Perennial Value Australian Shares Trust

Monthly Report November 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)	3.4	-3.3	-2.1	0.0	3.6	8.3	8.1	6.6	6.0	8.9
S&P/ASX 300 Accumulation Index	5.1	-1.8	0.2	1.1	2.7	7.0	8.7	8.1	7.2	7.9
Value Added	**-1.7**	**-1.5**	**-2.3**	**-1.1**	**0.9**	**1.3**	**-0.6**	**-1.5**	**-1.2**	**1.0**

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

Overview

Markets broke their losing streak in November, with a sharp fall in bond yields on slightly softer economic data, seeing equities markets roar back to life. All major indices were higher, with the S&P500 jumping +8.9% and the NASDAQ spiking +10.7%. The Japanese market was also very strong, with the Nikkei 225 up +8.5%. The FTSE100 rose a more modest +1.8%, partially weighed down by the lower oil price, with Energy being a larger component of that market, while ongoing weak economic data saw the Shanghai Composite limited to a gain of +0.4%.

The Australian market was also very strong, with the ASX300 Accumulation Index finishing the month up +5.1%. Australian bond yields followed global yields lower, despite the RBA raising the cash rate at its November meeting. The fall in bond yields saw a strong sector rotation to the more rate-sensitive parts of the market, with what can best be described as relief rallies in sectors such as REITs (+11.8%) and IT (+8.0%). Healthcare (+10.9%) also performed very strongly, with several large stocks rallying from oversold positions.

Energy (-7.3%) was the worst performing sector, with the oil price sliding on increased production and concerns over demand, while Consumer Staples (-0.8%) also lagged in the risk-on environment.

It is worth noting that it was only last month, that the market was convinced that inflation and rates would be higher for longer. While sentiment has changed dramatically towards the interest rate outlook, we remain cautious as, in our view, it wouldn't take much for sentiment to swing back the other way.

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 $552 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
March 2000

Fees
0.92% p.a.

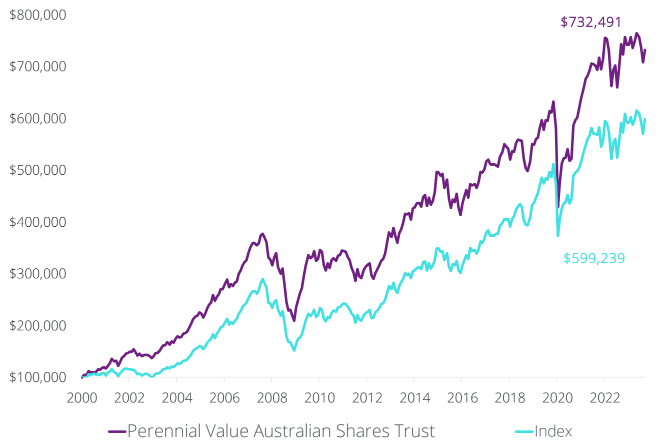
APIR Code
IOF0200AU

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	14.0	15.5
Price to Free Cash Flow (x)	13.0	14.3
Gross Yield (%)	5.0	5.2
Price to NTA (x)	2.0	2.4

Source: Perennial Value Management. As at 30 November 2023

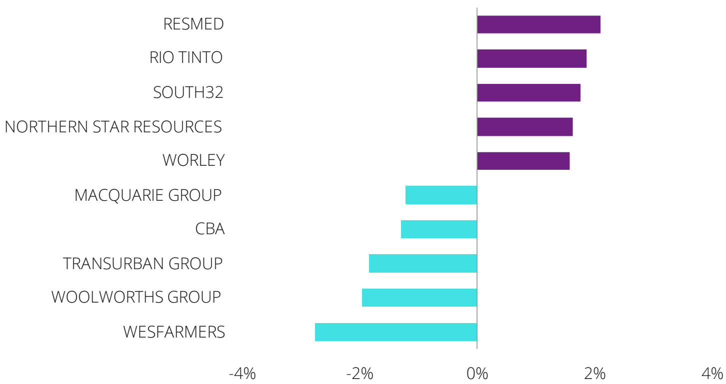
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

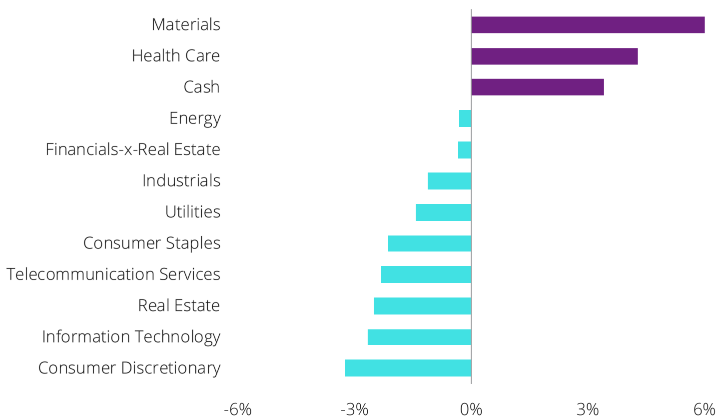


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +3.4%, after-fees in November, underperforming the benchmark by -1.7%.

