Perennial Value Shares Wholesale Trust

Monthly Report July 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)	4.7	-8.0	4.7	0.2	15.0	5.2	6.2	8.1
S&P/ASX 300 Accumulation Index	6.0	-6.2	6.0	-2.3	12.3	4.4	8.1	7.7
Value Added	**-1.3**	**-1.8**	**-1.3**	**2.5**	**2.7**	**0.8**	**-1.9**	**0.4**

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

Overview

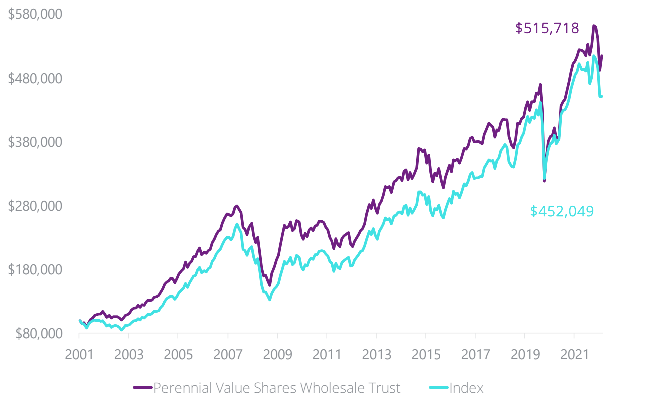
Markets rallied in July, partially reversing June's sharp sell-off, as investors took the view that we may be close to peak inflation and therefore that the rate hiking cycle may not be as steep and prolonged as had been feared. This saw a fall in long-term bond yields, which was supportive of equities markets. Most major indices were strong, with the S&P500 +9.1%, the NASDAQ +12.3%, the FTSE100 +3.5% and the Nikkei 225 +5.3%. The exception was the Chinese market, which saw the Shanghai Composite -4.3% on rising COVID numbers and weak economic data due to lockdowns.

The easing of bond yields saw a rotation in markets, with growth and interest rates sensitive sectors outperforming. By contrast, concerns over the impact of coordinated central bank cash rate increases on global economic growth saw the more cyclical parts of the market underperform.

The Australian market also rallied in July, with the ASX300 Accumulation Index rising by +6.0%. The best performing sector was IT (+15.4%), as falling bond yields provided some reprieve to many of the tech stocks which had been aggressively sold down in recent months. Similarly, REITs (+11.8%) outperformed over the month. The Financials (+9.4%) were also stronger, with the banks recovering some of last month's losses, as the prospect of a less aggressive tightening cycle reduced fears over bad debts.

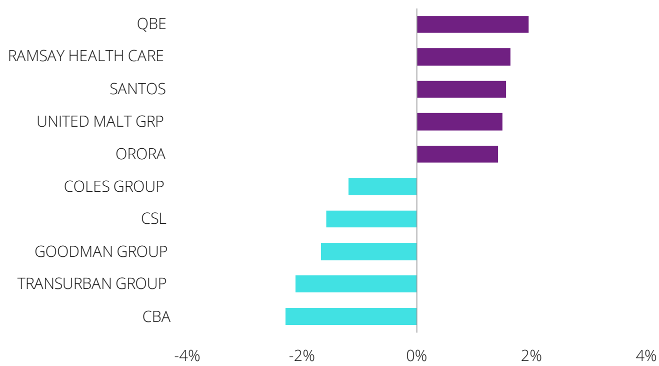
Metals & Mining (-1.3%) was the only sector to deliver a negative return, as investors worried about the combined impacts of ongoing COVID lockdowns and weak activity levels in China, as well as slowing growth more generally. Energy (+2.2%) also underperformed the market, having performed very strongly over the last 12 months.

Growth of $100,000 Since Inception

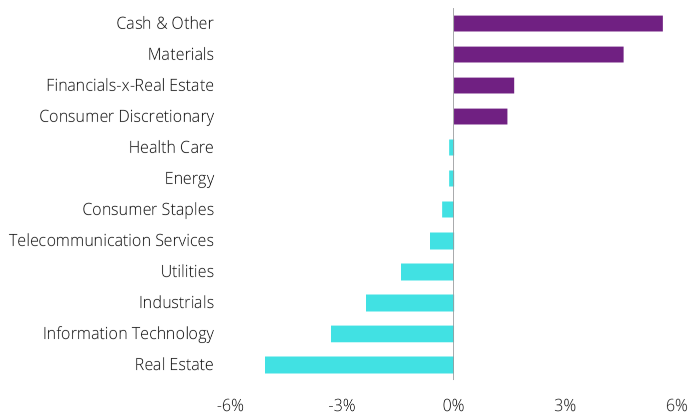


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



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 $516 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)	12.9	15.1
Price to Free Cash Flow (x)	12.1	13.5
Gross Yield (%)	6.0	5.6
Price to NTA (x)	2.2	2.6

Source: Perennial Value Management. As at 31 July 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.

