Perennial Value Shares Wholesale Trust

Monthly Report June 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	1.5	0.8	14.7	14.7	5.5	13.3	6.6	7.9	7.7	8.2
S&P/ASX 300 Accumulation Index	1.7	1.0	14.4	14.4	3.3	11.1	7.1	8.9	8.5	7.8
Value Added	**-0.2**	**-0.2**	**0.3**	**0.3**	**2.2**	**2.2**	**-0.5**	**-1.0**	**-0.8**	**0.4**

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

Overview

Markets were strong in June, with improving inflation trends and a pause by the Fed, seeing a broadening of the rally in US equities from the Tech sector to other parts of the market. The NASDAQ added +6.6%, while the S&P500 rallied +6.5% on stronger economic data and the hope that the rate rise cycle is over, despite Jerome Powell saying that more rate rises are expected. The Nikkei 225 rose +7.5%, while the FTSE 100 was up a more modest +1.1%. The exception was the Shanghai Composite, which eased -0.1%, on concerns over the faltering Chinese post-COVID recovery.

The Australian market was also strong, with the ASX300 Accumulation Index finishing the month up +1.7%. Despite the RBA lifting the cash rate again, investors took a positive stance as inflation eased and economic data remained robust, with retail sales rebounding, house prices rising and very strong jobs growth in May. However, we would caution that this data is backward looking, and the impact of previous rate increases is still yet to be fully felt. While the economy is proving very resilient, some cracks are starting to appear, with several retailers issuing profit downgrades and building approvals falling sharply.

Metals and Mining (+5.0%) was the best performing sector, with commodity prices generally higher over the month, despite the Chinese growth concerns. Financials (+3.1%) also outperformed, as the major banks found some support. Defensive sectors were weaker as sentiment turned more positive on the economic outlook. Healthcare (-6.4%) was the man detractor, led lower by CSL, while Telcos and REITs also underperformed.

Fund Characteristics

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and 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,
Andrew King

Trust FUM
AUD $472 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

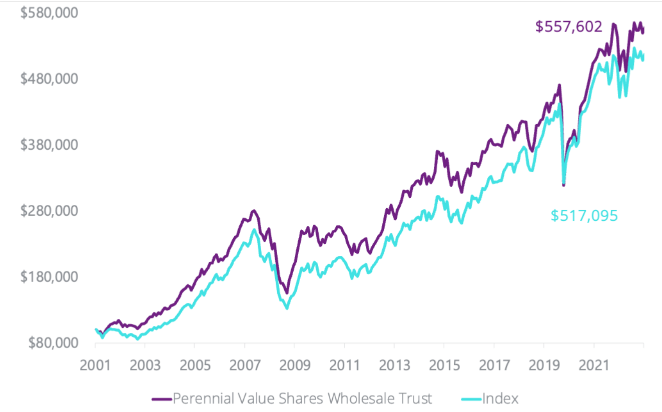
APIR Code
IOF0206AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	13.1	14.7
Price to Free Cash Flow (x)	11.9	13.4
Gross Yield (%)	5.6	5.6
Price to NTA (x)	2.1	2.6

Source: Perennial Value Management. As at 30 June 2023

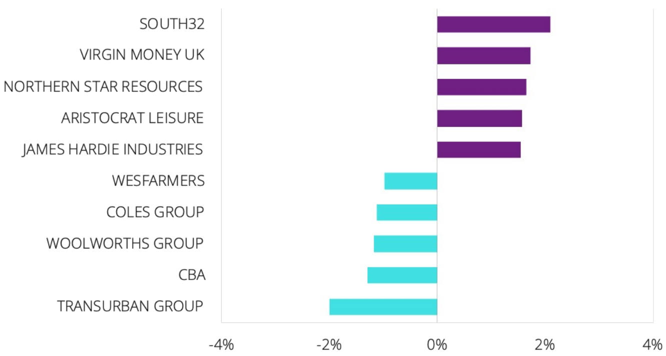
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

