Perennial Value Shares Wholesale Trust

Monthly Report September 2023

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception ^(% p.a.)
Perennial Value Shares Wholesale Trust (Net)	-2.6	-1.3	-1.3	13.4	3.1	13.1	6.1	6.7	6.5	8.0
S&P/ASX 300 Accumulation Index	-2.9	-0.8	-0.8	12.9	1.9	10.8	6.6	8.0	7.4	7.6
Value Added	**0.3**	**-0.5**	**-0.5**	**0.5**	**1.2**	**2.3**	**-0.5**	**-1.3**	**-0.9**	**0.4**

^Since inception: June 2001. Past performance is not a reliable indicator of future performance. Performance is shown to 29 September 2023, which was a public holiday in Melbourne. Since our unit registry is based in Melbourne, no unit price was struck for this day. An indicative unit price was calculated so that the performance of the fund may be compared to that of the market (the ASX was open on 29 September 2023). No reliance should be placed on the indicative unit price for 29 September 2023.

Overview

Markets were weaker again in September, with stronger than expected economic data pushing bond yields higher. By contrast, the economic news from China continued to be weak. This saw the S&P500 fall -4.9%, the NASDAQ decline -5.8%, and the Nikkei 225 give back -2.3%. The FTSE100 bucked the trend, rising +2.3% as inflation data in the UK came in lower than expected. After a sharp fall last month, the Shanghai composite was relatively stable, down only -0.3%, as a number of additional stimulus measures were put in place over the month.

The Australian market was also weak, with the ASX300 Accumulation Index finishing the month down -2.9%. The domestic economic data remains strong, and inflation continues to ease, allowing the RBA to remain on hold at its September meeting. However, we would caution that this data is backward looking, and given the long lags in the transmission of monetary policy, the impact of previous rate increases is still yet to be fully felt on the real economy.

Energy (+2.2%) was the only sector to deliver a positive return in September, as production cuts by OPEC+ combined with strong demand to see the oil price rise to over US$87/bl. Metals and Mining (-1.4%) outperformed as the iron ore price remained resilient, despite the China weakness. Financials (-1.6%) also outperformed in a relative sense, with signs of an easing in mortgage competition supporting the banks. Interest rate sensitive sectors underperformed as bond yields rose, with REITs (8.7%), IT (-7.7%) and Healthcare (-6.4%), the worst performing sectors.

Fund Characteristics

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and 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,
Andrew King

Trust FUM
AUD $447 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 – FY25	Trust	Market
Price to Earnings (x)	13.3	15.1
Price to Free Cash Flow (x)	12.3	14.2
Gross Yield (%)	5.3	5.3
Price to NTA (x)	1.8	2.3

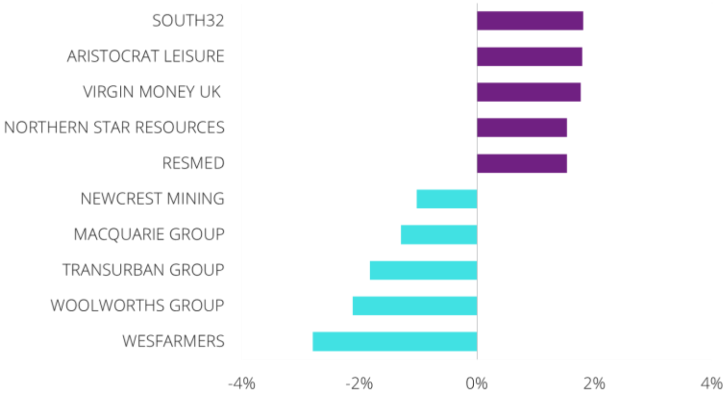
Source: Perennial Value Management. As at 30 September 2023

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.

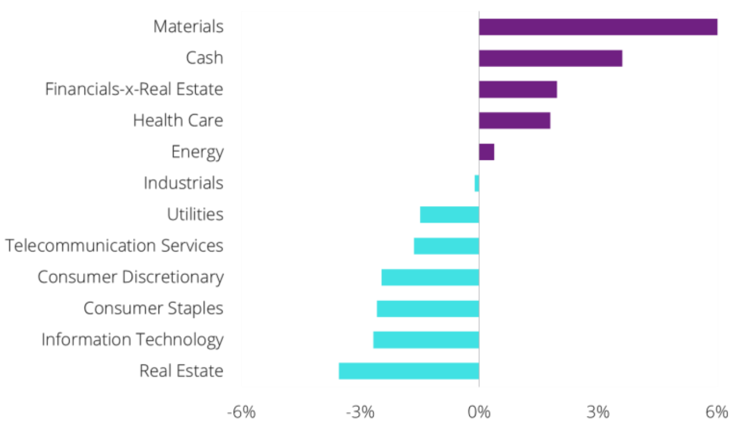
Growth of $100,000 Since Inception

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 -2.6%, after-fees in September, outperforming the benchmark by 0.3%.

