Perennial Value Shares Wholesale Trust

Monthly Report August 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)	1.3	-3.8	6.1	-0.5	14.0	6.7	6.6	8.1
S&P/ASX 300 Accumulation Index	1.2	-2.4	7.2	-3.7	11.3	5.6	8.2	7.7
Value Added	**0.1**	**-1.4**	**-1.1**	**3.2**	**2.7**	**1.1**	**-1.6**	**0.4**

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

Overview

After a positive start to the month, hawkish commentary from the US Fed meeting at Jackson Hole, saw bond yields rise sharply causing most global markets to sell off and end the month lower. The S&P500 finished the month down -4.2%, the NASDAQ fell -4.6%, FTSE100 declined -1.9% and the Shanghai Composite was off -1.6%. The Nikkei 225 was the exception, rising 1.0%.

The Australian market fared better in August, with the ASX300 Accumulation Index rising by 1.2% over the month. The outperformance of our market was driven by its heavy weighting to Resources, with Energy (+7.8%) and Metals and Mining (+5.5%) the best performing sectors over the month. By contrast, the more interest rate sensitive sectors such as REITs (-3.6%), Consumer Staples (-1.7%) and Utilities (-1.6%) weighed on the market.

Reporting season was the highlight of the month, with results generally being slightly better than market expectations. While there are a range of macroeconomic headwinds building, to date, company earnings are proving resilient, with activity levels and spending remaining strong. Further, while cost pressures are increasing, companies have, by and large, been able to raise prices sufficiently to maintain margins. However, looking forward, understandably cautious guidance statements saw overall downgrades to earnings expectations for the current financial year.

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.

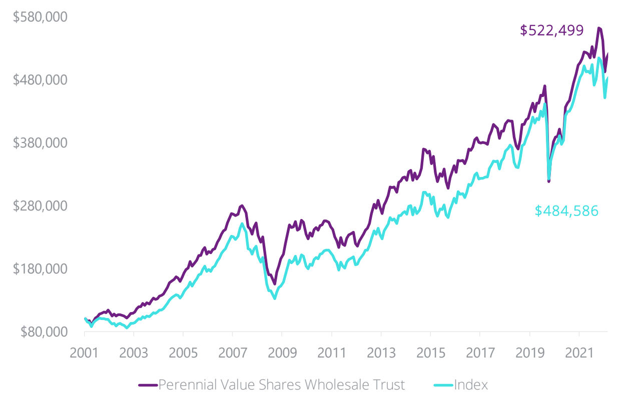
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	13.3	15.2
Price to Free Cash Flow (x)	14.2	14.1
Gross Yield (%)	5.6	5.4
Price to NTA (x)	2.2	2.6

Source: Perennial Value Management. As at 31 August 2022

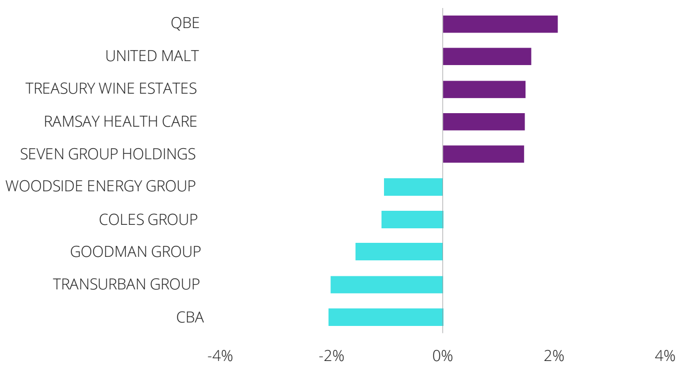
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

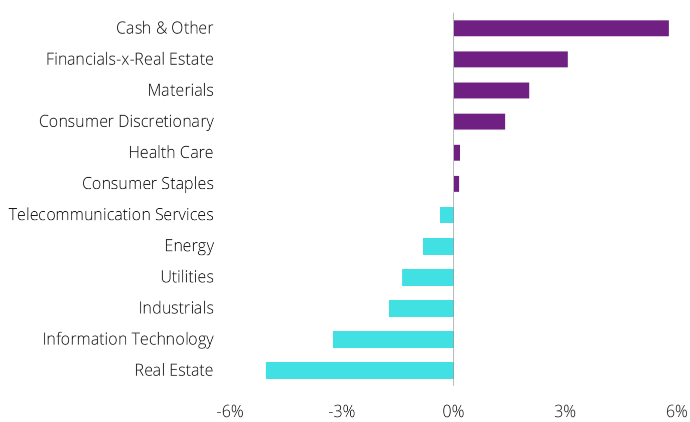


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned 1.3%, net of fees in August, marginally outperforming the index by 0.1%. Key positive contributors to performance included resources holdings, with Oz Minerals (+33.6%) rallying after receiving a takeover offer from BHP. It had been long speculated that BHP would make a move on Oz Minerals, with copper being a key area of growth for BHP as it reorients its portfolio towards so called "future facing" commodities, which are required for the energy transition. Further, there will be operational benefits from combining Oz Minerals' copper assets in South Australia with BHP's Olympic Dam operations, consolidating BHP's position in the region. We expect further M&A in the resources sector as people scramble to secure supply of critical minerals, with particular focus on those located in stable, well-regulated and geopolitically friendly regions.

