Perennial Value Shares Wholesale Trust

MONTHLY REPORT FEBRUARY 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares Wholesale Trust (Net)	-8.2	-5.3	-0.3	5.5	5.0	3.2	8.1
S&P/ASX 300 Accumulation Index	-7.8	-5.2	-0.1	8.7	8.6	6.2	7.8
Value Added	**-0.4**	**-0.1**	**-0.2**	**-3.2**	**-3.6**	**-3.0**	**0.3**

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

Overview

- February started in a positive manner, with global markets rallying on the view the Coronavirus impact would be short-lived. However, the increasing number of cases outside China saw markets sold off heavily in the final week of the month.
- The Australian market followed the same pattern, finishing the month down -7.8%. All sectors of the market delivered negative returns, however defensive sectors such as Healthcare (-4.0%), Utilities (-4.0%) and REITs (-4.7%) outperformed, while more cyclical sectors such as Metals and Mining (-11.7%) and Energy (-17.4%) lagged.
- The Coronavirus-induced concerns overshadowed the impacts of reporting season, which had seen the market be up +2.0% prior to the sell-off, as many stocks reported profit results which were well-received by the market.
- Key drivers of portfolio performance included gold miners Evolution (+10.8%) and Northern Star (+6.8%) as well as Ingenia Communities (+5.6%), while resources holdings dragged.
- The portfolio continues to offer good value trading on an FY21 P/E of 13.7x and offering a gross yield of 5.8%.

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 $636 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

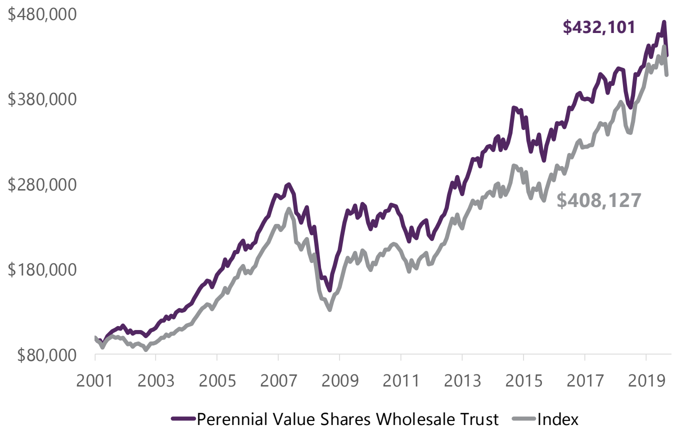
APIR Code
IOF0206AU

Portfolio Characteristics – FY21	Trust	Market
Price to Earnings (x)	13.7	16.2
Price to Free Cash Flow (x)	11.8	15.3
Gross Yield (%)	5.8	5.6
Price to NTA (x)	1.9	2.3

Source: Perennial Value Management. As at 31 January 2020

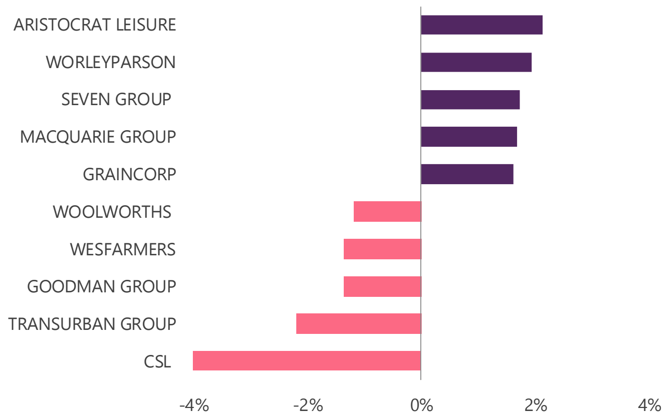
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

