PERENNIAL

Perennial Value Shares Wholesale Trust

MONTHLY REPORT MARCH 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares Wholesale Trust (Net)	-26.3	-29.9	-26.5	-22.1	-6.1	-2.9	6.4
S&P/ASX 300 Accumulation Index	-20.8	-23.4	-20.9	-14.5	-0.6	1.4	6.5
Value Added	**-5.5**	**-6.5**	**-5.6**	**-7.6**	**-5.5**	**-4.3**	**-0.1**

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

Overview

- The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%, bringing the market's total decline since its February high to -28.6%.
- In what was a very tough month for Value style investing globally, the Trust delivered a return of -26.3%, underperforming the market by -5.2%. Many of our holdings were sold down sharply to very low levels, despite continuing to have strong medium-term prospects.
- Defensive stocks generally outperformed, with Consumer Staples and Healthcare amongst the better performing sectors. However, Infrastructure and REITs failed to protect investors.
- Mining stocks performed relatively well, on continued strength in the iron ore price, while Energy stocks were sold off sharply on the collapsing oil price and Financials also lagged.
- The near term outlook is highly uncertain, however at current levels, a significant amount of bad news is factored into share prices. History has shown that selloffs like this present exceptional opportunities for investors with a longer term time frame.

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 $462 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

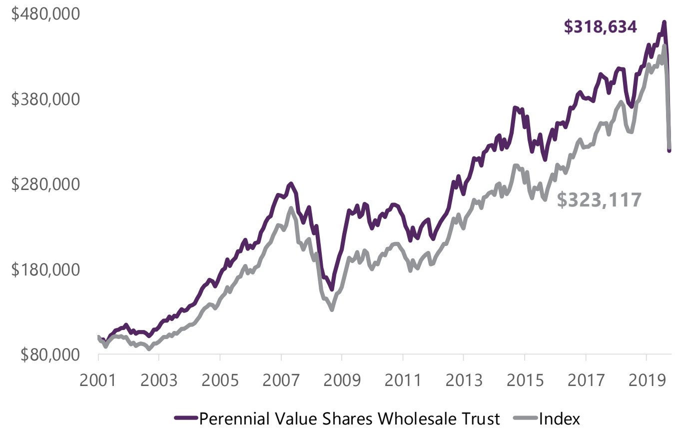
APIR Code
IOF0206AU

Portfolio Characteristics – FY21	Trust	Market
Price to Earnings (x)	11.0	14.3
Price to Free Cash Flow (x)	10.3	13.3
Gross Yield (%)	6.6	6.5
Price to NTA (x)	1.5	2.0

Source: Perennial Value Management. As at 31 March 2020

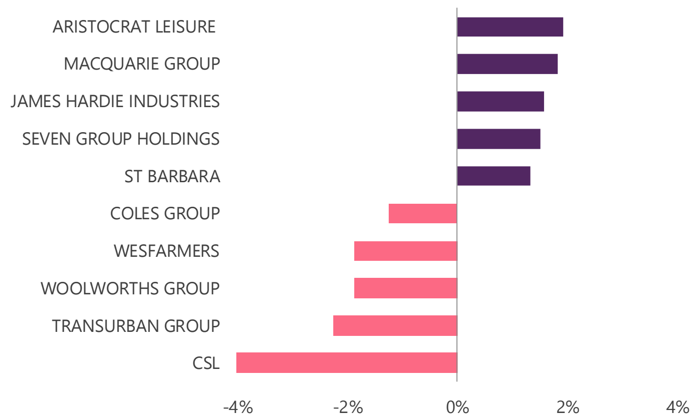
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

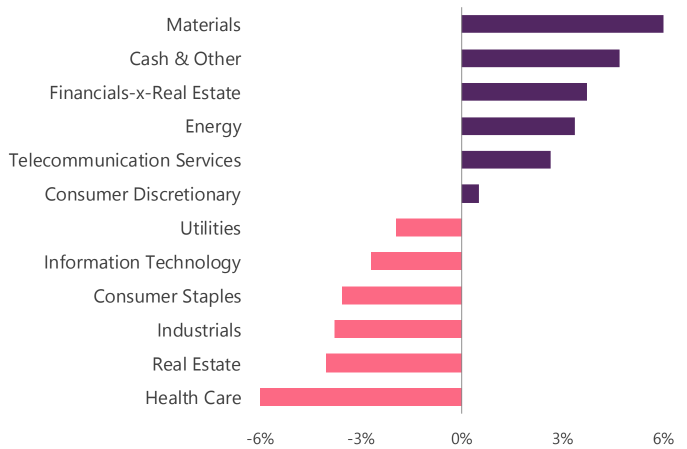


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%, as investors factored in the impact of a very sharp, but potentially short, disruption to the global economy.

