Perennial Value Australian Shares Trust

Monthly Report January 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception ^(% p.a.)
Perennial Value Australian Shares Trust (Net)	6.3	10.2	16.1	10.7	13.1	6.8	7.1	8.8	7.8	9.3
S&P/ASX 300 Accumulation Index	6.3	9.5	16.5	11.6	10.6	6.0	8.5	10.3	8.7	8.2
Value Added	**0.0**	**0.7**	**-0.4**	**-0.9**	**2.5**	**0.8**	**-1.4**	**-1.5**	**-0.9**	**1.1**

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

Overview

Early signs of easing inflationary pressures, slightly better economic growth forecasts and a faster than expected reopening of China, combined to boost investor sentiment in January. Markets rallied on hopes that we may be nearing the end of the global interest rate tightening cycle and that a soft landing may be able to be achieved, with inflation falling without a significant increase in unemployment. Time will tell if this is the case.

This saw all major global markets finish sharply higher in January. The more interest rate sensitive NASDAQ led the way, rising +10.7%, while the broader S&P500 finished the month up +6.2%. The FTSE100 rose +4.3%, while the Nikkei 225 gained +4.7. The Shanghai Composite rose +5.4% as the economy reopened following the sudden abandonment of zero-COVD polices. Following this about face, the extremely rapid spread of infections across the country suggests that normalisation of activity levels will occur rapidly, giving a strong pick up in growth over 2023.

The Australian market was also strong in January, with the ASX300 Accumulation Index finishing the month up +6.3%. All sectors, other than Utilities (-3.0%) delivered positive returns. The prospect of a soft landing, saw Consumer Discretionary (+10.1%) the best performing sector, while the rapid reopening of China, saw the Metals & Mining sector (+9.4%) again perform strongly. The REIT sector (+8.1%) saw a relief rally on the hopes of bond yields peaking.

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 $682 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

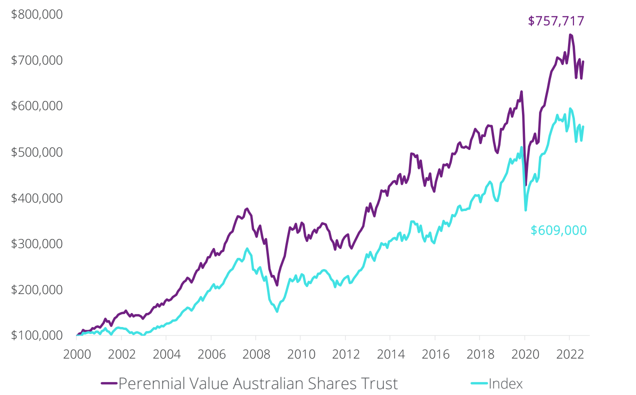
Fees
0.92% p.a.

APIR Code
IOF0200AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.5	15.3
Price to Free Cash Flow (x)	13.4	14.2
Gross Yield (%)	5.2	5.1
Price to NTA (x)	2.4	2.7

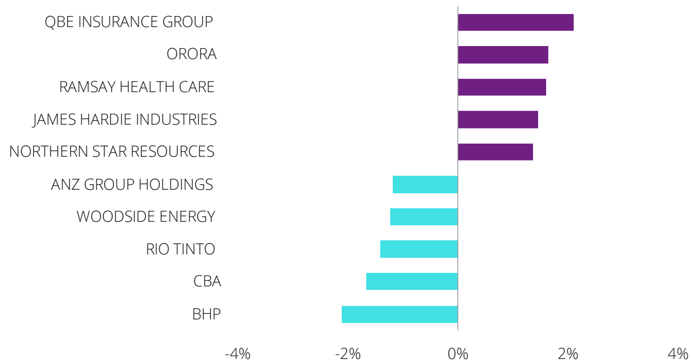
Source: Perennial Value Management. As at 31 January 2023
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