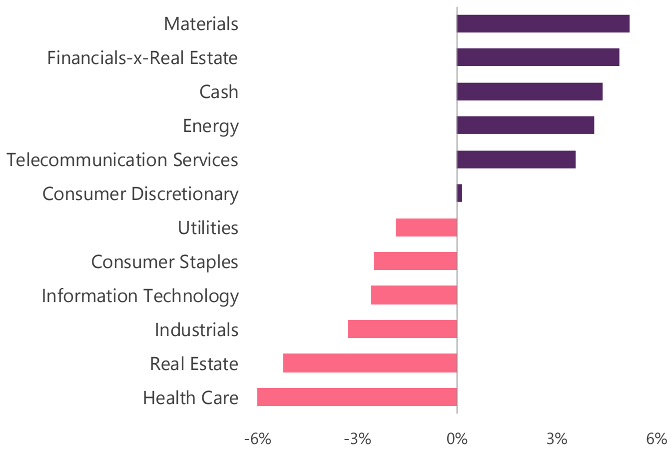


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

February started in a positive manner, with global markets rallying on the view that the Coronavirus impact would be short-lived. However, the increasing number of cases outside China saw markets sold off heavily in the final week of the month, with the S&P500 -8.4%, FTSE100 -9.7%, Nikkei225 -8.9% and Shanghai Composite -3.2%.

The Australian market followed the same pattern, finishing the month down -7.8%. All sectors of the market delivered negative returns, however the flight to safety saw defensive sectors such as Healthcare (-4.0%), Utilities (-4.0%) and REITs (-4.7%) outperform, while more cyclical sectors such as Metals and Mining (-11.7%) and Energy (-17.4%) lagged on the expectations of lower commodities demand.

The Coronavirus-induced concerns overshadowed the impacts of reporting season, which had seen the market be up +2.0%, as many stocks reported profit results which were well-received by the market. Given the relatively subdued economic backdrop, expectations were low ahead of the reporting season. However, many companies are still performing well. The major banks, for example, outperformed after CBA – a bellwether for the banking sector and broader domestic economy – reported a solid result showing, amongst other things, that credit quality remains very strong. Results from the retailers also showed that consumer spending was better than feared. Strong cash flows and dividends from the major resources companies was another highlight of the reporting season.

Key drivers of portfolio performance included gold miners Evolution (+10.8%) and Northern Star (+6.8%) as well as retirement operator Ingenia Communities (+5.6%). QBE Insurance (-1.2%), Atlas Arteria (-1.4%) and Integrated Diagnostics (-1.6%) also outperformed after delivering solid results. Our overweight position in the major banks also contributed positively. The main detractors were our resources holdings, with both mining and energy stocks down sharply on concerns around the impact of the slowdown in manufacturing activity on commodity demand as well as mining services stocks. The Trust benefitted from not holding a number of the expensive growth stocks which were sold off such as Wisetech (-39.7%).

The Trust, continues to offer good value, trading on an FY21 P/E of 13.7x and offering a gross yield of 5.8%, as we focus on investing in companies with sound, long-term growth prospects which are also trading on reasonable valuations.

Trust Activity

During the month, we continued to take profits and trim our positions in stocks which had performed very strongly in recent times, such as James Hardie and Aristocrat Leisure. Proceeds were used to increase our positions in a number of stocks including ANZ, Rio Tinto and Worley Group. We also took profits in gold miner Northern Star Resources and rotated into better value exposure, St Barbara. At month end, stock numbers were 63 and cash was 3.8%.

Outlook

The market is currently trading slightly above its long-term average, with an FY21 P/E of 16.2x and a gross dividend yield of 5.6%, largely as a function of the current very low interest rates.

We continue to note that, 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.

The current level of uncertainty regarding the impact of the Coronavirus outbreak is very high. However, what is certain, is that it will pass. Further, before this issue arose, the global economic outlook was increasingly positive, with easing trade tensions and ongoing low interest rates seeing activity picking up in most regions. It is also important to note that this sell-off is due to an external issue, rather than being due to some fundamental economic or market imbalance. As a result, markets may well rally violently as signs emerge that the spread of the disease is slowing. However, should it prove to be prolonged, we are likely to see significant policy responses from governments and central banks to support their economies through this period, via a combination of fiscal stimulus and monetary policy.

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.

Market Review – Australia (%)

S&P/ASX 300 Accumulation Index	-7.8
Materials	-17.4
Utilities	-11.7
Energy	-8.4
Financials-x-Real Estate	-8.7
Consumer Discretionary	-4.0
Health Care	-4.9
Industrials	-4.7
Information Technology	-16.3
Real Estate	-8.8
Telecommunication Services	-4.0
Consumer Staples	-7.4

Global, Currency & Commodities (%)

S&P500	-8.4
Nikkei225	-8.9
FTSE100	-9.7
Shanghai Composite	-3.2
RBA Cash Rate	0.75
AUD / USD	65.2c
Iron Ore	-10.3
Oil	-10.8
Gold	+2.5
Copper	+3.4

Invest Online Now

Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au