All sectors of the market delivered negative returns, with many large companies experiencing share price falls of up to -50% in what appeared, in many cases, to be panic selling.

This panic selling was felt across the portfolio, as many of our key holdings were sold down sharply to very low levels, despite continuing to have very strong medium-term prospects. As a result, the Trust delivered a disappointing return of -26.3%, underperforming the market by -5.5%, in what was very tough month for Value style investing globally.

Examples of stocks caught up in this selling included Macquarie Group (-36.4%) and Aristocrat Leisure (-35.5%). While near-term earnings will be impacted, both of these companies will emerge from this disruption in even stronger positions. Macquarie has shown an unwavering ability to seize the opportunities presented in a crisis and will no doubt use this as an opportunity to acquire assets and businesses at prices which will deliver outstanding profits for years to come. Similarly, Aristocrat has been gaining market share from competitors by investing heavily in new product development. This advantage will only grow stronger as, whereas Aristocrat has a very strong balance sheet and will easily weather the downturn, its key competitors are struggling under mountains of debt and this will curtail their ability to invest and compete going forward.

Social distancing has had a serious effect on retailers, with Kathmandu (-66.1%) taking the decision to close its store network. Given the uncertainty as to how long this will continue, the company undertook a capital raising, in which we participated, to strengthen the balance sheet. Outdoor advertiser, oOh! Media (-72.0%), also raised capital after experiencing a sharp decline in advertising bookings. Indicating how quickly conditions have deteriorated, both of these companies had been performing well operationally as recently as the start of the month.

The Trust benefited from its overweight position in the Metals and Mining sector, which outperformed on the resilience of the iron ore price, with Rio Tinto (+0.9%) and BHP (-10.8%) both holding up well. The iron ore miners are well-placed going forward, with their strong balance sheets and the expectation Chinese stimulus measures.

By contrast, the Energy sector (-37.9%) fell, as oil prices collapsed due to a decline in demand compounded by the Saudi-Russia price war. This impacted the Trust, which is overweight the sector, with holdings in Santos (-49.9%), Woodside Petroleum (-34.8%) and Origin Energy (-35.1%). Oil is currently trading at unsustainably low levels and will likely rise at some point over the coming months. In the meantime, we remain comfortable with our holdings on account of their strong balance sheets and low production costs. Engineering company Worley (-50.9%) was caught up in this selloff, despite the fact that only 20% of its earnings are related to upstream oil and gas. Importantly, the company has a highly flexible cost base and a very strong liquidity position. We see very significant upside from these levels in all of these stocks.

Interestingly, many perceived defensive sectors proved not to be. For example, REITs (-37.0%) fell sharply due to uncertainty around rental income. This was particularly acute for the mall owners, with Scentre Group (-57.4%) and Vicinity Centres (-54.9%) down sharply as many retailers closed their stores. Similarly, Infrastructure stocks failed to protect investors, with Sydney Airport (-23.4%) and Transurban (-18.2%) as investors became concerned about the combination of declining revenues and high debt levels. The Trust has long avoided these stocks on valuation and balance sheet grounds.

However, the Trust was impacted by its valuation-driven underweight to the Healthcare sector, with CSL (+1.5%) outperforming and now having a market cap greater than CBA (albeit based on a sky-high multiple of 40x current year earnings).

Trust Activity

During the month, we reduced our holdings in a number of names which had outperformed including Woolworths, Wesfarmers, and Telstra and well as trimming our holdings in the major banks. Proceeds were used to increase our holding in a range of good value opportunities such as Macquarie Group, James Hardie and Santos. We also initiated new positions in a number of stocks including Magellan Financial Group, Goodman Group and online retailer City Chic Collective. At month end, stock numbers were 66 and cash was 4.0%.

Outlook

The fall in March brings the market's total decline since its February high to -28.6%, making it one of the sharpest selloffs on record. While the slowing of activity means that forecasting near term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored being factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. Australia's relatively low levels of infections and recent move to more stringent isolation measures sees us well placed versus other parts of the world to weather this storm.

The silver lining of a downturn such a this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, having stress tested our key portfolio holdings, we believe they offer exceptional upside from the current oversold levels.

As always, our focus will continue to be 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.

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Contact Us

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