Perennial Value Shares Wholesale Trust

Monthly Report December 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	3.6	1.8	5.1	20.3	13.0	7.6	8.5
S&P/ASX 300 Accumulation Index	2.7	2.2	4.0	17.5	14.0	9.9	8.2
Value Added	**0.9**	**-0.4**	**1.1**	**2.8**	**-1.0**	**-2.3**	**0.3**

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

Overview

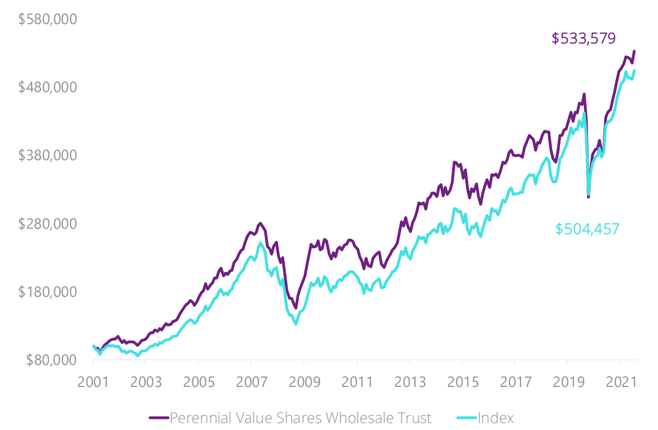
Markets rallied in December, with most major global indices rising strongly. This was despite the rapid spread of the Omicron COVID variant, as early indications are that vaccination provides effective protection against serious disease, suggesting that the economic recovery is unlikely to be derailed.

The Australian market was also strong in December, with the ASX300 Accumulation Index finishing the month +2.7%. This brought the total return for the 12 months to a healthy +17.5%, with all sectors delivering positive returns.

The Resources sector was the standout over the month, on the back of broad-based commodity price strength. Importantly, the iron ore price has begun to recover and there are signs that the Chinese are beginning to take steps to support their property market.

Rising inflation expectations and increasingly hawkish commentary from the US Federal Reserve saw bond yields rise. This was positive for Financials, with the banks performing well, while presenting a headwind for the more expensive parts of the market such as the Tech sector. This may well be a feature of the year ahead.

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.

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 $569 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

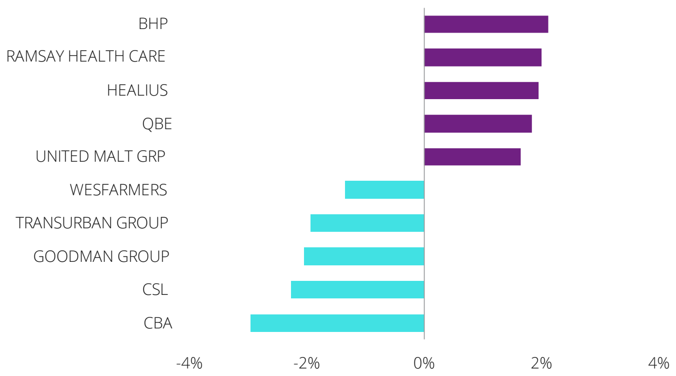
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	15.3	18.3
Price to Free Cash Flow (x)	15.7	17.3
Gross Yield (%)	4.9	4.5
Price to NTA (x)	2.5	2.9

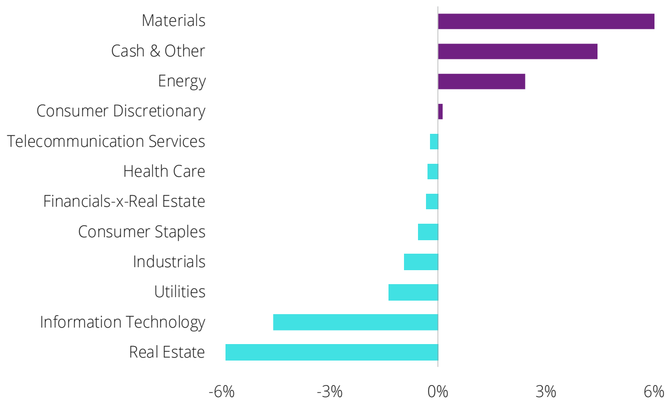
Source: Perennial Value Management. As at 31 December 2021

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Resources sector was again the standout in December, with broad-based commodity price strength driving rallies in many of our holdings. Having fallen sharply over the past 6 months, the iron ore price has now begun to recover, with the Chinese beginning to take steps to support their property market. This saw the prices of the iron ore miners rally, with Fortescue Metals (+12.9%), Rio Tinto (+7.1%) and BHP (5.4%) all outperforming over the month. Other resources holdings which performed strongly included copper miners 29metals (+17.6%) and Oz Minerals (+8.6%), mineral sands producer, Iluka Resources (+17.2%) and base metals producer South32 (+13.6%).

Independence Group (+8.8%), outperformed after completing the $1.1bn acquisition of nickel miner, Western Areas. This acquisition significantly increases Independence Group's nickel reserves. This is a key component of their suite of battery metals, which also includes lithium, copper and cobalt. The company is very well positioned to benefit from the expected growth in demand for battery storage from electric vehicles, with its high quality, Australian based asset portfolio. This includes a 25% stake in the world's largest, highest grade and lowest cost hard rock lithium mine and a 49% stake in Australia's first full-automated lithium hydroxide refinery.

The Trust currently holds a significant overweight position in the Resources sector. Not only do we believe that the current demand outlook for commodities is positive, but historically, commodities have performed strongly in more inflationary periods, such as we are currently experiencing.

Stocks exposed to the agricultural sector continued to enjoy strong conditions, with Graincorp (+21.5%), continuing to rally. The recent wet weather has not significantly impacted the volumes of grain entering their storage and handling system and, importantly, sets the scene for another good planting this year. Crop protection company, Nufarm (+5.4%), also continued its rise on the back of generally positive global agricultural conditions.

Fertiliser producer, Incitec Pivot (+3.8%), marginally outperformed over the month. Global fertiliser prices are currently at historically high levels, driven by high European gas prices. This is seeing Incitec generating very strong margins, and we expect earnings upgrades over the coming months. During the month, Incitec also announced that it would be ramping up production of "AdBlue", a critical fuel additive. Australia normally imports around 90% of its requirements, however there is a global shortage at present. This highlights the importance of maintaining some domestic production of key industrial products. In last month's commentary we referred to Incitec's plan to explore constructing a "green ammonia" plant at their Gibson Island facility, in conjunction with Fortescue Future Industries, highlighting the potential opportunities for companies to participate in decarbonisation.

Medical diagnostics company, Healius (+9.3%), outperformed, driven by the enormous volumes of COVID tests they are currently performing. While this will (hopefully) be a short-lived benefit, the cash they are generating can be used to fund acquisitions. For example, during the month, the company announced the acquisition of a niche pathology business, specialising in performing tests for clinical trials. This is a high growth, high margin business and is complementary to their core pathology operations. Ramsay Healthcare (+7.0%) also outperformed after acquiring, Elysium Healthcare, a UK based mental health provider. This acquisition builds on Ramsay's presence in the attractive UK market.

United Malt (+6.2%) rallied on speculation that it could become a takeover target. There is increasing consolidation in the global malting industry, as malt producers aim to increase their scale to effectively service an increasingly consolidated global brewing industry. The potential for corporate activity has long been part of the investment thesis for this stock. However, this aside, the stock will be a clear beneficiary of eventual economic reopening and we believe it has significant upside.

The banks regained some of the ground lost in November, rising an average of +5.3% over the month. In our view, eventual expectations of moves by the RBA to raise the cash rate will be the catalyst for the sector to outperform as this will alleviate some of the margin pressure they are currently experiencing. In the meantime, the Trust holds an underweight position in the sector, regarding it as fairly valued and seeing better opportunities elsewhere.

Holdings which underperformed during the month included online fashion retailer, City Chic (-8.5%). This has been a great performer but declined after an overseas peer reported softening sales trends. Insurers, IAG (-3.8%) and QBE (-2.3%) were also softer over the month on the back of expectations of increased natural hazard claims. While this is a valid concern, the sector is trading on a cheap valuation and experiencing very strong premium growth.

Trust Activity

During the month, we took profits and trimmed holdings in a number of stocks which had performed strongly in recent times, including Sydney Airport, Graincorp and Healius. Proceeds were used to increase holdings such as engineering firm, Worley and United Malt. We also participated in the CSL capital raising, taking the opportunity to reduce our underweight position at a discounted price. At month end, stock numbers were 58 and cash was 4.4%.

Outlook

Looking ahead to 2022, assuming that vaccines prove to be effective against the Omicron COVID variant, we see the outlook as positive, with ongoing economic recovery, underpinned by relatively low interest rates and continuing stimulus measures. Further, we look forward to the return to a more "normal" economic environment, as tapering and rate rises start to see the distortions caused by extremely low interest rates and unconventional monetary policy abate.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and we would expect the economy to bounce back strongly, just as it did following previous lockdowns. Key economic indicators continue to be strong and while there are some concerns around supply chain issues and inflationary pressures, both corporates and consumers are in good shape. If this improvement continues, then corporate earnings and dividends are likely to continue to grow over the coming year.

The Trust is positioned to benefit from an ongoing economic improvement and 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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