Key contributors to performance over the month included healthcare names CSL (+12.9%) and Resmed (12.0%). Recently, we significantly increased our holdings in these stocks after they were sold down to what we considered to be very attractive levels for businesses of their quality. From time to time, the market overreacts to a perceived risk and even the best quality stocks can become heavily oversold. In the cases of CSL and Resmed, the cause of concern is the potential impact of the new GLP-1 weightloss drugs such as Novo Nordisk's Wegovy and Lilly's Zepbound. The theory goes that if everyone was suddenly thin, then the incidence of sleep apnea would decrease dramatically impacting Resmed, as would the incidence of chronic kidney disease, impacting CSL's recently acquired Vifor business.

If only life were this simple! While these drugs will no doubt have positive impacts on large numbers of patients, it remains to be seen how extensive and enduring these benefits will be. Further, and more importantly, the conditions treated by CSL and Resmed's products are caused by wide array of factors. As a result, even if these drugs live up to some of the more optimistic forecasts, they will be addressing only one of the drivers of demand. In the meantime, other key drivers such as the ageing of the population and expanding access to healthcare services, continue to be positive. In terms of relative valuation, these stocks are currently trading at levels not seen for the best part of the last decade.

Seven Group (+15.9%) rallied after upgrading FY24 guidance at their AGM, on the back of strong customer activity and performance across their infrastructure, construction and mining services businesses.

The bulk miners performed well over the month, with Fortescue Metals (+12.1%), Rio Tinto (+6.3%) and BHP (+4.0%). This was driven by the ongoing strength in the iron ore price, which remains over US$130/t, despite the weakness in reported Chinese economic activity. At current commodity prices, these stock are trading on very attractive valuations, with P/Es of ~10x, generating very high returns on equity and all sitting with very low levels of gearing. We remain positive on their outlook and expect that there will be ongoing policy measures taken to support activity in China.

Gold holding, Northern Star (+8.9%) outperformed, with ongoing strength in the gold price, which has risen to over US$2,000/oz. With the relatively low AUD, this translates into very strong margins for the Australian miners.

The largest detractor over the month was radiology company, Integral Diagnostics (-33.5%), which fell after downgrading earnings on the back of higher labour costs and staffing issues. These are sector-wide issues and were well-known. However, at the August result, the company indicated that these pressures were beginning to abate. We still expect that cost pressures will gradually ease, however, the road back to previous margins will be longer than previously thought. In the meantime, management are taking additional cost management actions to lower overheads. While disappointing, we remain confident that there is long-term upside in the business and note that this is a sector where there is significant ongoing consolidation.

The fall in bond yields saw the REITs (+10.9%) perform very strongly. We have been adding to our REIT holdings in recent times as they have significantly underperformed the market, however, we remain underweight the sector overall. In our view, the sector faces the impacts of slowing rental incomes, rising interest costs and the eventual need to refinance large amounts of debt, possibly against significantly lower asset values.

Energy holdings, Santos (-9.9%) and Woodside Energy (-9.5%) both underperformed on the lower oil price. However, given all that is going on in the world at the moment, it would not take much for this to reverse sharply.

Trust Activity

During the month, we moved underweight the major banks. Their results confirmed that, while credit quality remains strong, their operating earnings outlook remains challenged, with ongoing margin pressure. Funds were used to reduce our REIT underweight. At month end, stock numbers were 60 and cash was 3.4%.

Outlook

After proving surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions, there are early signs of softening in key economic US data such as employment growth. The combination of this softening of the labour market with inflation generally tracking in the right direction, has seen yields sold off sharply and a dramatic change in sentiment towards the outlook for interest rates going forward.

The Australian economy continues to look reasonably healthy, however, GDP growth is weakening. While activity is receiving a strong boost from record immigration, per capita GDP growth is negative. On the positive, the Resources and Agricultural sectors continue to experience positive conditions and a stabilisation in interest rates will be positive for sentiment.

Markets are now pricing for significant cuts to interest rates in 2024. However, we suspect it would only take a couple of data points for this to swing back the other way. In terms of positioning, we have adopted a more neutral stance to bond yields, by reducing our REIT underweight and increasing our Healthcare exposure.

We continue to have a positive view on the Resources sector, with the strong cash flows of the majors and many of the smaller miners having strategically valuable assets.

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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