Perennial Value Shares Wholesale Trust

Monthly Report March 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	5.8	5.4	10.8	18.5	32.9	11.2	7.9	8.7
S&P/ASX 300 Accumulation Index	6.9	2.1	6.2	15.2	26.2	10.9	9.4	8.2
Value Added	**-1.1**	**3.3**	**4.6**	**3.3**	**6.7**	**0.3**	**-1.5**	**0.5**

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

Overview

Markets staged a rally in March, despite the ongoing conflict in Ukraine, accelerating inflation prints and increasingly hawkish commentary from central banks. This saw the S&P500 +3.6%, the Nikkei 225 +4.9% and the FTSE 100 +0.8%. The exception was the Chinese market, where renewed COVID lockdowns saw the Shanghai Composite down -6.1%. The rally was led by the Tech and Resources sectors. The Tech sector found support, having previously been sold down very heavily as bond yields rose. By contrast, the ongoing strength in commodity prices saw the Resources sector continue its very strong performance.

The Australian market was a standout, with the ASX300 Accumulation Index returning a very strong +6.9% in March, and all sectors delivering positive returns. While IT (+11.8%) was the best performing sector, its relatively small index weighting meant that the key drivers of the markets rise were the Resources and Financials sectors, which collectively account for slightly over 50% of the market. Ongoing commodity price strength saw the Metals and Mining (+11.8%) and Energy (+10.1%) sectors rally strongly, while Financials (+8.5%) rose on the prospect of interest rate rises.

Despite the ongoing uncertainties, particularly those stemming from the Russian invasion of Ukraine, the economic backdrop in most major economies is positive, with strong growth as they reopen post-COVID, and very good employment conditions. However, economies now face the challenges of ongoing supply chain issues, high inflation, and the associated turn in the interest rate cycle. After many years of increasing globalisation, low inflation and falling interest rates, these factors present very significant changes to the economic backdrop and warrant a degree of caution.

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 $582 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

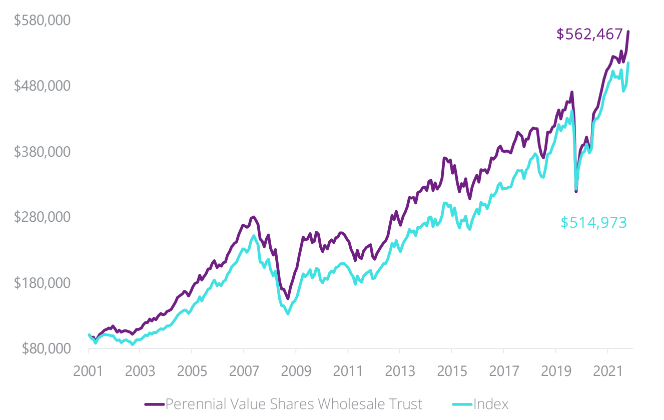
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	15.3	17.5
Price to Free Cash Flow (x)	15.3	15.8
Gross Yield (%)	5.0	4.9
Price to NTA (x)	2.5	2.9

Source: Perennial Value Management. As at 31 March 2022

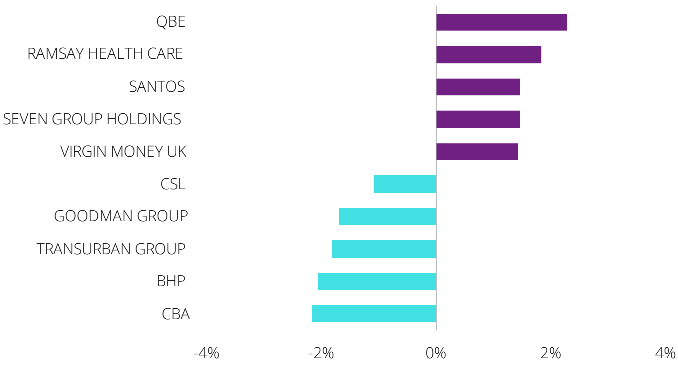
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

