

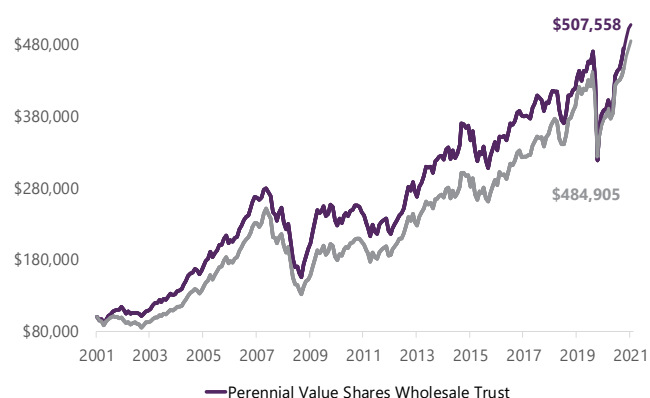
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Australian Shares Trust (Net)	0.9	6.9	30.4	30.4	7.3	8.9	8.4
S&P/ASX 300 Accumulation Index	2.3	8.5	28.5	28.5	9.8	11.3	8.2
Value Added (Detracted)	-1.4	-1.6	1.9	1.9	-2.5	-2.4	0.2

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

Overview

- Markets continued their upward march in June, with most major indices posting positive returns and having delivered very strong returns over the last 12 months, on the back of the post-COVID economic recovery.
- The Australian market also performed strongly, with the ASX300 Accumulation Index making another record high, finishing the month up 2.3% and bringing the total return for the last 12 months to a very healthy 28.5%.
- Hawkish commentary from the Fed saw some flattening of the yield curve during the month, with bond yields easing. This resulted in a strong rally in the more rate sensitive sectors of the market such as Tech and defensives, while the more cyclical sectors such as Financials and Resources lagged.
- Since the market's low in March 2020, the Trust has performed very well, outperforming the market by 12.3% after fees. This performance highlights the Trust's leverage to the post-COVID economic recovery. Historically, value style investing has delivered significant outperformance during economic recoveries.

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 Managers **Trust FUM**
 Stephen Bruce, Damian Cottier, AUD \$584 million
 Andrew King

Distribution Frequency **Minimum Initial Investment**
 Half yearly \$25,000

Trust Inception Date **Fees**
 June 2001 0.92%

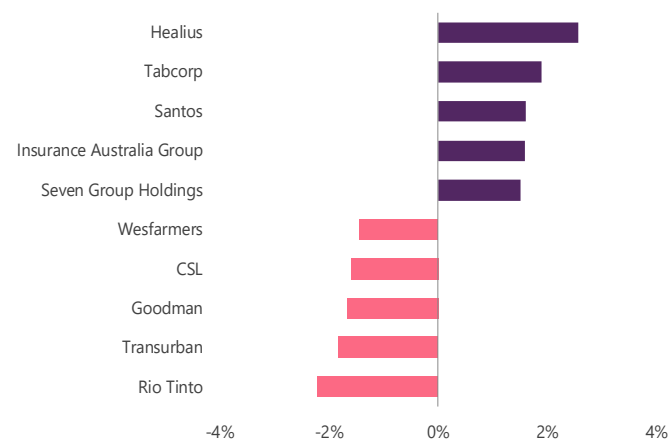
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Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	16.1	17.0
Price to Free Cash Flow (x)	13.8	14.9
Gross Yield (%)	5.5	5.2
Price to NTA (x)	2.6	2.8

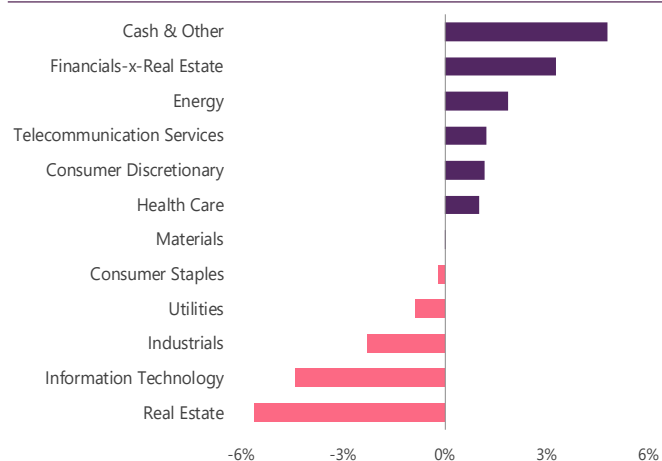
Source: Perennial Value Management. As at 30 June 2021

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 vs Index



Sector Active Exposure vs Index



Trust Review

Stocks which contributed positively over the month included Telstra (+6.8%) and TPG Telecom (+20.2%). The Telecommunications companies have struggled in recent years, as the NBN roll-out has impacted earnings from their fixed line businesses. However, as this nears completion, these headwinds are abating and their mobile businesses will be able to drive overall earnings growth, assisted by the take up of 5G technology and ever-increasing data needs. Further, the recent merger of TPG with Vodafone has improved the industry structure, effectively locking in a three-player market. This is likely to lead to a rational competitive environment and recent pricing increases suggest this is occurring.

