Perennial Value Australian Shares Trust

Monthly Report February 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)	-2.0	1.5	13.7	5.3	10.2	9.0	6.9	8.9	7.1	9.2
S&P/ASX 300 Accumulation Index	-2.5	0.2	13.5	6.5	8.4	7.9	7.9	10.1	7.9	8.1
Value Added	**0.5**	**1.3**	**0.2**	**-1.2**	**1.8**	**1.1**	**-1.0**	**-1.2**	**-0.8**	**1.1**

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

Overview

Markets continued to seesaw in February, with last month's optimism giving way to pessimism, as stronger economic data saw bond yields rise and dampened hopes of an early end to the rate tightening cycle. The S&P500 finished the month down -2.6%, while the NASDAQ fell -1.1%. Other major markets were slightly stronger, with the FTSE100 rising +1.3%, the Nikkei 225 gaining +0.4% and the Shanghai Composite lifting +0.7%.

The Australian market eased in February, with the ASX300 Accumulation Index finishing the month down -2.5%. The market was weighed down by the Financials (-3.1%) and Resources (-6.2%) sectors, both of which sold off during the reporting season, after having performed relatively strongly over the last 12 months. Better performing sectors included Utilities (+3.4%), IT (+2.3%), Industrials (+1.2%) and Consumer Staples (+1.1%).

Company reporting season was the highlight of the month. Overall results were reasonable, reflecting the underlying resilience of the economy. However, some early signs of weakness are starting to emerge, suggesting that the aggressive rate rise cycle is beginning to have an effect on activity levels. While companies are benefitting from the ongoing post-COVID normalisation of supply chain and other issues, they are facing significant input cost pressures around factors such as energy and labour, where the market remains very tight, with historically low unemployment levels.

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 $663 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92% p.a.

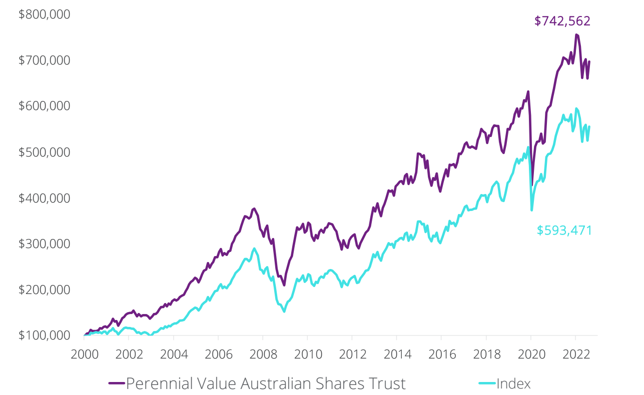
APIR Code
IOF0200AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	13.9	14.6
Price to Free Cash Flow (x)	12.8	13.5
Gross Yield (%)	5.2	5.4
Price to NTA (x)	2.3	2.6

Source: Perennial Value Management. As at 28 February 2023

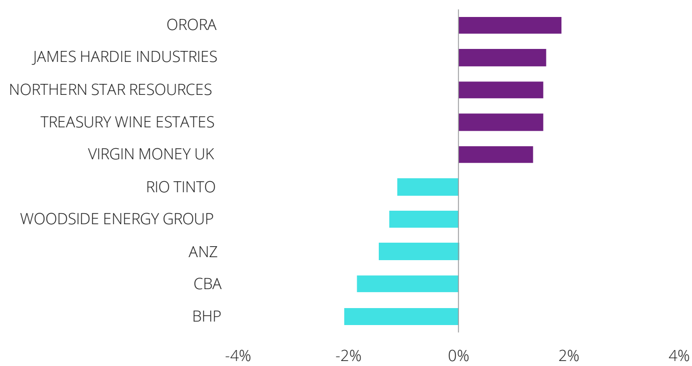
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

