Perennial Value Shares Wholesale Trust

Monthly Report May 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)	-3.1	2.1	7.0	8.0	19.3	9.0	7.4	8.5
S&P/ASX 300 Accumulation Index	-2.7	3.1	2.4	4.7	16.1	8.0	9.0	8.0
Value Added	**-0.4**	**-1.0**	**4.6**	**3.3**	**3.2**	**1.0**	**-1.6**	**0.5**

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

Overview

Markets stabilised in May, with the S&P500 finishing flat, while the FTSE100 rose +0.8% and the Nikkei 225 rallied +2.5%. However, the NASDAQ continued to decline, falling -2.1%, as loss-making tech stocks continued to be de-rated. By contrast, the Shanghai Composite was up strongly, rallying +4.6%, as it appeared the COVID outbreaks were being brought under control.

The Australian market lagged offshore markets in May, with the ASX300 Accumulation Index declining -2.8% over the month. Metals and Mining (+0.3%) was the only sector to post a positive return, with optimism around the ending of Chinese lockdowns seeing Resources stocks outperform. The Energy sector (-0.7%), also outperformed, with the oil price rising to over US$120 per barrel, as supply was impacted by Russian sanctions.

Interest rate sensitive sectors were the worst performers over the month, with REITs (-8.6%) and IT (-8.0%) down sharply as the RBA raised the cash rate for the first time since 2010 and Australian bond yields continued to rise to levels not seen since 2014. Higher interest rates not only pressure the valuations of expensive growth stocks but reduce the willingness of investors to continue funding loss-making companies.

Despite the ongoing uncertainties, the economic backdrop in most major economies is sound, as they continue to reopen post-COVID, with strong 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 $567 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

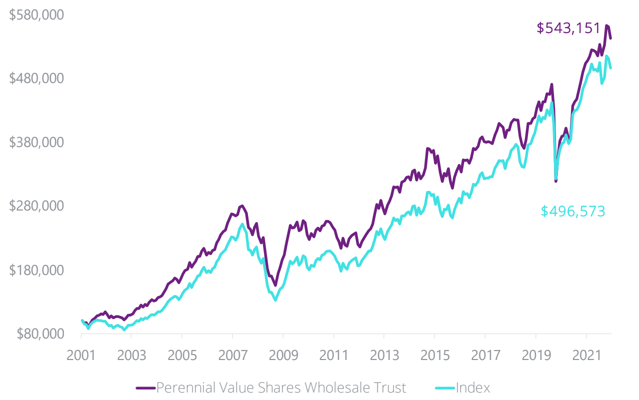
APIR Code
IOF0206AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.1	15.8
Price to Free Cash Flow (x)	11.5	13.9
Gross Yield (%)	6.0	5.4
Price to NTA (x)	2.3	2.7

Source: Perennial Value Management. As at 31 May 2022

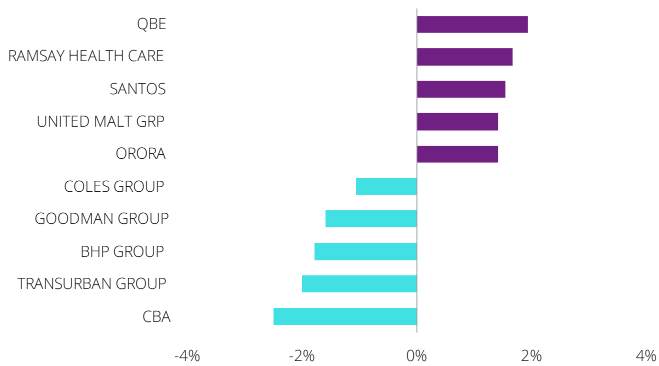
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

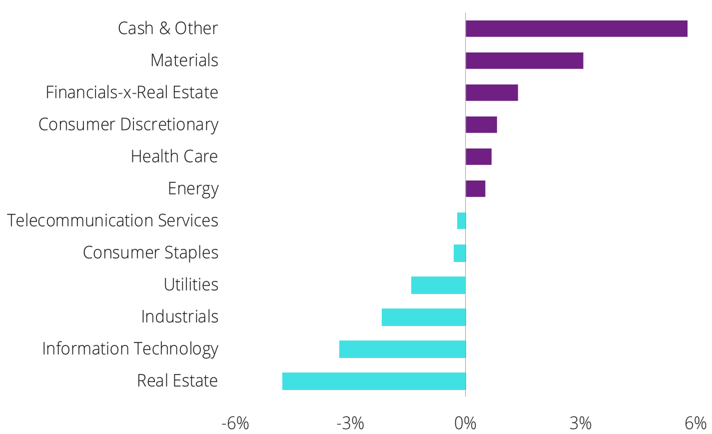


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -3.1% after-fees in May, underperforming the Index by -0.4%. For the last 12 months, the Trust has delivered a return of +8.0%, outperforming the Index by +3.3% after-fees. This demonstrates the Trust's leverage to the value rotation which has been taking place as economies have reopened 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 still have 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.

