Perennial Value Shares Wholesale Trust

MONTHLY REPORT DECEMBER 2018

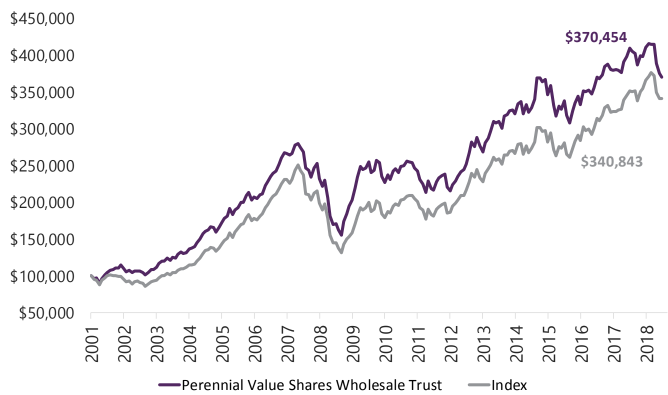
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares Wholesale Trust (Net)	-1.2	-10.7	-9.8	-9.5	3.1	3.6	7.8
S&P/ASX300 Accumulation Index	-0.2	-8.4	-7.0	-3.1	6.7	5.6	7.3
Value Added (Detracted)	**-1.0**	**-2.3**	**-2.8**	**-6.4**	**-3.6**	**-2.0**	**0.5**

Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Overview

- Global markets sold off in December, with the S&P500 -9.9%, FTSE 100 -3.6%, Nikkei 225 -10.5% and Shanghai Composite -3.6%
- The Australian market performed much better, finishing the month nearly flat at -0.2%, bringing the total return for the last 12 months to a modest decline of -3.1%
- Metals and Mining was the best performing sector, rising +7.6%. Otherwise, defensive sectors generally outperformed the more cyclical ones
- Following the recent declines, the market is now trading below its long-term average forward P/E ratio of 14.5x and offering an attractive gross dividend yield of over 6.0%, presenting many very good value opportunities available for investors with a longer-term time horizon

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.

Perennial Value Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective 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 Manager
John Murray

Trust FUM
AUD $770 million

Distribution Frequency
Half Yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

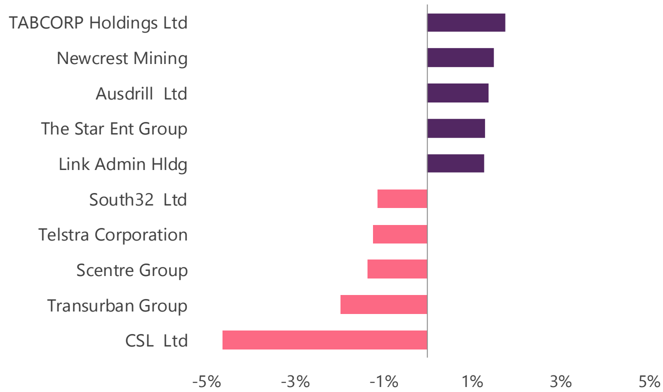
APIR Code
IOF0206AU

Portfolio Characteristics – FY20	Trust	Index
Price to Earnings (x)	12.5	13.8
Price to Free Cash Flow (x)	11.3	13.6
Gross Yield (%)	6.8	6.5
Price to NTA (x)	1.8	2.1

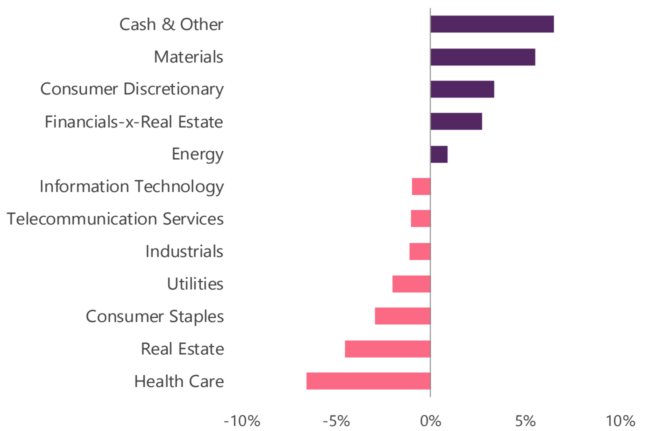
Source: Perennial Value Management. As at 31 December 2018.