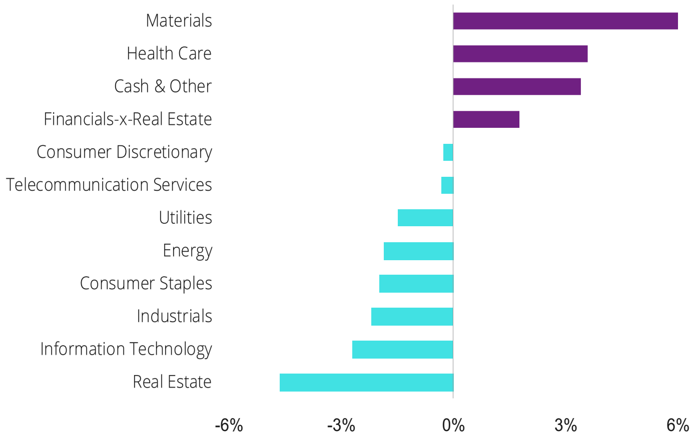


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +1.5%, after-fees in June, underperforming the benchmark by -0.2%. Key positive contributors to performance over the month included the Trust's Resources holdings. Commodity prices were generally stronger over the month as concerns around sluggish Chinese growth were more than offset by speculation that the Central Government would implement stimulus measures. These may be needed to revive the property market and address emerging issues such as high youth unemployment. Further, the better-than-expected US inflation and economic data led to hopes that the rate rise cycle is close to ending and that a soft landing could be achieved, all of which is positive for growth and commodities demand. This saw the bulk miners up strongly, with Fortescue Metals (+15.4%), Rio Tinto (+7.2%) and BHP (+7.1%). Lithium miners, Pilbara Resources (+10.9%) and Independence Group (+6.1%) also rose as major battery manufacturers moved from a period of de-stocking to re-stocking, driving the lithium price higher. Further, as had been speculated, the Chinese government extended subsidies to drive sales of EVs as part of their stimulus measures.

The Trust is overweight the Resources sector, comprising a neutral position in the bulk miners, given the near-term softness in the iron ore outlook, and overweight positions in a number of companies exposed to transition metals, where the demand outlook is very strong. Assuming the shift to renewables proceeds at anything near the pace required to meet global emission reduction objectives, then the demand for metals such as copper, lithium, cobalt and rare earths will be very strong. Given the long – and increasing – delays in developing new mines, it is likely that demand will significantly exceed supply over the coming years. Further, the "low-hanging fruit" of shallow, easily accessed deposits of most minerals have been mined first (some of the world's largest copper mines, for example Rio's Bingham Canyon mine in Utah, are over 100 years old!) and new mines are often in more "challenging" locations (for example Rio Tinto's Oyu Tolgoi mine in Mongolia). These newer deposits will push up the global cost curve and be supportive of commodity prices.

Insurers IAG (+9.8%) and QBE (+7.2%) were both strong, with rate rises boosting their investment earnings and ongoing strong premium increases, which are running ahead of inflation. Should the interest rate increase cycle prove more prolonged than the market currently expects, then the insurers are well-placed to outperform given their positive leverage to higher interest rates, relatively defensive earnings and undemanding valuations.

James Hardie (+4.9%) added to last month's rally, with indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. As is the case in Australia, there is a shortage of housing in the US, with inventories of single family (ie detached) homes well below pre-pandemic levels. While James Hardie is primarily exposed to the renovation, as opposed to new construction market, this still bodes well for underlying demand. Renovation activity has been impacted by rising interest rates. However, higher mortgage rates are likely to slow the rate of people upgrading to larger homes, as this requires them to refinance existing cheap mortgages to new ones at higher rates. The result is likely to be more people deciding to extend and renovate their current properties. While the company is subject to the cycle, over time it has consistently outgrown the overall market as its premium, differentiated products take share from other building materials.

Management continues to focus on investing in the brand and distribution channels and we expect this to drive double-digit earnings growth over the medium term.

Other outperformers included Seven Group (+5.4%), MA Financial (+4.9%), Challenger Financial Group (+4.5%), Aristocrat Leisure (+4.1%) and Macquarie Group (+4.0%).

In the more positive environment, defensives such as Telstra (-1.4%), Northern Star (-6.4%) and Healthcare stocks were the main detractors to performance. Of particular note, CSL (-9.5%) fell after issuing FY24 guidance which, while strong at +8-13%, was below the expectations of the more bullish analysts in the market. Regardless, in our view, the company is well placed to deliver strong earnings growth and is attractive over the medium-term.

Trust Activity

During the month, we took profits and trimmed our holdings in Treasury Wines, Telstra, BlueScope and Northern Star. Proceeds were used to increase our holding in Nufarm, which is advancing some of its innovative seed technologies towards commercialisation. At month end, stock numbers were 55 and cash was 3.4%.

Outlook

The global economy has proven surprisingly resilient in the face of the sharp rise in interest rates and other disruptions. However, the data is becoming increasingly mixed and there are long lags associated with the transmission of monetary policy. On the positive, while inflation is proving sticky, it appears to have peaked, and unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, and the unemployment rate remains low. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost to activity. However, while house prices are rising again, retail sales are showing volatility and key forward indicators such as building approvals have fallen sharply.

While the backdrop is currently sound, the level of uncertainty is elevated, and it seems that the rate rise cycle is not yet complete. As a result, a degree of caution is warranted and we prefer holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions in the Diversified Financials, Resources, and very select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

While there is a high level of economic uncertainty, 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