# Perennial Value Shares Wholesale Trust

Monthly Report October 2021

| | Month (%) | Quarter (%) | FYTD (%) | 1 Year (%) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|---|---|---|
| Perennial Value Shares Wholesale Trust (Net) | -0.3 | 1.5 | 2.9 | 34.4 | 10.3 | 8.5 | 8.5 |
| S&P/ASX 300 Accumulation Index | 0.1 | 0.8 | 1.9 | 28.6 | 12.3 | 11.0 | 8.2 |
| **Value Added** | **-0.4** | **0.7** | **1.0** | **5.8** | **-2.0** | **-2.5** | **0.3** |

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

## Overview

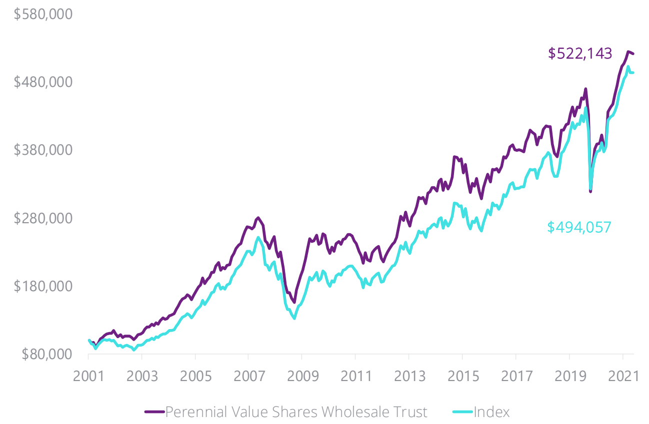
Global markets were generally positive in October, led by the S&P500, which rallied +6.7%, on the back of a strong US earnings season. The US economy continues to recover well despite rising inflationary pressures and supply chain disruptions. Importantly, labour market conditions remain very robust.

The Australian market inched higher in October, with the ASX300 Accumulation finishing up +0.1%. The market was weighted down by the miners, which lagged as the iron ore price declined. In addition some of the more interest rate sensitive names suffered as bond yields rose sharply on the back of higher inflation readings.

The AGM season got underway during the month, with companies overall making positive comments regarding improving operating conditions as the NSW economy progressively reopened.

The ongoing reopening of the economy and borders is set to see activity recover strongly and we expect to see the domestic economy bounce back quickly, as it did following previous lockdowns, with low interest rates supporting growth and the labour market remaining very strong.

## 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 $569 million

**Distribution Frequency**
Half yearly

**Minimum Initial Investment**
$25,000

**Trust Inception Date**
June 2001

**Fees**
0.92% p.a.

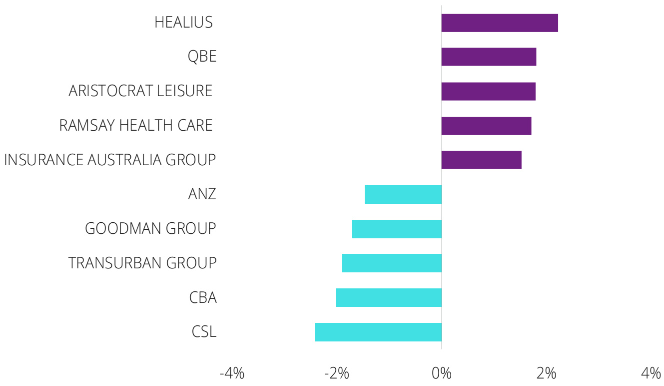
**APIR Code**
IOF0206AU

| Portfolio Characteristics – FY23 | Trust | Market |
|---|---|---|
| Price to Earnings (x) | 15.9 | 18.1 |
| Price to Free Cash Flow (x) | 16.3 | 17.2 |
| Gross Yield (%) | 4.9 | 4.6 |
| Price to NTA (x) | 2.5 | 2.8 |

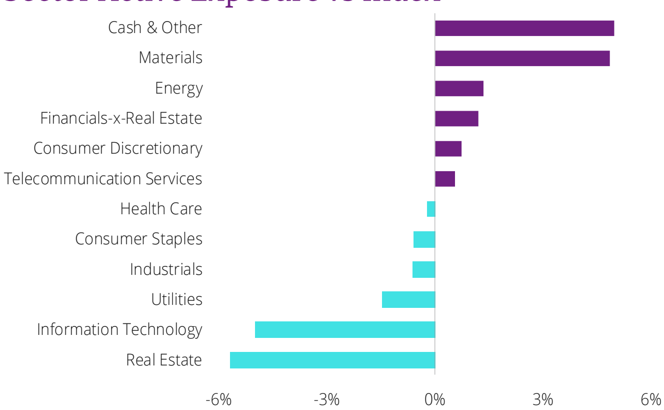
**Source:** Perennial Value Management. As at 31 October 2021