Better performing stocks during the month included our Resources holdings, with South 32 (+4.8%), BHP (+4.4%) and Rio Tinto (+1.4%) all outperforming. At the beginning of the year, the Chinese government had adopted a number stimulus measures to achieve their growth target of around 5.5% for 2022. However, the impact of COVID means that far more aggressive measures will be needed if this target is to be met. As a result, many of these measures have been brought forward and it is likely that significant additional measures will be announced early in the second half of the year. As in the past, these measures will likely focus on the infrastructure and property sectors and be positive for resources and commodity prices.

The strong oil price saw energy stocks perform well, with Santos (+2.5%). Woodside Petroleum, now renamed Woodside Energy Group (-4.5%), lagged the market and sector. However, this was likely due to the overhang of stock that was expected to be sold post the completion of the merger with BHP Petroleum. The merger sees Woodside become a top 10 global oil and gas producer, with an attractive portfolio of low-cost growth options and a strong balance sheet. At current oil prices, the company is generating enormous amounts of cash flow and trading at very low multiples.

Other strong performers included engineering firm Worley (+6.0%). This company is a global leader in the provision of engineering services to the energy sector. Not only will they benefit from catch up spend in their traditional markets of oil, gas and chemicals but, over the longer-term, they are ideally placed to benefit from the expected massive investment in renewables, which already accounts for a large and growing portion of their workload.

Treasury Wine Estates (+5.6%), a recent portfolio addition, outperformed as investors warmed to its premiumisation strategy. This has seen it exit the lower margin commercial wine segment and focus on the higher margin premium end of the market. The company is positioned to benefit as economic reopening continues, driving more on-premise consumption of premium wines. Earnings are set to be boosted further over coming periods as cost of goods will fall due to lower grape costs as production has picked up after a number of constrained seasons.

Aristocrat Leisure (+1.2%) outperformed after delivering a strong first half result. This company continues to perform very strongly in its core gaming machine business, increasing market share and growing its installed base, while at the same time growing its digital business. Importantly, the business has around 1,000 staff in Kharkiv, Ukraine and has been able to relocate the majority of these staff either internationally or to safer locations within Ukraine.

Qantas (-1.6%) declined but outperformed the broader market. While we are cautious on the domestic consumer given rising interest rates and cost of living pressures, travel is likely to perform strongly as spending shifts from the purchase of goods to the purchase of services and experiences. Qantas has recently updated the market and highlighted that both domestic and international leisure travel has recovered to above pre-pandemic levels.

Stocks which detracted from performance included Nufarm (-17.4%). Nufarm delivered an extremely strong first half result during the month, on the back of very positive agricultural conditions in most of its key markets. However, its share price was impacted when its long-term strategic shareholder, Sumitomo Chemicals, decided to sell its 16% stake in the company. We continue to view the outlook for the company positively and anticipate that the share price will recover once this transaction is digested.

Other detractors included Sims Metal (-15.1%), Virgin Money UK (-13.8%), Newscorp (-13.8%) and Kathmandu (-12.7%). We remain positive on the outlook for each of these stocks.

Trust Activity

During the month we took profits and exited our positions in Ampol and Incitec Pivot. Both these stocks had performed strongly in recent times, buoyed by record high refining margins and fertiliser prices respectively. Corporate actions saw us receive shares in Lottery Corporation, which was demerged from Tabcorp and increase our holding in Woodside Petroleum as we received additional shares via the merger with BHP Petroleum. We also continued to build our positions in Treasury Wine Estates and James Hardie. At month end, stock numbers were 61 and cash was 5.5%.

Outlook

While growth is clearly slowing, on balance, we view the outlook as sound, with economies recovering as COVID recedes. Economic data continues to be sound 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 reopening 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.

Above all, 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.

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au