Perennial Value Australian Shares Trust

Monthly Report November 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)	6.4	5.7	12.2	7.2	12.5	6.6	6.7	9.3
S&P/ASX 300 Accumulation Index	6.5	5.7	13.4	4.3	10.0	6.0	8.2	8.2
Value Added	**-0.1**	**0.0**	**-1.2**	**2.9**	**2.5**	**0.6**	**-1.5**	**1.1**

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

Overview

Markets continued to rally in November, as signs of easing inflation sparked hopes that the pace of Central Bank tightening would start to slow from the end of this year. Markets were also boosted by suggestions that the Chinese Government was beginning to soften its stance on COVID zero and loosen some of the restrictions. Combined, these factors saw all major global markets finish the month in positive territory. The S&P500 finished the month up +5.4%, the NASDAQ rose +4.4%, while the Nikkei 225 added +1.4%. The FTSE100 lifted by +6.7%, as the political situation stabilised to some degree in the UK. The Chinese market was the standout, with the Shanghai Composite returning a very strong +8.9% on hopes of an accelerated reopening.

The Australian market was also stronger in November, with the ASX300 Accumulation Index finishing the month up +6.5%. All sectors delivered positive returns, however, it was Metals & Mining (+18.3%), which was the standout, as the mining stocks rallied in anticipation of a pick-up in Chinese commodity demand. The Healthcare (+5.9%) and REIT (+5.8%) sectors were also strong, while the Financials (+2.2%) lagged.

Looking forward, while global activity generally remains sound, the prospect of recessions in the US and Europe is increasing. Economic activity in Australia continues to remain very robust, with low unemployment and resilient consumer spending, despite interest rate rises and inflationary pressures. However, this too is likely to slow next year. The course of the war in Ukraine and Chinese Government policy will also have significant and unpredictable impacts.

Fund Characteristics

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and 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 $672 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92% p.a.

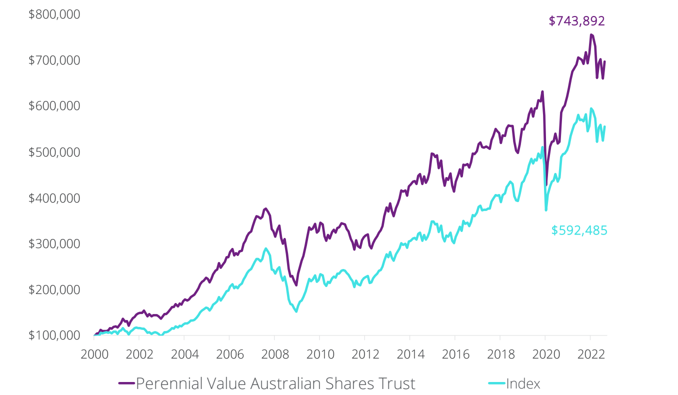
APIR Code
IOF0200AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	13.9	15.1
Price to Free Cash Flow (x)	13.4	14.0
Gross Yield (%)	5.3	5.3
Price to NTA (x)	2.4	2.7

Source: Perennial Value Management. As at 30 November 2022

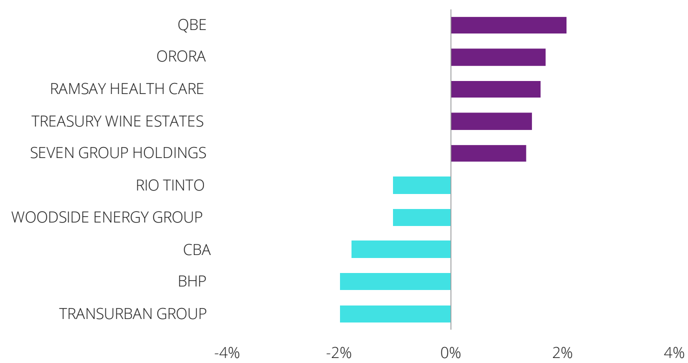
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

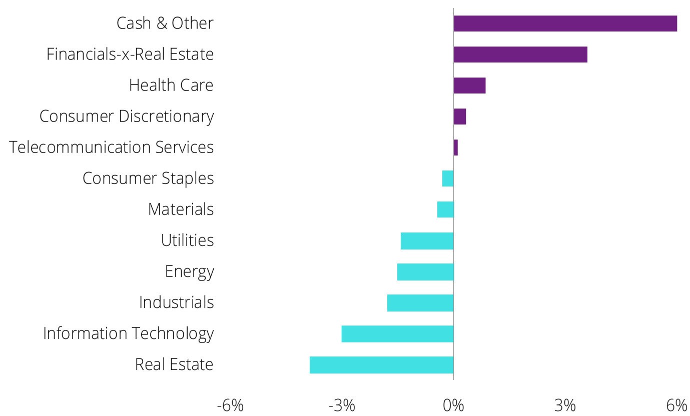


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +6.4%, after-fees in November, underperforming the index by -0.1%.

