Perennial Value Australian Shares Trust

Monthly Report November 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception ^(% p.a.)
Perennial Value Australian Shares Trust (Net)	-1.2	-1.8	1.5	18.1	11.2	7.8	9.3
S&P/ASX 300 Accumulation Index	-0.5	-2.3	1.3	16.0	12.9	10.3	8.3
Value Added	**-0.7**	**0.5**	**0.2**	**2.1**	**-1.7**	**-2.5**	**1.0**

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

Overview

Global markets were generally softer in November, with renewed uncertainty stemming from the emergence of the Omicron COVID variant seeing most major indices decline over the month.

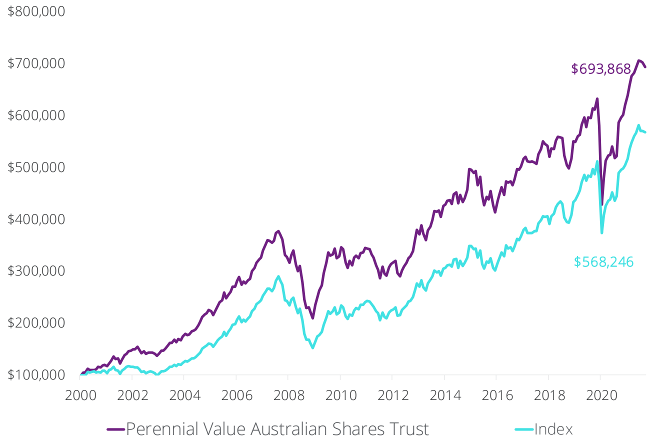
The Australian market was also slightly weaker in November, with the ASX300 Accumulation finishing the month down -0.5%.

The Australian market was weighed down by the major banks. While the economic backdrop remains very supportive and the sector is in a strong financial position, low interest rates continue to drag on margins. This will be an ongoing headwind until the RBA begins to lift the cash rate.

Defensives tended to outperform cyclicals in the more cautious environment. However, the Resources sector was an exception, with the iron ore stocks rallying in anticipation of policy easing in China. The direction of the iron ore price and with it the share prices of the bulk miners, will be a major driver of the market in the period ahead.

Looking ahead to 2022, absent further COVID issues, we see the outlook as positive, with ongoing economic recovery, underpinned by ongoing low interest rates and stimulus measures.

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.

Fund Characteristics

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 $717 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92% p.a.

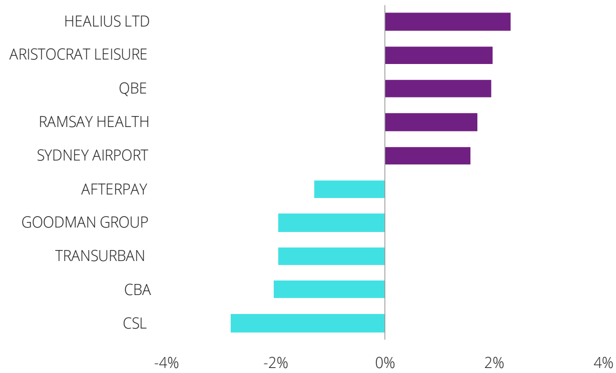
APIR Code
IOF0200AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	15.4	17.9
Price to Free Cash Flow (x)	15.9	17.1
Gross Yield (%)	5.1	4.6
Price to NTA (x)	2.5	2.8

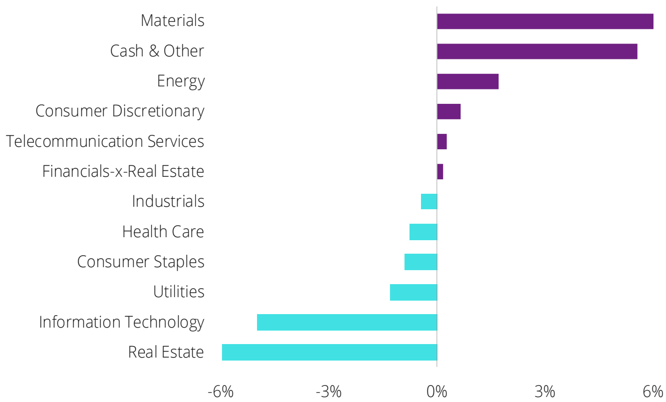
Source: Perennial Value Management. As at 30 November 2021

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Resources continued to be a key sector of interest in November, with the iron ore price finding a floor at around US$100 per tonne. Importantly, there are early indications that the Chinese property market is stabilising, with lending to the sector beginning to increase once more. The importance of the Chinese property sector cannot be overstated, given the outsize contribution construction in the sector makes to Chinese GDP and the proportion of people's wealth which is invested in residential property. It is also a key driver of iron ore demand and the improved sentiment saw strong outperformance by the iron ore majors, with Fortescue Metals (+22.1%), BHP (+7.6%) and Rio Tinto (+3.6%) all rallying. This benefited the Trust, as we had moved to a modest overweight early in the month.