Key contributors to performance over the month included Seven Group (+12.2%). The stock has performed very strongly over the last 12 months, as investors have become increasingly confident that management will be able to improve the operational performance of the Boral business, in which Seven Group holds a 72.6% stake. More broadly, the business is well-placed, with its Westrac Caterpillar franchise benefitting from the strength of the Resources sector, while its Coates Hire business is benefitting from the high level of infrastructure investment currently being undertaken. This is also benefitting Boral, with both volumes and sales increasing across key products. Despite its strong performance, the stock is still trading on a relatively attractive valuation, with an FY24 P/E of around 14x, well below the average of the Industrials.

Treasury Wine Estates (+5.7%) again outperformed on speculation that the tariffs on Australian wine exports to China would soon be removed. This follows the restoration of more normal diplomatic activity between Australia and China and the recent resumption of barley exports. Should this occur, it would be very positive for earnings, with the Chinese market a key destination for their premium labels such as Penfolds. While there is no guarantee that this will happen, it was interesting to note that in their results presentation, the company stated that given the potential for the tariffs to be removed, they were “taking a measured approach to phasing of shipments of Penfolds across all markets…”. This suggests that they have some degree of confidence that this will occur.

Strength in the oil price, which rose to +9% to US$87/bl, saw the Energy sector (+2.2%) be the only sector to deliver a positive return over the month. The price rise was the result of a combination of production cuts by OPEC+ and strong demand, all at a time when the US strategic reserve is at near historical low levels. The Trust is overweight energy and benefitted from holdings in Santos (+3.0%) and Karoon Energy (+10.0%). Woodside Energy (-1.4%) also outperformed but was held back by regulatory delays to its Scarborough project.

Also in the energy space, there has been increasing global interest in nuclear energy as part of the solution to decarbonisation, with many countries announcing plans to investigate the construction of new reactors. Regardless of the outcome, this has highlighted the emerging shortfall in uranium production versus current demand, which has seen the price of uranium increase from US$50 to US$70/lb. The Trust benefitted from having recently purchased a small holding in Paladin (+30.2%), which rallied strongly. It will be interesting to watch how the nuclear debate unfolds over the coming years. It is also worth noting that BHP’s Olympic Dam mine in South Australia has the world’s largest known single uranium deposit. Currently, however, the mine only produces small amounts of uranium as a byproduct which must be removed from the copper it produces. However, this could always change in the future should the economics improve.

Other holdings which outperformed included stocks positively leveraged to higher interest rates such as QBE Insurance (+4.9%) and Computershare (+3.1%).

The main detractor from performance over the month was packaging company, Orora (-13.8%), which fell after announcing a $1.3bn capital raising to fund the $2.2bn acquisition of Saverglass. Based in France, but with global operations, Saverglass is a manufacturer of glass bottles, with a leading position in the luxury spirits market. The size and location of the acquisition make it relatively high risk, however, management has a good track record, and the valuation is undemanding.

Other detractors included James Hardies (-12.3%), which gave back some of its recent strong gains, as US mortgage rates moved higher. Macquarie Group (-5.5%) was also softer, given ongoing weakness in M&A activity, as well as the continuing challenging environment for asset realisations, which are a key driver of profits and performance fees.

Trust Activity

During the month, we took profits and reduced our holdings in Paladin and Carsales, following strong outperformance, and moved further underweight the REIT sector. Proceeds were used to increase our bank holdings and participate in the Orora capital raising. At month end, stock numbers were 58 and cash was 3.6%.

Outlook

The global economy has proven surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions. Further, recent data suggests that, while inflation is proving sticky, it appears to have peaked. Importantly, unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, with strong employment growth, robust spending and rising property prices. The resources and agricultural sectors continue to experience positive conditions and the surge in immigration is providing a further boost to activity.

While the backdrop is currently sound, growth is slowing and the level of uncertainty is elevated, given the long lags in the transmission of monetary policy. As a result, a degree of caution is warranted and we prefer holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, in addition to stocks with solid defensive characteristics. Importantly, the portfolio is set for an environment of slowing growth, higher inflation, and higher interest rates. This is achieved through overweight positions in the Resources and Energy sectors as well very select parts of the Consumer Discretionary sector. In the defensive part of the portfolio, this is achieved through holdings in the Healthcare, Insurance, Telco and Gold sectors.

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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