Iluka Resources (+10.0%) is a holding which also fits this bill. Iluka, which delivered a strong result on the back of high mineral sands prices, is currently developing a rare earths refining facility in Western Australia. The facility, which is predominantly funded by a $1bn non-recourse loan from the Australian Government's Critical Minerals Facility, will process rare earths for Iluka and other miners. Rare earths are strategically important, being used in a range of advanced electronics applications as well as being critical to electrification, where they are used to produce very strong magnets. Currently, the majority of the world's supply of rare earths come from China, which presents obvious risks. Independence Group (+21.7%), South32 (+8.9%) and BHP (+5.0%) also outperformed after delivering strong results.

Energy stocks Santos (+9.6%) and Woodside Energy (+7.1%) both outperformed, after delivering strong results on the back of high energy prices. Woodside, in particular, was able to benefit from strong pricing, with around a quarter of its production uncontracted and able to be sold into the spot market. This saw average realised prices more than double from the previous period, resulting in massive cash flows. Further, the company stands to benefit from its merger with BHP's energy assets over the medium-term.

Treasury Wine Estates (+9.0%) rallied as the market became more comfortable with its strategy to grow premium wine sales outside of China. The imposition of punitive tariffs in late 2020, saw Penfolds effectively excluded from the key Chinese market. Management have been working to grow sales in other markets and group earnings have now recovered to more than offset the lost contribution from mainland China. The company has also rebalanced its portfolio, shifting out of the low-end commercial wine segment to focus on the higher-margin premium market. Given the long inventory cycle, wine margins are somewhat protected in inflationary environments. Looking further ahead to FY24, earnings are expected to benefit from the lower grape costs in the 2021 and 2022 vintages.

Telstra (+4.0%) outperformed after delivering a result which showed good growth in their mobiles business. With the NBN roll-out now completed, the company will no longer be facing earnings headwinds as broadband subscribers transition from its network to the NBN at much lower margins. This is likely to mark an inflection point in earnings, with the mobiles division driving positive group earnings growth. The recent merger of TPG with Vodafone has locked in an oligopoly structure in the mobiles market. As a result, we are now seeing more rational pricing, as well as other forms of cooperation such as network sharing agreements – all of which bode well for earnings and returns.

Qantas (+16.7%) performed strongly as a sharp recovery in travel demand drove a return to profitability in the June half year. The likely ongoing strong demand, combined with capacity constraints, will be supportive of pricing and drive strong profitability into the coming year.

The major banks, in which the Trust is underweight, lagged the market slightly, with the CBA result highlighting the ongoing competition in the mortgage market. On the positive, balance sheet settings remain very strong across the sector and credit quality remains pristine, reflecting the current underlying economic strength.

The main detractors over the month were the Trust's small cap holdings, with apparel retailer City Chic Collective (-29.1%), leasing company, Smartgroup (-13.7%) and asset manager, MA Financial (-9.3%) all sold down after experiencing strong gains last month. Each of these stocks continues to have considerable upside in our view.

Trust Activity

During the month we exited our position in Alumina Limited, given a negative view on the outlook for the alumina price versus other commodities. We also locked in some profits and reduced our holding in Oz Minerals post receipt of the takeover offer. Proceeds were used to increase holdings in Treasury Wine Estates, Reliance Worldwide, MA Financial and City Chic Collective. At month end, stock numbers were 59 and cash was 5.6%.

Outlook

Global growth is clearly slowing as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are 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 reopening, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and select parts of the 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

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au

Signatory of:

PRI Principles for Responsible Investment

Significant Investor Visa (SIV) Compliant

Issued by: Perennial Partners Limited (ABN 90 612 829 160) (Perennial) as a Corporate Authorised Representative (No. 1293138) of the Investment Manager Perennial Value Management Limited (ABN 22 090 879 904, AFSL No. 247293). Responsible Entity: Perennial Investment Management Limited (ABN 13 108 747 637, AFSL No. 275101). This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation and is not intended to constitute advertising or advice of any kind and you should not construe the contents of promotional statement as legal, tax, investment or other advice. This promotional statement does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, additional information booklet, application forms and target market determination can be found on Perennial's website www.perennial.net.au. Use of the information on our website is governed by Australian law and is subject to the terms of use. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful.