Perennial Value Shares Wholesale Trust

Monthly Report June 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)	-9.3	-12.4	-3.0	-3.0	12.4	4.3	5.3	7.8
S&P/ASX 300 Accumulation Index	-9.0	-12.2	-6.8	-6.8	9.4	3.4	6.9	7.4
Value Added	**-0.3**	**-0.2**	**3.8**	**3.8**	**3.0**	**0.9**	**-1.6**	**0.4**

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

Overview

Markets declined sharply in June, with most major indices falling, as the market began to worry about the impact of rising interest rates on the global growth outlook. These macro concerns saw the S&P500 fall -8.4%, the FYSE100 decline -5.8% and the Nikkei 225 ease -3.3%. The NASDAQ, which had borne the brunt of previous selling, continued to slide, falling -8.7%, as tech stocks continued to be derated due to the perceived end of the "free money" era. The Chinese market was once again the bright spot during the month, with further optimism that lockdowns are easing, and that the government will unveil more stimulus measures. This saw the Shanghai Composite up strongly, rallying +6.7%.

The Australian market also fell in June, with the ASX300 Accumulation Index declining by -9.0% over the month. The market was dragged down by the more cyclical sectors, with Financials (-11.9%) and Metals & Mining (-13.5%), as investors worried about the prospects for a sharp economic slowdown. REITs (-10.4%) and IT (-11.2%) also dragged as rising bond yields pressured their valuations.

Consumer Staples (+0.2%) was the only sector to post a positive return, with the risk-off sentiment seeing investors flock to the perceived safety of the sector. The Energy sector (-0.6%), also outperformed the rest of the market, with the oil price remaining strong, as supply continues to be impacted by Russian sanctions, with little scope for other producers to increase production in the near-term. Other defensive sectors also outperformed, with Healthcare (-3.2%) and Telcos (-3.9%), holding up relatively well.

While the level of economic risk is clearly rising, the pull-back in markets has made the valuations of many stocks significantly more attractive and is presenting many good opportunities.

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 $508 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

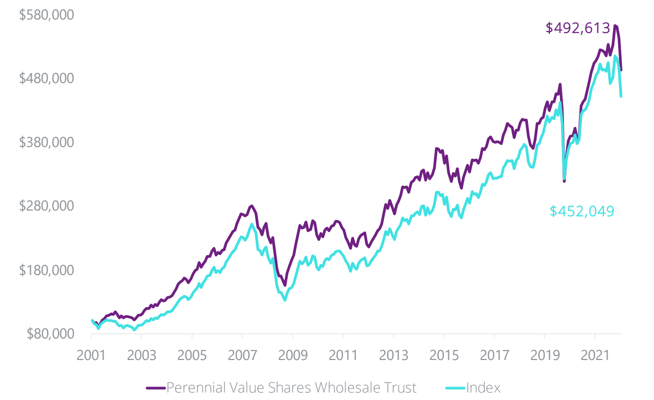
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	12.3	14.4
Price to Free Cash Flow (x)	11.3	12.8
Gross Yield (%)	6.3	6.0
Price to NTA (x)	2.1	2.5

Source: Perennial Value Management. As at 30 June 2022

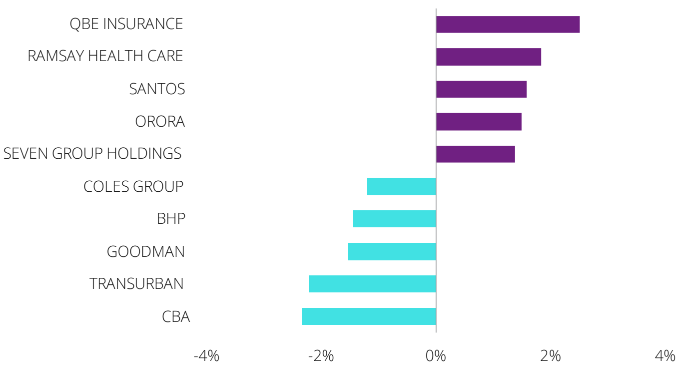
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

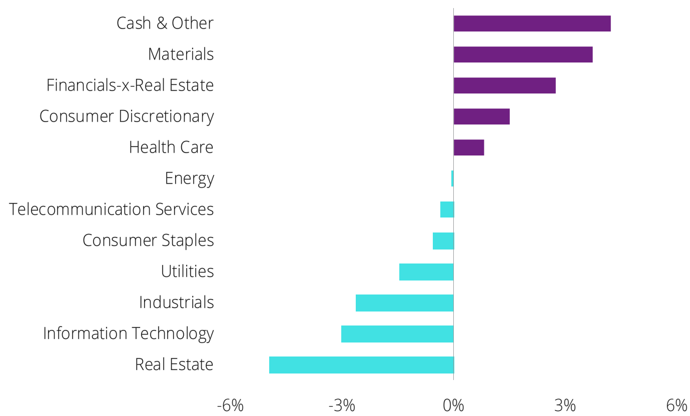


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -9.3%, after-fees in June, underperforming the index by -0.3%. Over the past 12 months, the Trust has outperformed the index by +3.9%, after-fees, as the market has rotated towards value. 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.

Better performing stocks during the month included Woodside Energy Group (+7.0%), which rallied on the continued strength in the oil price and the completion of its merger with the BHP Petroleum business. In addition to delivering significant cost savings, the merger has significantly increased the scale and diversification of Woodside's business. Engineering firm, Worley (-3.4%), which services the global energy sector, also outperformed as the realisation grows as to the extent of investment that will be needed in the sector – be it related to oil and gas in the near-term or renewables in the long-term.

While our portfolio is overall positioned to benefit from an ongoing cyclical recovery as COVID recedes, we balance this with a selection of high-quality defensive holdings. During the month, the flight to safety saw outperformance from our defensive holdings, with Woolworths (+2.7%), Telstra (-0.8%) and CSL (-1.0%) all holding up well. Each of these stocks is experiencing positive drivers, with Woolworths likely to be benefitting from food inflation, Telstra seeing improved profitability in its mobile business and CSL recovering from the COVID disruption to its business. In selecting our defensive holdings we are looking for stocks whose earnings will be relatively protected in a slower growth environment, but importantly will not be too impacted by rising interest rates. This means finding stocks which also have reasonable valuations and low levels of debt. Insurance holdings QBE (+1.0%) and IAG (-0.2%) also fit this bill, with earnings which are both relatively defensive and positively leveraged to rising interest rates, which boost the returns on their investment portfolios.

Holdings in gaming stocks also performed well, with wagering company, Tabcorp (+14.5%), rallying strongly post its demerger from Lotteries Corporation (-4.5%), which also outperformed. The demerger aims to realise value by creating two businesses with quite different characteristics. Lotteries Corporation provides a very stable, annuity-like revenue stream, underpinned by long-term licences, worthy of a high valuation. By contrast, the Tabcorp wagering business, which has been challenged by competition in recent years, is likely to be taken over as part of the consolidation which is occurring in the sector. Aristocrat Leisure (+1.7%) also outperformed over the month.

Other outperformers included crop protection company, Nufarm (-3.8%). In May, Nufarm delivered one of its strongest ever half-yearly results. However, the share price was impacted when its long-term strategic shareholder, Sumitomo, sold out of its holding. We see the outlook for this company as being very positive and expect the share price to continue to recover. Treasury Wine Estates (-4.6%) also held up relatively well. Looking forward, falling grape prices should see lower production costs for the company over the coming years. The company has also made significant improvements to its portfolio mix, organisational structure and distribution strategy.

Resources holdings detracted from performance over the month, with most metal prices declining on fears of a global slowdown impacting demand as well as the near-term impacts of the ongoing lockdowns in China. The iron ore stocks underperformed modestly, while the smaller miners fell sharply, with Oz Minerals (-26.3%), Independence Group (-21.4%), South32 (-21.2%), Iluka Resources (-14.1%) and Alumina (-13.8%) all underperforming. While the risks to global growth are clearly increasing, we believe that demand for commodities will remain strong as the Chinese roll out increasingly aggressive stimulus measures to boost growth in the second half of the year. We expect these measures will likely focus on the infrastructure and property sectors and be positive for resources demand and commodity prices. Further, supply is expected to remain constrained in most commodities, with rising costs and ongoing disruptions to production being supportive of prices.

The flight to safety during the month saw small cap stocks sold off aggressively, with the Small Ordinaries Index down -13.1%. A number of our small cap holdings were impacted, with MA Financial (-27.1%), City Chic (-23.1%), Virgin Money UK (-15.3%) and United Malt (-14.2%) all underperforming. Given the extent of the sell-off, we see significant upside in each of these names over the medium-term, with gains of 50-100% possible.

Trust Activity

During the month we added to our holdings in a number of stocks whose share prices had fallen significantly, including BHP, QBE, Macquarie Group, James Hardie and MA Financial. We also switched some of our holding in Lotteries Corporation into Tabcorp, where we see greater valuation upside. At month end, stock numbers were 60 and cash was 3.6%.

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.

Invest Online Now

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