Perennial Value Shares Wholesale Trust

Perennial Partners

Monthly Report September 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	-0.2	3.2	3.2	35.9	8.1	8.2	8.5
S&P/ASX 300 Accumulation Index	-1.9	1.8	1.8	30.9	9.9	10.5	8.2
Value Added	**1.7**	**1.4**	**1.4**	**5.0**	**-1.8**	**-2.3**	**0.3**

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

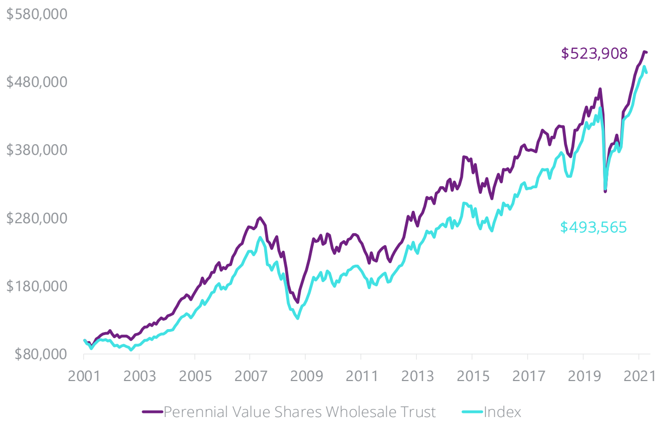
Overview

Markets were weak in September, with the S&P500 down -4.8%, as investors became concerned with a number of issues including, the prospect of central bank tightening and rising bond yields, increasing inflationary pressures and supply chain disruptions, the US debt ceiling as well as slowing growth and issues in the Chinese property market following the collapse of developer Evergrande.

The Australian market was also lower, with the ASX300 Accumulation experiencing its first negative monthly return in the last 12 months, finishing down -1.9%. Despite this, the index has delivered a total return of +30.9% for the last 12 months and remains above pre-COVID levels.

Pleasingly, the Trust outperformed during the month, declining only 0.2%. Since the market's low in March 2020, the Trust has performed very well, outperforming the market by +8.1% p.a. 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.

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 $577 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

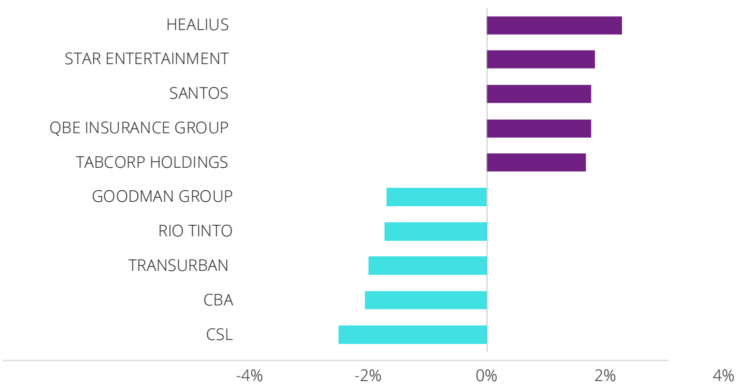
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust*	Market**
Price to Earnings (x)	16.0	18.1
Price to Free Cash Flow (x)	16.5	17.3
Gross Yield (%)	4.9	4.6
Price to NTA (x)	2.5	3.8

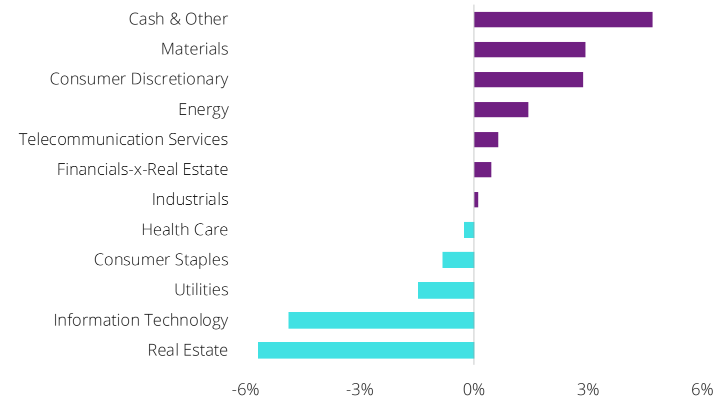
***Source:** Perennial Value Management as at 30 September 2021. **FACTSET forecast as at 31 July 2021.