Key positive contributors to performance included the Trust's resources holdings, with copper miner, Oz Minerals (+13.5%), rallying after receiving a revised takeover offer from BHP. This transaction highlights the attractiveness of well-located copper assets to meet the expected strong increase in demand as electrification accelerates. This positive dynamic also saw 29 Metals (+31.9%) rise strongly during the month. The iron ore miners all rallied, led by Fortescue Metals (+31.8%), while Rio Tinto (+24.3%) and BHP (21.8%) were both also strong. This performance was driven by the announcement of further incremental stimulus measures to support the property market, as well as indications that the harsh COVID lockdown measures may begin to be eased earlier than expected.

Mineral sands miner and aspiring rare earths producer, Iluka Resources (+16.6%), was also up strongly. While mineral sands demand is tied closely to the economic backdrop, rare earths are expected to experience strong demand growth due to their essential role in electrical equipment such as magnets in generators. While the bulk of the world's supply of rare earths comes from China, Iluka's operations are located in Western Australia, making them strategically valuable. This is so much the case, that the rare earths refinery the company is building, is largely financed by the Australian Government. Diversified base metals producer, South32 (+11.7%), was also strong.

Virgin Money UK (+25.6%) rallied strongly after delivering a solid full-year result. While the economic outlook in the UK is highly uncertain at present, the bank is well-positioned, with provisions for loan losses well above pre-COVID levels and significant surplus capital. Subject to regulatory approval, the company could potentially return up to GBP375m to shareholders in late 2023. This equates to around 15% of the current market cap of the company. Combined with the fact that the company is trading on less than 0.5x book value, then there is likely to be significant upside to the share price.

Crop protection company, Nufarm (+9.2%), rallied after reporting a strong full-year result. While the company has been benefiting from favourable agricultural conditions for its core business, it has continued to make considerable investment in its seeds business. This business has developed a number of proprietary oil seed crops, which provide environmentally sustainable sources of products such as Omega-3 oil and biodiesel. These technologies are now entering the commercialisation phase and are poised to deliver significant incremental earnings as they scale up production over the next few years. This is a business with strong intellectual property and growth potential, the value of which is not currently reflected in the Nufarm share price.

United Malt (+7.4%) rose after delivering its full-year result. While, as expected, the result was very poor, it is clear the headwinds that the company has faced over the last several years from COVID-related lockdowns and supply chain disruptions, to the failure of the Canadian barley crop, are now behind them. As a result, earnings are expected to rebound strongly over the coming years. Further, the global malt industry is consolidating, mirroring the consolidation that has occurred amongst their brewer customers. It is highly likely that United Malt will be party to this at some point.

Qantas (+6.8%), continued its strong performance, delivering another trading update which again increased guidance for first half earnings. This confirmed the current very positive operating conditions, with strong pent-up demand for travel intersecting with industry capacity constraints. The resulting pricing power has seen very strong profitability despite cost headwinds.

Other outperformers included Seven Group (+14.3%), Ramsay Healthcare (+12.4%), MA Financial (+11.5%), BlueScope Steel (+11.4%) and Macquarie Group (+7.2%). Northern Star (+21.3%) and Newcrest (+14.2%).

The main detractors over the month were James Hardie (-14.1%), which downgraded its guidance for next year on the back of weakness in the US housing market, where rapidly increasing mortgage rates have crimped demand for new homes. We remain very confident in the longer-term outlook for this business, with its differentiated, premium products and excellent direct-to-consumer marketing, which should allow it to continue to gain market share over time. Other detractors included Aristocrat Leisure (-4.8%), Reliance Worldwide (-4.7%) and Smartgroup (-2.6%).

Trust Activity

During the month, we took profits and trimmed our holdings in a number of the resources names. Proceeds were used to top up holdings which had lagged, including Orora, Newcrest, Ramsay Healthcare, Treasury Wines and CSL. At month end, stock numbers were 59 and cash was 7.3%.

Outlook

Global growth is clearly slowing, as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are very low in most major markets. 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 reopening leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID reopening, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Diversified Financials, as well as select parts of the Consumer Discretionary and Resources 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.

While there is a high level of economic uncertainty, 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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