Looking forward, we are positive on the outlook for the sector. We expect that demand will pick back up early in the new year, as construction activity increases, and steel production accelerates. Even at the current prices, these stocks are trading on attractive valuations and have very strong balance sheets. Further, the miners are behaving in a disciplined way and are likely to control the level of production during periods of weaker demand. For example, Brazil's Vale, the world's largest producer of iron ore, recently lowered its production guidance for 2022. BHP is our preferred exposure in the sector, demonstrating strong operational performance as well as taking steps to exit its fossil fuel exposures. This will significantly decarbonise the company and leave it to focus its investment into future-facing commodities such as copper and nickel. Demand for these commodities, along with lithium and cobalt, is expected to grow strongly over the coming years as the energy transition progresses. Combined, these actions may well see a positive re-rating for the stock. Further, the pending collapse of the DLC structure into a single class of shares will also likely be a positive. Our holdings in Independence Group (+9.3% - lithium, nickel, copper and cobalt) and Oz Minerals (+3.4% - copper), also outperformed during the month.

Stocks exposed to the agricultural sector continued to enjoy strong conditions. Graincorp (+9.9%), outperformed after delivering a very strong FY21 result on the back of last year's bumper east coast grain harvest. This generated very strong earnings from its logistics operations, while high international grain prices saw healthy margins from its grain trading activities. Despite the potential impacts from recent heavy rains, the crop currently being harvested also looks set to be a near record, setting the company up for a very strong performance this financial year as well.

Fertiliser producer, Incitec Pivot (+7.0%) also outperformed, with fertiliser prices currently at historically high levels due to soaring global gas prices. Gas is the primary feedstock in the production of key fertilisers such as urea and DAP and, should gas prices remain elevated, there is significant upside to Incitec's earnings over the coming year. While fertilisers are indispensable to feeding the world's 7 billion people, their production contributes to greenhouse gas emissions. With this in mind, Incitec is exploring constructing a "green ammonia" plant at their Gibson Island facility, in conjunction with Fortescue Future Industries.

Crop protection company, Nufarm (+6.7%), also delivered a strong FY21 result on the back of positive seasonal conditions in most of its markets. In addition to its core chemicals business, this company's seeds business is developing innovative new sustainable crops. These include an omega-3 canola, which can replace oil currently sourced from wild-caught fish, and new breeds of carinata, whose oil is ideal for producing renewable aviation fuel. As well as bringing significant environmental benefits, these have the potential to generate material earnings over time.

The banks underperformed during the month, down an average of -8.5%, after delivering their FY21 results. While the results showed a generally positive economic backdrop, with solid lending growth and strong credit quality, net interest margins were weak due to persistently low interest rates and competitive pressures. This was felt most acutely by CBA and Westpac, with their relatively larger home lending books. The Trust holds an underweight position in the sector at present, regarding it as fairly valued and seeing better opportunities elsewhere.

Holdings which underperformed during the month included some of our more cyclical names such as Virgin Money (-14.2%), Worley (-11.8%), Alumina (-9.8%), Santos (-8.6%), Iluka Resources (-8.3%) and Qantas (-5.4%). These stocks were impacted by the sell-off due to concerns over the latest COVID variant. The Trust was also impacted by its underweight position in the defensive sectors, with Consumer staples, REITs and Utilities all outperforming in the risk-off environment.

Trust Activity

During the month, we took profits and trimmed holdings in a number of stocks which had performed strongly in recent times, including Graincorp and Nufram. Consistent with our overall positive view on the outlook, we also reduced our holdings in a number of defensive stocks such as Telstra and Woolworths. Proceeds were used to increase our holdings in the iron ore stocks and to add to our cyclical names such as CSR, Virgin Money UK and Woodside Petroleum. At month end, stock numbers were 55 and cash was 5.6%.

Outlook

Looking ahead to 2022, assuming that vaccines prove to be effective against the Omicron COVID variant, we see the outlook as positive, with ongoing economic recovery, underpinned by relatively low interest rates and continuing stimulus measures. Further, we look forward to the return to a more "normal" economic environment, as tapering and rate rises start to see the distortions caused by extremely low interest rates and unconventional monetary policy abate.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and we would expect the economy to bounce back strongly, just as it did following previous lockdowns. Key economic indicators continue to be strong and while there are some concerns around supply chain issues and inflationary pressures, both corporates and consumers are in good shape. If this improvement continues, then corporate earnings and dividends are likely to continue to grow 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

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