

	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)	3.5	6.3	8.6	22.4	8.5	6.7	9.8
S&P/ASX 300 Accumulation Index	4.9	6.0	8.3	25.0	12.4	9.4	8.6
<b>Value Added</b>	<b>-1.4</b>	<b>0.3</b>	<b>0.3</b>	<b>-2.6</b>	<b>-3.9</b>	<b>-2.7</b>	<b>1.2</b>

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

## Overview

- Global markets sold off in January, as investors moved to risk-off mode, due to fears about the impact on economic growth of the unfolding Coronavirus epidemic.
- Despite this, the Australian market delivered a very strong return of +4.9%. Falling bond yields and risk aversion, saw a flight to defensive sectors such as Healthcare (+12.0%), Consumer Staples (+7.8%) and Telcos (+7.7%), while more cyclical sectors such as Metals and Mining (+0.7%) and Energy (+0.6%) lagged. This presented a significant headwind to the Trust, which is underweight the defensive sectors on account of their excessive valuations.
- Stocks which contributed to performance included James Hardie (+14.1%), Northern Star (+11.4%), Graincorp (+10.8%), Janus Henderson (+8.9%), Aristocrat Leisure (+7.5%), QBE (+6.7%) and Integral Diagnostics (+6.5%). Stocks which detracted included Kathmandu (-8.8%), oOh! media (-6.6%) and BlueScope Steel (-5.4%).
- The portfolio continues to offer good value trading on an FY21 P/E of 15.2x and offering a gross yield of 5.3%.

## 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 Managers**  
Stephen Bruce, Damian Cottier, Andrew King

**Trust FUM**  
AUD \$875 million

**Distribution Frequency**  
Half yearly

**Minimum Initial Investment**  
\$25,000

**Trust Inception Date**  
June 2001

**Fees**  
0.92%

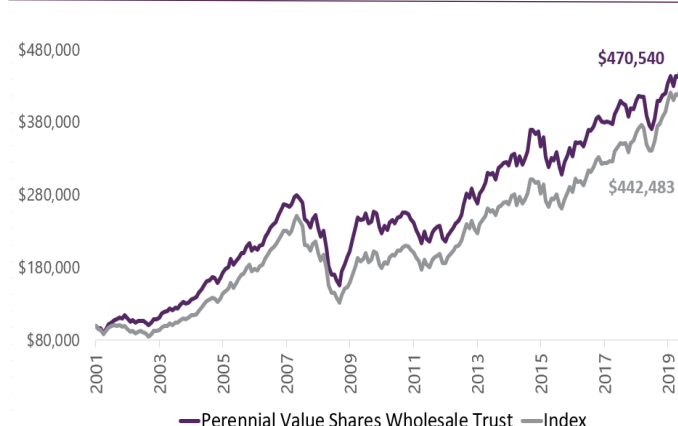
**APIR Code**  
IOF0206AU

Portfolio Characteristics – FY21	Trust	Market
Price to Earnings (x)	15.2	17.7
Price to Free Cash Flow (x)	13.5	16.9
Gross Yield (%)	5.3	5.1
Price to NTA (x)	2.1	2.6

Source: Perennial Value Management. As at 31 January 2020

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.

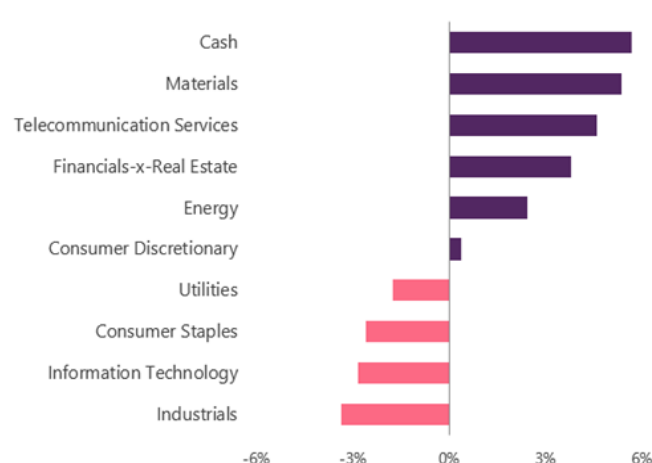
## Growth of \$100,000 Since Inception



## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

Following a strong finish to 2019, global markets sold off in January, as optimism around an improving macroeconomic backdrop was replaced by fears about the impact on economic growth of the unfolding Coronavirus epidemic. This move to a risk-off setting saw the S&P500 -0.2%, Nikkei 225 -1.9%, FTSE100 -3.4% and the Shanghai Composite -2.4%.