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

Resources was the key area of interest in September, with Energy (+15.0%) being the best performing sector, while Metals and Mining (-10.5%) was the worst performer over the month. This divergence highlights the differing fortunes of energy prices and that of iron ore. Throughout the COVID period, strong demand for iron ore, principally from Chinese steelmakers, combined with supply disruptions, saw very strong iron ore prices which recently peaked at over US$200 per tonne. By contrast, declining activity levels combined with ample supply resulted in a sharp fall in demand for oil, causing prices to fall significantly. This was reflected in the share prices of mining and energy stocks, with the former performing very strong over the last 18 months, while the latter languished.

More recently, however, moves by the Chinese to reduce steel production and cool their property market have seen the iron ore price fall sharply, and with it, the prices of the iron ore miners. The Trust benefited in a relative sense, as it holds an underweight position in the sector, with BHP (-11.6%) being our preferred exposure given its strong operating performance and decision to exit fossil fuels and focus on future-facing commodities. While iron ore was weak, aluminium and alumina both rallied strongly, having lagged over the past 12 months. This was driven by tightening supply in China, due to factors such as power availability and environmental issues. This saw very strong performances from our holdings in Alumina Ltd (+18.0%) and South 32 (+14.5%).

By contrast, a lack of investment by oil producers has impacted supply at the same time as demand has been recovering as economies progressively reopen. These factors, accentuated by some severe weather events, have caused energy prices to reach their highest levels in several years. Anticipating this, we increased our energy exposure early in the month, adding Woodside Petroleum (+22.5%) to our existing holding in Santos (+18.5%). While there is a clear short-term money-making opportunity, it is important to note that we have a negative view on the long-term outlook for the sector, as the global energy mix transitions away from fossil fuels. As a result, we expect that the Trust's exposure to this sector will decrease over time.

Smart Group (+20.9%) received a takeover offer from a consortium of investors during the month, pitched at a 32% premium to its pre-bid share price. Corporate activity has been a major feature of the market in recent times, and we would expect this to continue, underpinned by cheap debt, high levels of corporate confidence and a growing array of investors seeking to privatise assets. The Trust holds many stocks which, in our view, may become takeover targets at some point.

Newscorp (+8.8%) rallied after announcing a US$1bn share buy-back program, as well as taking steps to simplify its corporate structure. We believe there is significant value within Newscorp's portfolio of digital media assets, which can be realised over time.

Holdings which are set to benefit from the impending reopening of the economy also outperformed during the month. Retailer Kathmandu (+16.3%) delivered a full-year result which showed a strong performance from its recently acquired Rip Curl business. While its Kathmandu branded stores suffered, these will likely see a strong recovery once lockdowns end and travel restrictions are eased.

Similarly, Qantas (+11.4%) rallied on the prospect of international travel restrictions being lifted earlier than expected. Star Entertainment (+9.6%) also rose, both as the reopening of its venues draws closer and on the potential of being able to capitalise on the issues at Crown Resorts.

Macquarie Group (+9.2%) rallied after delivering a strong trading update where they indicated that first half profit would be higher than market expectations, with strong asset realisation gains and favourable trading conditions in their Commodities and Markets business. Agricultural stocks Nufarm (+7.4%) and Graincorp (+0.2%) both outperformed, with continuing positive conditions in the rural sector.

The Trust also benefited from not holding a number of expensive growth stocks, which sold off during the month on the back of higher bond yields. Examples included Afterpay (-9.9%) and Xero (-8.4%).

Holdings which underperformed during the month included gold stocks, Northern Star (-11.9%) and Newcrest (-8.5%) on the weaker gold price. Bluescope Steel (-16.9%) gave back some of its recent strong performance, declining on China-related concerns. United Malt (-9.1%) also fell after downgrading earnings due to weaker malt sales into Asia due to COVID-driven demand and logistical issues. We remain comfortable with each of these holdings.

Trust Activity

During the month, we took profits in a number of holdings which had performed strong in recent times, including Star Entertainment, CSR, City Chic Collective as well as resources holdings South 32 and Alumina Ltd. Proceeds were used to increase our holdings in Qantas and Woodside Petroleum. At month end, stock numbers were 58 and cash was 4.6%.

Outlook

We continue to believe that 2021 may well mark a significant turning point for the global economy and markets, with the accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings. Further, this should also usher in a period of stability in terms of domestic and international policy and, hopefully, a generally more harmonious backdrop.

Domestically, while the current COVID outbreak and associated lockdowns are a clear setback, 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 continue to grow 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.

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