Another factor that makes these companies appealing is that their operating businesses can be separated from their infrastructure assets. During the month, Telstra announced that it had sold a 49% stake in its mobile towers to a consortium of infrastructure investors. While Telstra effectively retained control of the assets, they were able to achieve a very high price for half the earnings, with the sale done at 28x EBITDA. This transaction highlights the prices that cashed-up infrastructure investors are prepared to pay for these sorts of assets and we expect further asset sales over time. Telstra will receive \$2.8bn from the sale and will return around half of this to shareholders in FY22. This on top of its already attractive dividend yield. Given these improving sector dynamics, we regard telcos as one of our preferred defensive exposures.

While the resources sector was softer during the month, mineral sands producer, Iluka Resources (+18.5%) rallied strongly after Rio Tinto announced that it would be suspending operations at Richards Bay in South Africa due to a deterioration in security conditions. This is likely to significantly tighten supply in the mineral sands market and lead to higher pricing. While this is an unfortunate development, it serves to highlight the advantages that the Australia resources sector enjoys from operating in a stable, safe and well-regulated country with high environmental standards. These features are likely to become increasingly valued over time.

The recent outbreak of COVID in NSW and elsewhere saw Healix (+10.2%) outperform. As the second largest pathology services provider in Australia, the company stands to benefit from the associated increase in COVID testing during this period. While this will hopefully be only temporary, it is providing a helpful boost to earnings while the company undertakes steps to improve its operational performance and lift margins following the sale of its medical centre business. Healix may also be a takeover target at some point. In many ways, parts of the healthcare sector such as pathology can be thought of as regulated utility services, with stable earnings largely derived from government funding. As a result, infrastructure-style investors are increasingly looking to these sorts of businesses, raising the potential for corporate activity in the space. Radiology provider, Integral Diagnostics (+5.5%) also performed well, with Medicare data indicating that activity levels in the sector were still running at elevated levels.

A rise in the oil price saw Energy holdings stronger, with Worley (+13.3%) and Santos (+4.7%) both outperforming. Worley, which provides engineering services to the energy, chemical and resources sectors, held an investor day during the month in which it highlighted that sustainability-related projects already accounted for 29% of their revenue and 45% of their global sales pipeline. While ultimately demand for fossil fuels will decline as they are replaced by renewable sources, this will be long-term process. In the near-term, however, cuts to investment spending will likely see a tightening of supply and healthy prices.

While most of resources stocks have rallied strongly, along with their commodity prices, energy stocks have lagged and are likely to make up some of this underperformance.

Other stocks which contributed to performance included apparel retailer City Chic Collective (+17.1%), vehicle lessor Smartgroup (+10.8%), packaging company Orora (+5.4%), PPE manufacturer Ansell (+5.4%) and gaming developer Aristocrat Leisure (+5.0%).

Holdings which underperformed during the month included the major banks (down an average of -1.7%), and Virgin Money UK (-2.9%), which eased following strong recent performance, as bond yields declined. In our view the operating outlook for these businesses remains very positive. Other detractors included gold holdings Northern Star (-16.4%) and Newcrest Mining (-10.7%) on the lower gold price and Oz Minerals (-11.1%) on the weaker copper price. We remain confident in the outlook for each of these holdings. The Trust was also impacted, in a relative sense, from not holding a number of expensive tech stocks which rallied during the month. We continue to believe that the valuations of these sorts of stocks will become increasingly challenged.

Trust Activity

During the month, we locked in profits and exited holdings in Ingenia Communities and Mirvac and reduced our holding in NewsCorp, which had performed very strongly in recent times. We also exited our position in Downer, due to concerns over labour cost pressures. Proceeds were used to increase our holdings in a number of stocks which had lagged and were offering attractive value including ANZ, Oz Minerals, Independence Group and Dexu. At month end, stock numbers were 56 and cash was 4.8%.

Outlook

We believe that 2021 may well mark a significant turning point for the global economy and markets, with the prospects of a near-term rollout of an effective COVID vaccine underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop. The election result of a Biden presidency and Democratic Senate means there is likely to be increased fiscal stimulus, which should be positive for economic growth, corporate earnings and markets overall.

Domestically, key indicators around employment, business confidence and the property market are all surprising to the upside. Finally, the economy is underpinned by historically low interest rates and meaningful fiscal stimulus. If this improvement continues, then corporate earnings and dividends are likely to rebound strongly over the coming year.

The Trust is positioned to benefit from an ongoing economic improvement and 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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 Principles for Responsible Investment



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