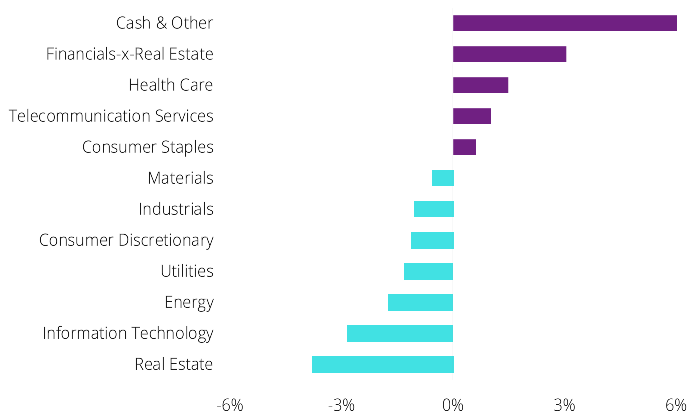


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +6.3%, after-fees in January, in line with the benchmark. Key positive contributors to performance included the Trust's resources holdings, with the prospects of a Chinese reopening seeing rallies in the prices of iron ore (+9.7%) and other metals, with copper (+10.9%) also up strongly. The bulk miners were all higher, with Rio Tinto (+8.8%), Fortescue Metals (+8.4%) and BHP (+8.2%). Amongst the base metals, South32 (+13.5%) rose strongly, while mineral sands producer, Iluka Resources (+13.3%), also outperformed. Copper miner, Sandfire Resources (+14.9%), benefited from the strength in the copper price. The long-term demand outlook for copper is very strong given the move to electrification and decarbonisation, while the supply outlook is constrained. Sandfire also stands to benefit from the fact that there are only a limited number of pure play copper exposures of any size available to investors in the Australian market, following BHP's takeover of OZ Minerals, which was held by the Trust. While on the topic of the energy transition, lithium stocks, Pilbara Minerals (+26.7%) and Independence Group (+8.2%) both rallied on renewed optimism around EV sales.

Sharply rising mortgage rates in the US have been impacting the housing market and the share prices of building materials companies. However, the key 10 and 30-year mortgage rates have retreated significantly from their recent highs, seeing an improvement in the outlook for the construction sector. Holdings exposed to US housing, such as James Hardie (+19.1%) and Reliance Worldwide (+18.6%) both rallied strongly. We are very positive on the medium-term outlook for these companies, which hold strong positions in their respective markets, and whose innovative, differentiated products should allow them to grow market share over time. James Hardie, in particular, has been successful in consumer marketing, driving demand from homeowners based on premiumisation, rather than pushing through builders who would be more price conscious.

Macquarie Group (+12.2%) was strong over the month, as investors began to upgrade earnings expectations on the back of ongoing commodity market volatility, which is likely to drive very strong earnings from their commodities trading division. During the month, it was also noted that various Macquarie entities had completed a number of asset realisations, despite generally tougher market conditions. This was a positive, as ongoing asset sales, from both principal investments and from funds is critical to generating profits and performance fees.

The Trust remains underweight the REIT sector. The sector is facing rental income pressure in retail as spending slows and in office as companies reduce space as people continue to work from home. Rising interest costs will also present a headwind when debt needs to be refinanced. While reported cap rates have not moved significantly as yet, this is likely only a matter of time, and when this happens, many REIT balance sheets may come under pressure. An exception is Goodman Group (+15.0%), which we added to the portfolio in October. The stock had been sold down sharply and offered attractive value at our entry price of $17.44. Goodman Group is a high quality business and, unlike other parts of the property market, the industrial sector is experiencing continued demand for logistics and distribution facilities and seeing strong rental growth.

Treasury Wine Estates (+6.7%), continued to rally, standing to benefit from the improving relations between Australia and China. Should the punitive tariffs on Australian wines be removed, this would be a boon to the company, which has had to divert large quantities of premium wine to alternative markets. Orora (+3.1%), would also benefit should this occur, as it is a major producer of glass wine bottles in South Australia and has been impacted by the loss of wine export volumes.

The main detractors over the month were energy stocks Santos (-0.4%), Woodside (+2.3%) and Worley (+3.0%), which were held back by the lower oil price. Nufarm (-3.4%) was also weaker on no specific news, while more defensive healthcare and telco holdings also lagged in the risk-on environment. Given the likely slow-down in corporate earnings, we think these stocks have an important place in the portfolio.

Trust Activity

During the month we took profits and reduced our iron ore exposure, trimming our holdings in Rio Tinto and Fortescue Metals. Proceeds were reinvested into lithium miner, Pilbara Minerals, which had been sold off sharply and was offering very good value. We also increased our holding in James Hardie. At month end, stock numbers were 63 and cash was 6.3%.

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 higher 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.

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