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 were again a key area of interest in October, with the flat performance of the Metals & Mining sector (-0.1%) belying a marked divergence between the performances of stocks exposed to iron ore versus other metals. The slowing of the Chinese property sector, combined with other restrictions on steel-making capacity has seen demand for iron ore continue to fall, with the price down nearly 50% from its June peak. This saw the iron ore miners sold off, with BHP (-2.7%), Rio Tinto (-9.0%) and Fortescue Metals (-6.9%) all underperforming over the month. The Trust has held an underweight position in the iron ore sector, believing the iron ore price was unsustainably high. However, we have been reducing this underweight as their share prices have fallen towards levels where they represent attractive value based on long-term iron ore prices.

By contrast, base metal prices rallied strongly during the month, with rises in copper, nickel and zinc. This saw strong share price performances from our holdings in copper stocks Oz Minerals (+11.6%) and 29metals (+12.7%). During the month, South32 (+1.1%) announced the acquisition of a 45% stake in the Sierra Gorda copper mine in Chile, adding copper to its suite of base metal exposures. The long-term outlook for copper is positive, with demand expected to grow strongly on the back of the energy transition, while supply is likely to remain constrained. Continued strength in the price of lithium, a key component of batteries, saw Independence Group (+8.6%) also outperform. This company is very well exposed to the coming investment in electrification, producing a range of "new energy" metals including copper, lithium, cobalt and nickel.

During the month, Macquarie Group (+8.7%) reported a record first half profit of just over $2.0bn. Macquarie is currently experiencing very favourable operating conditions, with buoyant markets supporting high levels of M&A activity and strong gains from the sale of assets – both within their managed funds and from their own balance sheet. The high levels of volatility in commodity prices, particularly in the energy sector is also benefitting their large commodities trading operation. On a longer-term view, Macquarie is very well placed to benefit from the energy transition as a result of its established position as a global leader in the financing and development of renewable energy assets and other infrastructure related to the energy sector.

Also in the Financials sector, emerging asset manager and investment bank, MA Financial Group (+12.1%), rallied after upgrading earnings on the back of strong growth in its real estate funds management business as well as strong corporate advisory activity.

Packaging company, Orora (+6.1%), outperformed after providing positive commentary at its AGM which confirmed that its US operations were continuing to improve and that the overall business remained on track to grow earnings despite the impacts of the Chinese wine tariffs on its glass bottle business. This is a well-managed, defensive business, with strong cash flow generation which we believe could become a takeover target at some point.

Gold miners Newcrest Mining (+9.9%) and Northern Star (+8.7%) both rallied on the prospects of higher inflation, which is typically positive for the gold price and gold equities. These are both high quality gold exposures and, while our overall view on the economic outlook is positive, we like the protection that these stocks can give in times of elevated uncertainty.

Holdings which underperformed during the month included Smartgroup (-15.6%), which fell after the price offered under a conditional takeover offer from a consortium of private equity investors was reduced from $10.35 to $9.25. While the revised offer still represented an 18% premium to the pre-bid price, the board determined that it undervalued the company and terminated discussions. At the same time, the company reaffirmed full-year earnings guidance. While this was disappointing, we continue to believe that the company offers significant upside over the medium-term.

Star entertainment (-18.1%) was the other key detractor over the period. The regulatory issues in the casino sector are well-known and the resulting reforms stemming from the multiple government reviews will likely materially improve compliance within the industry. There was strong reason to believe that Star would be a beneficiary of this process, including potentially merging with Crown. However, claims of similar issues at Star as had occurred at Crown, mean that the business will be effectively hamstrung for a period of time as these matters are investigated. This was very disappointing, as Star was widely considered to have been much better managed than Crown. As a result, we decided to exit the stock

## Trust Activity

During the month, we took profits in a number of holdings which had performed strong in recent times, including Bluescope, CSR, Qantas and Tabcorp, as well as exiting Star Entertainment as mentioned above. Proceeds were used to increase our holdings in Incitec Pivot which is expected to benefit from the current very strong fertiliser prices. We also increased our holdings in the iron ore names as their share prices pulled back. At month end, stock numbers were 56 and cash was 4.9%.

## 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.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and we would expect the economy to bounce back strongly, just as it did following previous lockdowns. Importantly, key indicators around employment, business confidence and the property market are all surprising to the upside. While there are some concerns around supply chain issues and inflationary pressures, 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.

**Invest Online Now**

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