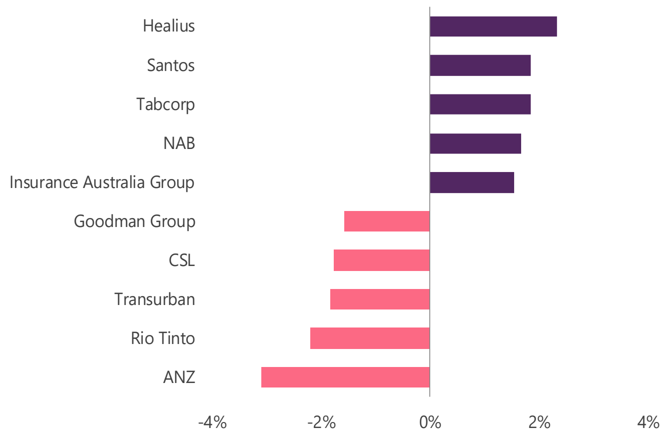
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

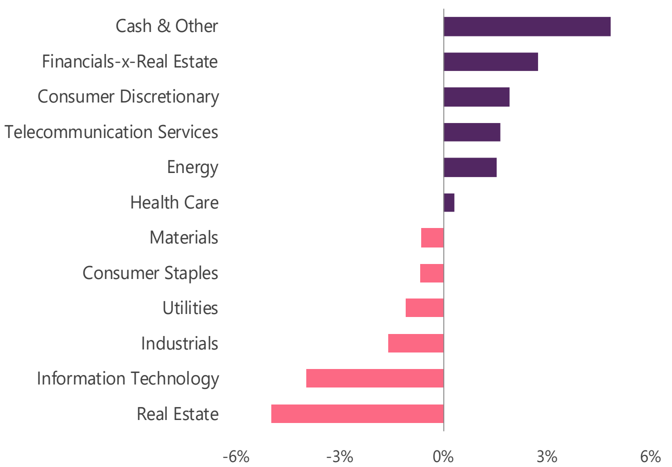


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Stocks which contributed positively over the month included the major banks, which returned an average of +6.4%, after reporting half-year results which demonstrated positive operating trends and saw a significant rebound in dividends. While the banks have faced a raft of challenges over the past several years, many of the headwinds they have experienced are now turning into tailwinds. Credit growth is now starting to pick up, interest margins have stabilised and may well begin to rise, expenses are being brought under control and credit quality has remained very strong despite the impacts of COVID. These factors should combine to return the sector to earnings and dividend growth over the coming years. Further, the banks are well provisioned, having taken large charges early on in the pandemic and have very strong capital positions. As the economic uncertainty recedes, the banks will be able to both release some of these surplus provisions and return some of this surplus capital to shareholders. Combined with their relatively attractive valuations and leverage to rising interest rates, we see further upside for the sector from here.

Similarly, Virgin Money UK (+6.5%), also outperformed, with similar trends being seen in the UK banking sector. The UK is set to emerge from its COVID shutdowns very strongly, with the vaccine rollout proceeding apace, government assistance programs ongoing until September and summer coming. In addition, as the leading challenger bank in the UK, with a strong technology platform and the well-known Virgin brand, the company is well placed to grow its market share over time.

Aristocrat Leisure (+10.8%) rallied after delivering a result which was well ahead of market expectations, driven by very strong growth in their digital business. The company is diversifying away from its traditional gaming machine business and is now a top 5 global developer of online social games. The company is very well positioned, with a strong balance sheet allowing it to invest heavily into new product development.

Kathmandu (+11.0%) outperformed after announcing an internal appointment to the role of CEO. While many retail stocks have performed very strongly during COVID, Kathmandu, with its focus on outdoor wear, is poised to benefit from reopening as people resume their travel plans.

QBE (+11.1%) was strong after providing an update at their AGM, which highlighted that strong premium rate growth was being achieved across the business, with each division recording premium rate increases. The company is also benefitting from strong crop protection insurance sales in the US, where high commodity prices have driven high levels of plantings.

Gold producer, Northern Star (+11.3%) rose in line with the higher gold price. This company has high-quality, well-located assets and a growing production profile as well as synergy benefits from its merger with Saracen Mineral Holdings. Newcrest Mining (+6.8%) also outperformed. We continue to have a positive view on the gold sector, regarding it as one of our preferred defensive options which can be expected to outperform in environments of either high uncertainty or high inflation.

News Corp (+4.2%) rallied after delivering a strong Q3 result, with strong growth across all divisions. In particular, the online real estate platform Move, which operates realtor.com in the US, grew revenue strongly. The Wall Street Journal saw record subscription growth, with digital-only subscriptions now accounting for 78% of total subscriptions, as it successfully transitions to a digital model.

Radiology provider, Integral Diagnostics (+8.1%) also outperformed, as diagnostic imaging volumes continuing to run at well above their pre-COVID levels. This is a well-run business and is positioned to continue making value-adding acquisitions as the smaller end of the market consolidates.

Oz Minerals (+5.6%) rallied on concerns around disruptions to the copper supply due to industrial issues and proposed tax changes in key producing areas of Latin America. These sorts of issues serve to highlight the attractiveness of assets located in more stable regions such as Australia.

Holdings which underperformed included agricultural chemicals producer Nufarm (-7.3%), which declined despite delivering a very strong half-year result. Ramsay Healthcare (-5.7%) was also weaker after announcing the acquisition of Spire Healthcare Group, a major UK private hospital operator. This acquisition makes good sense as it significantly increases Ramsay's scale in the UK market and diversifies its revenue sources between NHS, private insurance and self-pay sectors. Other holdings which underperformed included Seven Group Holdings (-7.0%), United Malt Group (-3.7%) and Macquarie Group (-3.2%). We remain positive on the outlook for each of these stocks.

Trust Activity

During the month, the Trust locked in profits and exited holdings in Event Hospitality and PWR Holdings, both of which had performed very strongly in recent times. Deteriorating fundamentals saw the Trust exit its position in mining services company Perenti. The company is being impacted by rising labour costs in WA. This may become an issue for more companies the longer borders remain closed. The Trust participated in a capital raising by Carsales, which was used to fund the acquisition of a 49% stake in online marketplace Trader Interactive, giving it an entry into the US market. At month end, stock numbers were 54 and cash was 4.3%.

Outlook

We believe that 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term rollout 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, 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. 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

Level 27, 88 Phillip Street, Sydney NSW 2000 invest@perennial.net.au www.perennial.net.au 1300 730 032