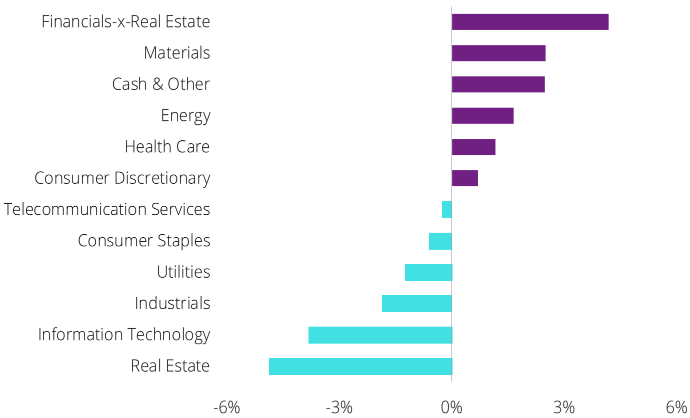


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +5.8% after-fees in March, underperforming the Index by -1.1%. For the last 12 months, the Trust has delivered a return of +18.5%, outperforming the Index by +3.3%. 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 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.

Resources holdings performed strongly during the month, with new energy metals producer, Independence Group (+29.1%), the best performing stock in the portfolio. This company produces the full suite of metals needed for the energy transition – lithium, nickel, copper and cobalt – the demand for which is expected to grow strongly over the coming years. The bulk miners were also strong, with Fortescue Metals (+13.8%), BHP (+10.9%) and Rio Tinto (+6.4%) all performing well on the back of the iron ore price rising to over US$150/t. The demand outlook for iron ore remains robust, with the Chinese likely to implement measures to stimulate their property market, while the supply side remains constrained near term. As a result, these companies are expected to generate very strong cash flows and see earnings upgrades over the coming period. Buoyancy in the steel market also saw recent portfolio addition, scrap recycler Sims (+20.6%) perform very strongly.

The oil price continued to be volatile, but remained at high levels, finishing the month at over US$100/barrel. This saw strong performances from our holdings in Woodside Petroleum (+12.5%) and Santos (+6.6%). Engineering firm, Worley (+8.2%) also rallied, with its exposure to both an expected uplift in oil and gas capex, as well as its large and growing pipeline of renewable energy projects.

Conditions in the agricultural sector continue to be very strong, with positive seasonal conditions and high soft commodity prices. Strong demand, combined with disruptions to global trade and surging gas costs, saw fertiliser prices spike to historically high levels. This benefited Incitec Pivot (+22.7%), which manufactures ammonia and fertilisers in Australia and the US. Crop protection company, Nufarm (+15.5%), continued its strong performance. This stock has been strong in recent months, due to a combination of very favourable demand drivers in key markets, as well as an increasing recognition of the potential long-term value to be derived from 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.

Radiology provider, Integral Diagnostics (+12.8%), outperformed over the month. This stock has been sold off in recent times as COVID disruptions have impacted both patient volumes and staffing levels. However, underlying demand will continue to grow and there is likely to be an element of catch-up as people deal with medical procedures they have been deferring. Further, this sector is undergoing significant consolidation, in which the company will be a participant, and may well become a target itself at some point.

Macquarie Group (+12.4%), outperformed as the high level of volatility in the commodities markets is expected to drive very strong earnings in their commodity trading operations. This is an area where the company has been investing significant capital in recent years.

Holdings which underperformed during the month included United Malt (-10.8%), which declined due to concerns over the impact of rising grain prices and energy costs. While these will present a near-term headwind, there is a more significant reopening story for this stock and it remains one of our holdings where we see the greatest upside. Similarly, Virgin Money UK (-9.4%), was sold off along with the rest of the UK banking sector, on concerns over Ukraine impacts on the UK economy. Again, despite near-term headwinds, this is a stock were we see very significant medium-term upside.

The Trust was also impacted by not holding a number of expensive tech stocks which rallied during the month. Examples include Block (+19.3%) (the Australian listing of the company which acquired Afterpay), Seek (+12.7%) and Xero (+9.6%). While these stocks bounced in line with tech stocks globally, given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks as rates rise.

Trust Activity

During the month, we increased our holdings in City Chic and Bluescope Steel, both of which had been sold down in recent times. We also continued to build a position in Treasury Wine Estates, where we see an improving earnings outlook. At month end, stock numbers were 62 and cash was 2.2%.

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.

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