Perennial Value Australian Shares Trust

Monthly Report April 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception ^(% p.a.)
Perennial Value Australian Shares Trust (Net)	-0.4	8.5	10.4	14.4	25.6	10.4	7.7	9.6
S&P/ASX 300 Accumulation Index	-0.8	8.2	5.3	10.2	20.4	9.7	9.0	8.4
Value Added	**0.4**	**0.3**	**5.1**	**4.2**	**5.2**	**0.7**	**-1.3**	**1.2**

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

Overview

Markets finally succumbed to combined concerns around the impact of rising interest rates, the war in Ukraine and spreading lockdowns in China, with most major indices posting losses in April. The S&P500 fell -8.8%, while the NASDAQ fell -13.3% as loss-making tech stocks were punished on the prospect of rising funding costs. The Nikkei 225 was down -3.5% and the Shanghai Composite fell -6.3% as Chinese activity was impacted by the lockdowns in major cities. The FTSE100 fared better, returning +0.4%.

The Australian market again performed relatively better, with the ASX300 Accumulation Index declining by a modest -0.8% over the month. The risk-off move in markets saw the more defensive sectors of the market outperform, with Utilities (+9.3%) the best performing sector, followed by Consumer Staples (+3.4%), with Healthcare (+2.3%) and REITs (+0.7%) also outperforming. IT (-9.9%) was the worst performing sector, as expensive tech stocks were sold off on the prospect of interest rate rises. Cyclical sectors were also weaker, with Metals & Mining (-4.9%) impacted by Chinese growth concerns and Consumer Discretionary (-3.5%). The Energy sector (+2.5%) was the exception, rallying on continued strength in the oil price on the back of the ongoing supply disruptions related to Ukraine.

Despite the ongoing uncertainties, the economic backdrop in most major economies is reasonably positive, as they continue to reopen post-COVID, with strong employment conditions. However, economies now face the challenges of ongoing supply chain issues, high inflation, and the associated turn in the interest rate cycle. After many years of increasing globalisation, low inflation and falling interest rates, these factors present very significant changes to the economic backdrop and warrant a degree of caution.

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 $744 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92% p.a.

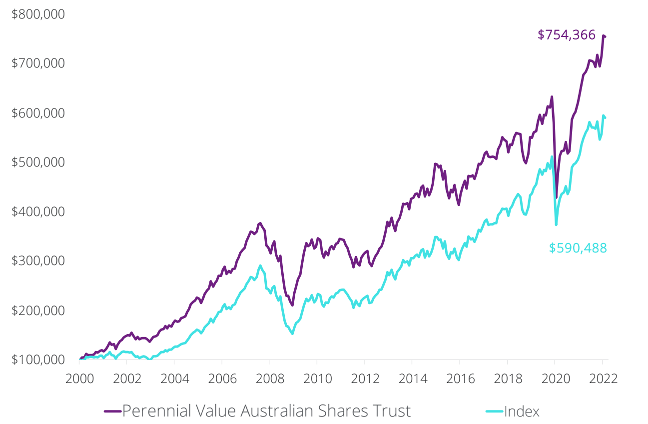
APIR Code
IOF0200AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	15.3	17.5
Price to Free Cash Flow (x)	15.3	15.8
Gross Yield (%)	5.0	4.9
Price to NTA (x)	2.5	2.9

Source: Perennial Value Management. As at 30 April 2022

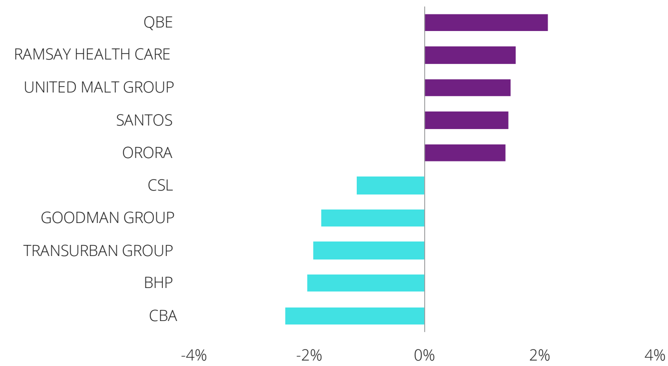
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

