Perennial Value Australian Shares Trust

Monthly Report April 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)	2.1	0.0	16.2	2.0	8.1	17.2	7.5	7.9	7.1	9.3
S&P/ASX 300 Accumulation Index	1.8	-1.0	15.4	2.1	6.1	14.0	8.2	9.1	7.9	8.1
Value Added	**0.3**	**1.0**	**0.8**	**-0.1**	**2.0**	**3.2**	**-0.7**	**-1.2**	**-0.8**	**1.2**

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

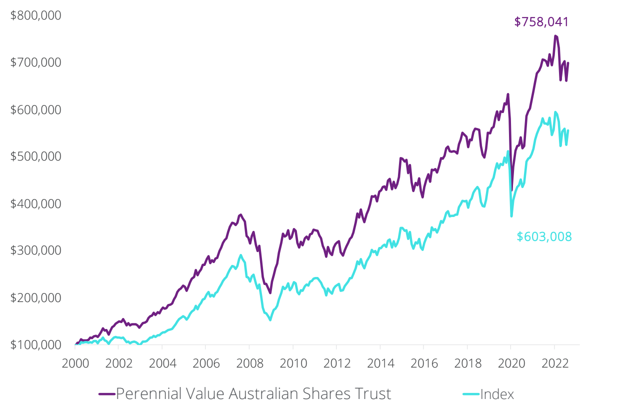
Overview

Further indications that inflation has peaked, combined with the banking sector issues apparently abating, saw markets trade positively in April. Key global indices rose, with the S&P500 +1.5%, the FTSE100 +3.1%, the Nikkei 225 +2.9%, the Shanghai Composite +1.5% and the NASDAQ +0.4%.

The decision by the RBA to pause its rate rises at the April meeting lifted sentiment and boosted the Australian market, which returned +1.8% for the month. The prospect of interest rates having peaked saw a relief rally in those sectors most leveraged to bond yields, with REITs (+5.2%) and IT (+4.5%) the best performing sectors over the month.

The rally was broad-based, with Australian economic data remaining strong. The unemployment rate continues to be at record lows and consumer spending remains robust. Further, the housing market appears to have stabilised, with prices showing modest gains in March and April. This was very positive for sentiment, with housing being a key underpinning of the economy. Metals & Mining (-3.2%) was the only sector to deliver a negative return in April, as commodity prices weakened on concerns over slowing Chinese growth.

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 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,
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.

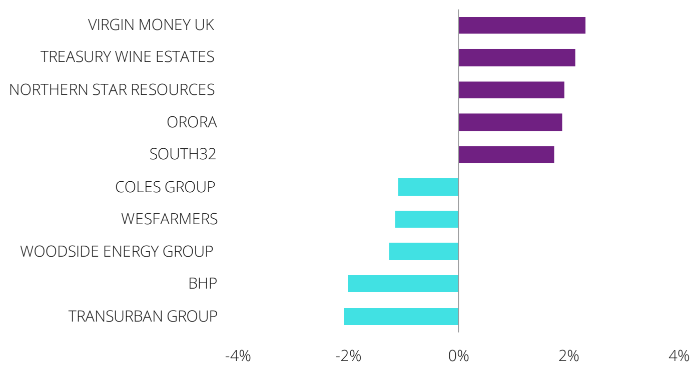
APIR Code
IOF0200AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.1	15.0
Price to Free Cash Flow (x)	13.6	13.9
Gross Yield (%)	5.2	5.5
Price to NTA (x)	2.1	2.6

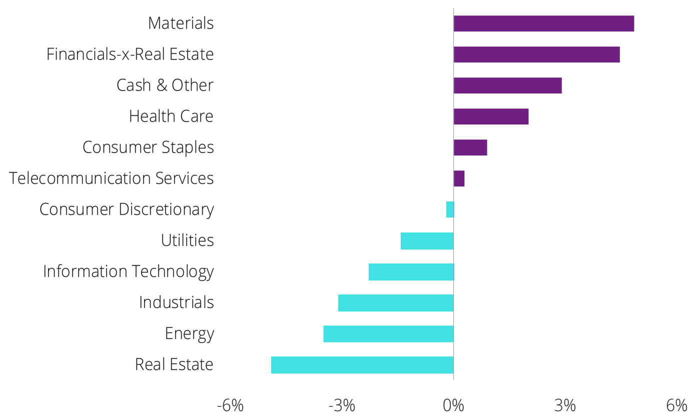
Source: Perennial Value Management. As at 30 April 2023

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered +2.1%, after-fees in April, outperforming the benchmark by +0.3%. Key positive contributors to performance included Telix Pharmaceuticals (+47.1%). Telix is a global, commercial-stage biopharmaceutical company, focussed on the development of diagnostic and therapeutic products using targeted radiation. Their first product, Illuccix, which sets a new standard in the diagnosis of prostate cancer, has been approved by the TGA in Australia, the FDA in the US and Health Canada, and is delivering very strong sales growth. Beyond prostate cancer diagnosis, the company has a deep pipeline of products in development, targeting kidney, brain and other cancers.