By contrast, the Australian market delivered a very strong return of +4.9%. Falling bond yields and risk aversion saw a flight to defensive sectors such as Healthcare (+12.0%), Consumer Staples (+7.8%) and Telcos (+7.7%), while Financials (+4.7%), also performed well, with the banks recovering some of their recent losses. These combined to drive the market higher, while more cyclical sectors such as Metals and Mining (+0.7%) and Energy (+0.6%) lagged.

The month saw strong performances from a number of our holdings, including James Hardie (+14.1%), which is benefitting from the ongoing tailwind of a strong US housing market, Northern Star (+11.4%) as investors continued to warm to their recent acquisition, Graincorp (+10.8%) as weather conditions improve and its demerger approaches as well as Janus Henderson (+8.9%). Aristocrat Leisure (+7.5%) rose as industry feedback continued to suggest that it is performing well operationally and medical imaging business, Integral Diagnostics (+6.5%), rose as solid Medicare data indicated a supportive operating environment.

Stocks which detracted included Kathmandu (-8.8%), oOh! media (-6.6%) and BlueScope Steel (-5.4%), while our Resources and Energy exposures also weighed on performance. More significantly, the rotation to defensive sectors presented a significant headwind to the Trust, which is underweight the defensive sectors on account of their excessive valuations. For example, CSL, the key driver of the Healthcare sector, is trading on a P/E of 44x current year earnings and has a market capitalisation approaching that of CBA. While there is no disputing this is an outstanding company, it is very difficult to justify this level of valuation, either in absolute or relative terms. The upcoming reporting season will be a key test of many of the market's growth stocks, whose valuations leave little room for error.

The Trust, however, continues to offer good value, trading on an FY21 P/E of 15.2x and offering a gross yield of 5.3%, as we focus on investing in companies with sound, long-term growth prospects of which are also trading on reasonable valuations.

## Market Review – Australia (%)

S&P/ASX 300 Accumulation Index	+4.9
Materials	+0.6
Utilities	+1.6
Energy	+1.9
Financials-x-Real Estate	+4.3
Consumer Discretionary	+12.0
Health Care	+4.7
Industrials	+6.3
Information Technology	+10.2
Real Estate	+7.7
Telecommunication Services	+1.0
Consumer Staples	+7.8

## Trust Activity

During the month, we continued to take profits and trim our position in James Hardie, following its very strong performance (+113% over the last 12 months). We also took profits in Northern Star, which had rallied very strongly since announcing the acquisition of 50% of the Kalgoorlie Superpit. Proceeds were used to initiate a position in Downer. The share price of this stock fell sharply following a profit downgrade due to what we believe will be transient issues and the stock is now trading on an attractive valuation. At month end, stock numbers were 61 and cash was 5.6%.

## Outlook

The market is currently trading above its long-term average, with an FY21 P/E of 17.7x and a gross dividend yield of 5.1%.

Importantly, while there remain segments of the market which are very expensive, we are still seeing many quality companies trading on attractive valuations, which should deliver solid returns to investors from these levels.

While the market has favoured expensive growth and defensive stocks in recent times, the valuation dispersion between these types of stocks and the "value" end of the market is at historically high levels. As a result, the risk-return equation for investors in continuing to hold these stocks is increasingly skewed to the downside. While the market is subject to recurring bouts of uncertainty – with the coronavirus being the latest cause – any sustained improvement in sentiment could well see an aggressive rotation back to value. This would be expected to benefit the relative performance of the Trust, as was the case in December.

In the meantime, 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	-0.2
Nikkei225	-1.9
FTSE100	-3.4
Shanghai Composite	-2.4
RBA Cash Rate	0.75
AUD / USD	66.9c
Iron Ore	-11.2
Oil	-11.9
Gold	+4.7
Copper	-10.0

**Invest Online Now**

## Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au

Signatory of:



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