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



Sector Active Exposure



Trust Review

Given the weakness in offshore markets, the Australian market performed very well over the month to close nearly flat at -0.2%. The Resources sector led the way (+4.8%), driven by strong performances from BHP (+11.5%) and Rio Tinto (+7.1%), on the back of ongoing resilience in the iron ore price. Other resources holdings, Alumina Limited (+3.1%), Oz Minerals (+1.6%) and Independence Group (+0.5%) also outperformed.

Our gold holdings performed well, with Evolution Mining (+17.5%) and Newcrest (+5.1%) rallying on the back of the strong AUD gold price, which is nearing record highs. Further, this is a sector which is likely to experience significant consolidation and, in an uncertain world, Australia is an increasingly attractive location for mining investment.

Other stocks which performed well included Graincorp (+25.6%), which received a conditional takeover proposal at a 43.0% premium to the current share price. While the company's earnings are depressed due to the drought in Eastern Australia, this serves as a reminder of the opportunities the market's short-termism often presents for investors with a longer-term time horizon. As a value investor, we seek to identify these sort of situations where the market has become overly pessimistic on the outlook for stock due to transient factors. Downer (+7.8%), Medibank Private (+6.2%), Star Entertainment (+4.1%) and Woolworths (+1.7%) also outperformed.

The underweight stance in the expensive areas of the market, including Healthcare and AREITS, has detracted from the portfolio.

Stocks which detracted from performance included Mining Services exposures Ausdrill (-17.9%), ALS (-6.4%) and Monadelphous Group (-1.9%). In our view, these companies are very well placed given the expected uptick in resources capex over the coming years, particularly in terms of major iron ore projects and new projects in the gold sector. Financials were also generally weaker, with the major banks down an average of -4.0% on housing market concerns, Clydesdale Bank (-8.0%) on Brexit worries and Janus Henderson Group (-7.9%) on weaker global markets. These companies are trading on very attractive valuations and, in our view, offer significant long-term upside potential.

Market Review – Australia (%)

S&P/ASX300 Accumulation Index	-0.2
Energy	-2.2
Materials	+5.1
Industrials	-0.3
Consumer Discretionary	-1.9
Health Care	+2.7
Financials-x-Real Estate	-3.1
Real Estate	+1.7
Information Technology	-4.1
Telecommunication Services	-5.1
Utilities	+2.8

Trust Activity

During the month, we increased our holding in Downer, which is trading on an attractive valuation, with an FY19 P/E of 12.7x. We also added to our holding in Ausdrill, where we believe the outlook is significantly more positive than the market is implying at current share prices. This was funded by increasing the extent of our underweight in Telstra. At month end, stock numbers were 64 and cash was 6.5%.

Outlook

Following the recent sell-off, the market is now trading below its long-term average, with a one year forward P/E of 14.1x and offering an attractive gross dividend yield of over 6.0%.

Within the overall market, we are currently finding many good value investment opportunities. Across both the industrial and resources sectors, we are seeing many quality companies trading on attractive valuations which should deliver solid returns to investors from these levels.

By contrast, there remain pockets of expensive growth and momentum style stocks which present significant de-rating risks if the lofty growth rates implied in their valuations are not able to be met. We do not hold these types of stocks as they do not meet our value criteria.

The Trust continues to exhibit Perennial Value's true to label value characteristics, with the Trust offering better value than the overall market on each of our four valuation characteristics: price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Global, Currency & Commodities (%)

S&P500	-9.9
Nikkei225	-10.5
FTSE100	-3.6
Shanghai Composite	-3.6
RBA Cash Rate	1.50
AUD / USD	-3.6
Iron Ore	+8.9
Oil	-8.4
Gold	+5.1
Copper	-5.6

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Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000 | 1300 730 032 | invest@perennial.net.au | www.perennial.net.au