Financial stocks also performed better over the month, with banking sector concerns easing and a generally more optimistic take on the outlook for interest rate rises. This saw MA Financial (+16.7%), Virgin Money UK (+10.5%) and Macquarie Group (+4.0%) recover last month's losses. When stresses appear in the banking system, selling can be quite indiscriminate. For example, Virgin Money UK was sold down last month, despite the fact analysis of its business indicates that the issues experienced by several of the US regional banks are not applicable to it (and discussions with management confirmed this). The major banks also outperformed (up an average of +3.8%), after lagging for most of the last 12 months. The Trust has a modest underweight position in the major banks, seeing valuations as around fair but with the sector facing into numerous headwinds such as peaking margins, slowing credit growth, and rising bad debts.

Gold stocks Northern Star (+9.3%) and Newcrest (+7.7%) continued their strong performance on the back of falling real yields as investors factored in expectations of interest rate easing. Gold and gold stocks are finally coming into their own as defensive assets. We continue to hold an overweight position in the sector, given the elevated level of macro, geopolitical and other risks at present. Further, while Newcrest has already received a takeover offer from Newmont, we believe Northern Star could also be very attractive, being a global top-10 producer, with well-located assets and strong production growth.

A decline in the iron ore price saw the bulk miners underperform (down an average of -6.5%). The Trust benefitted as it currently holds an underweight the bulks. Overall, however, the trust is overweight in the Resources sector, through our holdings in the smaller miners. These tended to outperform over the month, with Independence Group (+7.7%), Pilbara Minerals (7.6%), Iluka Resources (+3.3%) and Sandfire Resources (+2.8%). These companies are focused on strategically important commodities such as copper, lithium, nickel and rare earths, where the long-term demand outlook is very positive. Further, these companies are doubly attractive given their assets are principally located in Australia, which is a stable, well-governed and Western-aligned jurisdiction.

Treasury Wine Estates (+6.6%), continued its strong performance on increased optimism that the Chinese tariffs would be removed, effectively reopening the largest export market for Australian wines. While this would be a boon for the company (and the industry), the company is well positioned if this does not happen, having already found alternative markets for their premium products such as Penfolds.

James Hardie (+5.2%) rallied on tentative signs of the US housing market having bottomed. In the short-term, the company is subject to the residential construction cycle. However, long-term, it should be able to continue to grow at above market rates as it gains market share from other building products.

Other outperformers included insurers IAG (+6.2%) and QBE (+5.1%), with industry dynamics remaining positive. Engineering firm, Worley (+4.4%), was also stronger over the month.

The main detractors over the month included united Malt (-7.4%), which lowered first half earning guidance. The company is currently under takeover offer, and we do not believe this will have any impact on the deal completing. South32 (-3.0%) was softer, after delivering a weak quarterly production report, while Healius (-5.4%) and Nufarm (-2.5%) also lagged over the month.

Trust Activity

During the month we took profits and exited our holding in Qantas. We also reduced our holdings in the Energy sector, exiting Santos and trimming Woodside. Proceeds were used to increase a number of holdings including Virgin Money UK, Pilbara Minerals and CSL. At month end, stock numbers were 54 and cash was 2.8%.

Outlook

Global growth is clearly slowing, as interest rates rise, and economies grapple with the impacts of high inflation and the challenges of energy costs and other supply issues. Recent stresses in the banking sector have also had a negative impact on the outlook. While rapid regulatory responses seem to have contained these issues for now, the high levels of indebtedness and the long lags associated with the transmission of monetary policy, mean we are unlikely to be out of the woods. On the positive, it appears that inflation has peaked, and unemployment rates remain very low in most major markets. Despite record interest rate rises, the Australian economy continues to perform strongly, with a tight labour market, resilient retail sales and stabilising house prices. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost.

However, the level of uncertainty is elevated, and a degree of caution is warranted. This view is expressed in the portfolio through holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions in the Diversified Financials, Resources, and select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

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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