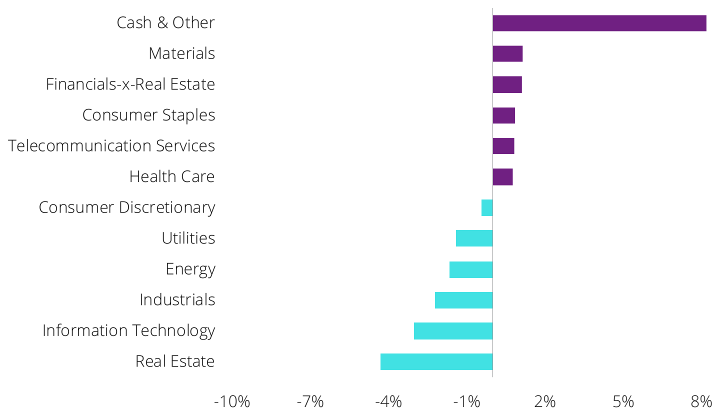


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -2.0%, after-fees in February, outperforming the benchmark by +0.5% after fees.

The market continues to oscillate between optimism that inflation has peaked, meaning that the interest rate increases are close to an end, and pessimism that inflation will prove persistent and that rate rises have a way to go yet. On this front, January's optimism gave way to pessimism, as strong economic data suggested that Central Banks have more work to do.

The reporting season was the highlight of the month in the domestic market. For the past several reporting periods, results have come in slightly ahead of market expectations, with the stronger than expected economic backdrop providing good support to corporate earnings. This period, however, while results were solid, overall they came in slightly below market expectations, with the first signs of slowing starting to appear. While revenue growth was stronger than expectations, margins are beginning to be pressured by rising input costs and guidance indicated that consumer spending has eased in the early part of this year.

Key positive contributors to performance included packaging company, Orora (+18.5%), which delivered a solid result and reiterated full-year guidance. The market had been concerned that its US business would be experiencing some weakness, however, this has proven not to be the case. Their Australian operations also continue to perform well and have baked-in growth from capacity expansions in their can business, which are due to come online shortly. This expanded capacity has been pre-sold to existing customers under long-term contracts, locking in the necessary return on investment. Orora is a major supplier of wine bottles and there is further upside to this business should the thaw in relations see Chinese wine tariffs removed, as this would significantly increase export volumes and demand for bottles. Orora has many attractive attributes in the current market, with relatively defensive earnings and low risk organic growth, combined with strong management and an attractive valuation.

QBE Insurance (+9.8%) also performed well over the month, delivering a solid result. The insurance sector has been performing well, benefiting from strong premium rate increases across most geographies and business lines. In addition, the increase in interest rates benefits insurers, as the running yield on their fixed income investment portfolios increases. In this way, insurance is one of the few sectors positively leveraged to rising interest rates.

Seven Group (+8.0%), delivered a strong result, with EPS +18%, driven by earnings growth across each of its key divisions. Westrac earnings increased +21%, supported by strong mining and construction activity. Coates earnings increased +25%, with strong demand from East Coast infrastructure projects. Boral, in which Seven Group holds a 73% stake, delivered a +23% increase in earnings through improved pricing discipline and cost reductions.

Telstra (+2.0%) delivered a solid result and reiterated its full year financial guidance. With the impacts of the NBN roll-out behind it, the company is able to grow earnings from its dominant mobiles division, which delivered good revenue growth in the half. The outlook for the mobile industry is positive, with a rational oligopoly structure following the merger of TPG and Vodafone. Telstra remains one of our preferred defensive exposures.

Other outperformers included Ramsay Healthcare (+1.4%), which indicated that patient admissions are picking back up post-COVID. The Qantas (+1.3%) result highlighted that it continues to experience very favourable operating conditions, with strong demand and limited capacity. Macquarie Group (+1.2%) provided a Q3 trading update which suggested that they are on track to deliver another record full-year profit on the back of very strong earnings from their commodities trading division. This division has benefited from the extreme volatility in commodity prices over the last year, particularly dislocations in the gas market.

The main detractors over the month tended to be resources holdings, where softer commodity prices saw them give back some of their recent strong performance. Other underperformers included diagnostic stocks, Healius and Integral Diagnostics, both of which are currently experiencing reduced patient volumes.

Trust Activity

During the month we took profits and reduced our holdings in Seven Group, Goodman Group and QBE. We also reduced our holdings in the banks, where we see the outlook becoming more challenging. Proceeds were used to increase our holdings in resources stocks, which had sold off over the month and where we see the outlook as being positive as the China reopening gathers pace. The Trust finished the month with 62 positions and cash of 8.2%.

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.

Invest Online Now

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