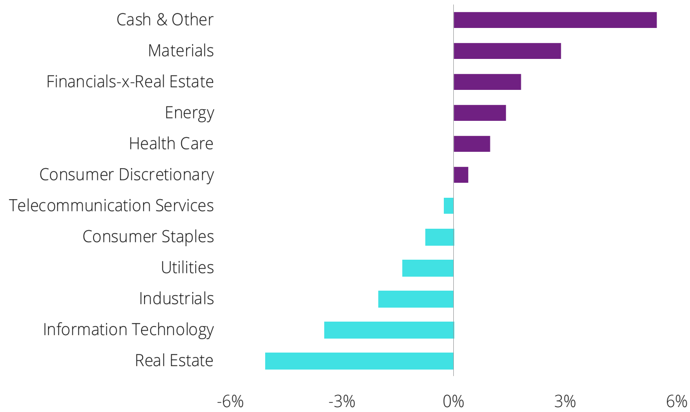


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -0.4% after-fees in April, outperforming the Index by +0.4%. For the last 12 months, the Trust has delivered a return of +14.4%, outperforming the Index by +4.2% after-fees. This demonstrates the Trust's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation will still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

Ramsay Healthcare (+24.5%) was the top performing stock over month, after receiving a takeover offer from private equity firm, KKR. Corporate activity has been a significant feature of the market in recent times, as cashed up investors such as super funds and private equity firms take advantage of depressed equity market valuations. In the case of Ramsay Healthcare, earnings had been impacted by disruptions to elective surgery due to COVID. This had seen the share price sold down sharply and provided us with an attractive entry opportunity on the view that surgical volumes would eventually normalise. However, as is often the case, long-term value was realised sooner via corporate activity. The takeover offer of $88 per share represented a 31% premium to our entry price of $67. This was a similar situation to Sydney Airport, which we acquired in 2020 after it had been sold off due to COVID and which was later acquired by a consortium of infrastructure investors at a significant premium.

Graincorp (+21.6%), continued its rally, after upgrading guidance yet again. Eastern Australian agricultural markets are experiencing a near perfect storm of favourable growing conditions, high soft commodity prices and strong export demand. Conditions have been strong for the last 2 years but uncertainty stemming from the Black Sea region has driven a further spike in grain prices and strong demand for reliable Australian supplies into the global market.

Other strong performers included packaging company, Orora (+10.8%), which hosted an investor day highlighting the strong performance of its Australian glass and can manufacturing operations and the ongoing recovery in its US business. This is a very well-managed company, offering defensive earnings, with a strong balance sheet to support growth opportunities.

Ampol (+10.5%), outperformed after the NZ competition regulator approved its proposed acquisition of Z Energy. This transaction is expected to be very positive for the company, creating a Trans-Tasman leader in transport fuels and convenience retail, with significant additional scale. The company also announced its March quarter earnings, which saw very strong margins from its refining operation. The increased level of volatility and geopolitical uncertainty has highlighted the importance of maintaining a level of domestic refining capacity, with the government having moved to underwrite the profitability of the sector.

United Malt (+10.1%), also performed well, despite lowering guidance for the current financial year. While earnings are presently being impacted by a range of COVID-related supply chain and logistical disruptions, underlying demand is strong, and earnings are expected to recover strongly as these abate. Further, this company is a potential takeover target, with attractive market positions in a consolidating industry.

Qantas (+7.5%), outperformed after upgrading guidance as travel continues to recover post-COVID. We consider Qantas as providing significant reopening leverage as consumer spending shifts from the purchase of goods, which was elevated during lockdowns etc, to spending on services such as travel, as restrictions are lifted.

Stocks which underperformed during the month included our resources holdings, which were generally lower on the back of concerns over the Chinese growth outlook, following renewed COVID lockdowns in a number of cities. We remain positive on the outlook for the resources sector as while lockdowns will impact growth in the current quarter, we expect that the Government will implement meaningful stimulus measures in the second half of the year. This is expected to support commodities demand and will come in the context of generally tight supply conditions for most commodities.

The Trust also benefited from not holding a number of expensive tech stocks which sold off during the month. Examples include Block (-21.7%) (the Australian listing of the company which acquired Afterpay), Seek (-5.0%) and Xero (-6.2%). While these stocks have fallen significantly from their highs, given their still elevated valuations, we believe they still have considerable downside risks as rates rise.

Trust Activity

During the month, we took profits and exited our holding in Graincorp, which has seen its share price double from our entry price. We also reduced our holding in Ramsay, locking in some of the gains following the takeover offer and trimmed holdings in Woodside and Sims, both of which had performed strongly. Proceeds were used to increase our holdings in Treasury Wines and City Chic. At month end, stock numbers were 62 and cash was 5.2%.

Outlook

On balance, we view the outlook as positive, with economies recovering as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and Insurance as well as a modest overweight in gold.

Above all, 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

1300 730 032

invest@perennial.net.au

www.perennial.net.au