Perennial Value Shares Wholesale Trust

Monthly Report February 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	3.0	3.2	4.7	15.3	9.1	7.3	8.4
S&P/ASX 300 Accumulation Index	2.1	-2.0	-0.7	10.3	8.7	8.6	7.9
Value Added	**0.9**	**5.2**	**5.4**	**5.0**	**0.4**	**-1.3**	**0.5**

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

Overview

Just when you thought it was safe to go back into the water… Having largely recovered from the impacts of COVID and seemingly digested the prospects of the end of "free money" as the rate cycle turns, the market is now confronted with the Russian invasion of Ukraine. While geopolitical tensions generally have been escalating over recent years, the focus has principally been around China/Taiwan, with a medium-term time frame. By contrast, the implications of the sudden and largely unexpected outbreak of a major war in Europe, involving a nuclear power, are not something that the market has given much thought to, until now.

The immediate effect of the month's events was to see global markets weaker, with the S&P500 -3.1%, the NASDAQ -3.4% and the Nikkei 225 -1.8%. However, a strong rally in commodities saw the Australian market rally, with the ASX300 Accumulation Index +2.1%.

On the positive, the economic backdrop in most major economies is good as they reopen post-COVID, with strong economic growth and very healthy employment conditions. However, economies now face the challenge of high inflation and the associated turn in the interest rate cycle. This is being driven by lingering COVID-related global supply chain issues and exacerbated by the current conflict. Both COVID and conflict have highlighted the need for more resilient supply chains and greater self-sufficiency. In other words, we are likely to see a slowing or reversal of the long-term trend of increased integration in certain parts of the global economy. Add to this, factors such as the likelihood of increased government spending, plus the massive investments required to decarbonise, and we can see significant new factors at play in the global economy. We certainly live in interesting times.

Fund Characteristics

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 $560 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

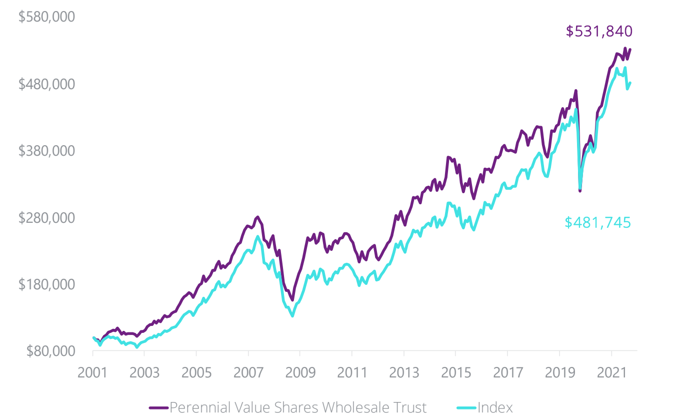
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	14.3	16.3
Price to Free Cash Flow (x)	14.3	15.0
Gross Yield (%)	5.6	5.2
Price to NTA (x)	2.3	2.7

Source: Perennial Value Management. As at 28 February 2022

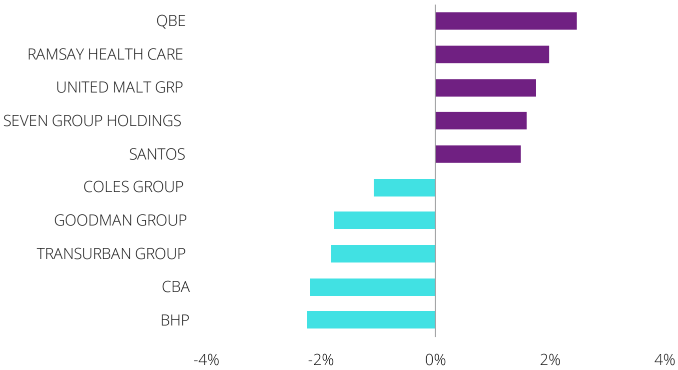
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