Trust Review

The Trust returned +4.7%, after-fees in July, underperforming the index by -1.3%. While the Trust delivered a solid absolute return, its relative performance was impacted by the Trust's underweight positions in a number of expensive growth and interest rate sensitive stocks, which rallied during the month on the pull-back in bond yields.

One of the features of the Trust is its broad cap focus, meaning that it often has an overweight to the mid and small cap segments of the market. During the recent market volatility, the smaller end of the market has been pressured, as investors have sought safety in larger stocks. This has seen many of these stocks trading at very attractive valuations given their strong long-term growth outlooks. During July, this part of the market rallied strongly, with many of our smaller cap holdings performing very well. Examples included investment bank and asset manager, MA Financial (+36.7%), apparel retailer, City Chic Collective (+26.8%) and leasing company, Smartgroup (+12.1%). Each of these stocks continues to have considerable upside in our view.

Leading UK challenger bank, Virgin Money UK (+12.2%) outperformed over the month. Sentiment towards banks has oscillated between optimism, based on the earnings benefits from higher interest rates and pessimism, based on the potential impacts of those higher rates on economic activity and therefore lending growth, and bad debts. While there are definitely concerns over the state of the UK economy, this is more than factored into Virgin's share price, with the stock trading at less than 5x earnings and at less than 0.5x book value.

Macquarie Group (+10.1%), performed well after providing a first quarter trading update at its AGM. While conditions were mixed across its various divisions, its commodities trading operations were performing very strongly on the back of the high levels of volatility in commodity prices. In particular, the company benefits from movements in US gas prices, which have been surging in recent times. Longer-term, there is an enormous opportunity for Macquarie to participate in the energy transition, as a leading global investor in and developer of renewable energy projects.

Building materials company, CSR (+12.1%) outperformed, as while rising interest rates will clearly have a dampening effect on the building industry, there is a very large backlog of work to be done across the residential, commercial and government sectors. Further, while detached housing is likely to slow, apartment construction is expected to recover, particularly as immigration picks back up. Also in the building material sector, James Hardie (+10.8%) outperformed over the month as bond yields fell. The short-term performance of James Hardie's share price is highly correlated to US bond rates which drive mortgage rates and, in turn, housing activity. Longer-term, however, this business has a proven ability to grow market share, with its innovative products and effective marketing strategies. Having been sold off sharply, the stock is offering very good long-term value at these levels.

Treasury Wine Estates (+7.9%) again outperformed. The company has experienced a number of setbacks in recent years, including the introduction of tariffs on Australian wine sales into China. However, earnings growth is set to resume, with the company having grown sales in new markets, exited its unprofitable commercial wine division and restructured its distribution arrangements. Further, the company is set to benefit from lower costs due to falling grape prices over the coming years.

The main detractors over the month were the Trust's Resources holdings, with the iron ore stocks lower as Chinese demand decreased due to COVID lockdowns. Energy holdings, Santos (-1.6%) and Woodside Energy (+0.4%), also underperformed as the oil price softened on the prospect of weakening global demand. We maintain an overall positive view on the outlook for resources, with constrained supply in most commodities and an expectation for demand to recover as China emerges from COVID lockdowns.

Oz Minerals and Iluka Resources (both +6.4%) were the exceptions. Oz Minerals was stronger as the copper price saw some recovery towards the end of the month, following a sharp fall. Iluka Resources delivered a positive quarterly report, which showed strong pricing conditions for its mineral sands products. In addition, during the month, it demerged its Sierra Leone operations into a separate entity, Sierra Rutile Holdings, which the Trust then exited. The demerger leaves Iluka as a purely Australian-based company, with a strong position in the global mineral sands market and an emerging position in the strategically important rare earths sector.

Trust Activity

During the month we added to our holdings in a number of stocks including Macquarie Group, James Hardie and Reliance Worldwide. The Trust also participated in the ANZ capital raising undertaken to fund its acquisition of Suncorp Bank. At month end, stock numbers were 59 and cash was 5.3%.

Outlook

Economic growth is clearly slowing, however, on balance, we view the outlook as sound. While interest rates are rising, economies stand to benefit as COVID disruptions continue to recede. Critically, despite mixed data, unemployment rates remain very low in most major markets. 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 post-COVID normalisation, 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.

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

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