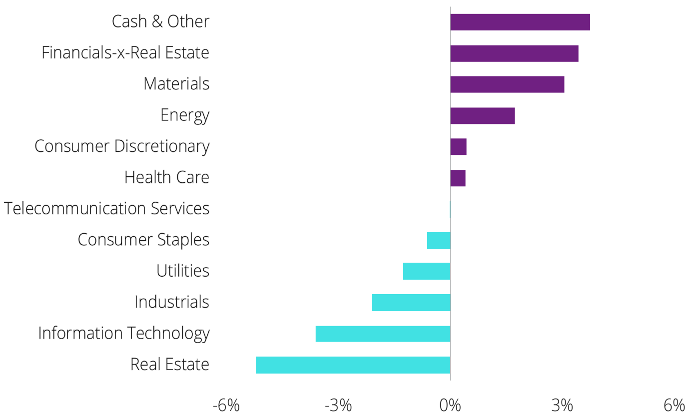


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust performed well during the month, returning +3.0% after-fees, outperforming the Index by +0.9%. For the last 12 months, the Trust has delivered a return of +15.3%, outperforming the Index by +5.0%. This demonstrates the Trust's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation will continue and still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

While overshadowed by other events, the February reporting season was generally well-received. The positive economic backdrop was overall supportive of corporate earnings and strong balance sheets saw generous dividends and capital returns. Resources stocks delivered particularly strong results on the back of strong commodity prices. While many companies were still being impacted by COVID-related disruptions, these are abating, and earnings are likely to recover strongly.

In terms of sector performance, Resources were the clear winner in February, with Energy +8.4% and Metals & Mining +6.0%. Commodity markets were already tight as demand recovered post-COVID in the face of limited supply growth. The invasion of Ukraine and sanctions on Russia have made this worse, with Russia being a major producer of oil and supplying around 40% of the EU's gas requirements. They are also major producers of aluminium and nickel amongst other commodities.

This saw very strong performances from Woodside Petroleum (+19.7%), which rallied after delivering a very strong result as well as from the surge in the oil price, which is now over US$100 per barrel. Woodside has significant leverage to higher prices, with around 25% of its production able to be sold into the spot market.

South32 (+24.9%) rallied on the back of its aluminium exposure and also after delivering a very strong result. This has been a great performer for the Trust over the last 12 months and is well positioned with its suite of base metal assets and net cash balance sheet position.

Steel stocks were also strong, with metal recycler Sims (+28.1%) and Bluescope Steel (+12.1%) both rallying hard after delivering bumper results on the back of strong scrap demand and wide steelmaking margins respectively. Both these companies are also in very strong financial positions, with net cash on their balance sheets.

The agricultural sector continues to perform very strongly on the back of positive seasonal conditions and strong soft commodity prices. Both Russia and Ukraine are significant to global agriculture, being major exporters of wheat and other crops. The invasion has seen grain prices rise from already high levels. This benefits Graincorp (+15.4%), as it will increase demand and pricing of Australian wheat in global markets. This has locked in a very strong result for the current financial year, and all indications are that next year will be very good as well. Crop protection company, Nufarm (+23.1%), was also very strong after hosting an investor day in which they showcased some of the new, environmentally sustainable crops their seeds division is developing. These include an Omega-3 canola oil which can replace wild-caught fish as a source of Omega-3 and a new form or carinata which is ideal for producing biofuels for use in the aviation sector.

The flight to safety saw the gold price higher, with gold stocks Northern Star (+24.4%) and Newcrest (+19.6%) both performing strongly. The Trust holds a modest overweight position in the gold sector as part of the defensive component of the portfolio.

The Trust also benefited from not holding a number of expensive stocks which de-rated sharply over the month, including Domino's Pizza (-23.6%) and Xero (-17.0%). Given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks.

Holdings which underperformed during the month included fashion retailer City Chic (-20.4%), which sold off after its earnings were impacted by COVID-related store closures. However, despite this, the company still delivered 50% sales growth. Radiology provider, Integral Diagnostics (-13.6%), was weaker as its earnings were impacted by a combination of lower demand as COVID kept patients away and higher operating costs due to disruptions. Aristocrat Leisure (-7.6%) was softer after its takeover of Playtech failed to complete. While this was disappointing, the outlook for the existing business is still very positive. We remain comfortable with each of these holdings.

Trust Activity

During the month, we sold our holding in Sydney Airport into the takeover bid and exited our holding in Ansell due to its deteriorating outlook. Proceeds were used to increase our holdings in City Chic and Integral diagnostics. We also reduced our underweight in CSL ahead of what was a strong result. At month end, stock numbers were 59 and cash was 3.4%.

Outlook

On balance, we view the outlook as positive, with economies recovering strongly as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and Insurance as well as a modest overweight in gold.

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

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au