Perennial Value Shares Wholesale Trust

Monthly Report December 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)	-2.6	9.5	9.2	0.8	10.2	5.8	5.6	8.1
S&P/ASX 300 Accumulation Index	-3.3	9.1	9.6	-1.8	7.5	5.5	7.1	7.7
Value Added	**0.7**	**0.4**	**-0.4**	**2.6**	**2.7**	**0.3**	**-1.5**	**0.4**

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

Overview

Markets ended the year on a soft note, with persistently high inflation and hawkish commentary, dashing hopes that Central Banks would pivot to a more accommodative stance and towards monetary tightening. This saw all major global markets finish the month lower, reversing much of the previous month's gains. The S&P500 finished down -5.7%, while the NASDAQ fell -8.6%, on a heavy tech sell-off. The FTSE100 declined by -1.6%, while the Nikkei 225 shed -6.7%, as the Bank of Japan allowed long-term bond yields to increase. On the positive, the Chinese Government has moved far more quickly than expected in abandoning its COVID zero policy, removing restrictions on the population and reopening borders. While the Shanghai Composite still had a negative return of -2.0%, this followed a very strong +8.9% rally in November. This likely reflects the fact that, while the removal of restrictions will lead to an economic recovery through 2023, the reality is that the rapid spread of the virus will impact activity in the very near-term.

The Australian market was also weaker in December, with the ASX300 Accumulation Index finishing the month down -3.3%. All sectors delivered negative returns, however, the Metals & Mining sector (-0.8%) again performed best, driven by expectation of a pick-up in Chinese commodity demand as their economy reopens. Defensive sectors such as Consumer Staples (-1.8%) and Telcos (-2.6%) also outperformed in the more cautious environment. By contrast, more cyclical and interest rate sensitive sectors such as Consumer Discretionary (-7.0%), IT (-5.6%), Industrials (-4.9%), Healthcare (-4.4%) and REITs (-4.0%) lagged. Financials (-3.5%) were also softer, with the major banks declining by an average of -4.0%.

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, Damian Cottier, Andrew King

Trust FUM
AUD $511 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

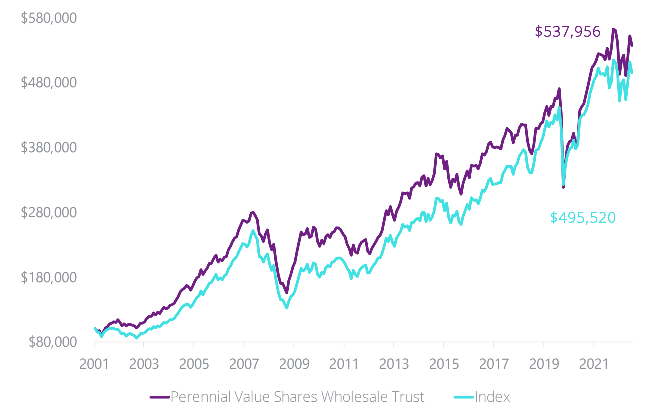
APIR Code
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	13.6	14.7
Price to Free Cash Flow (x)	13.4	13.6
Gross Yield (%)	5.4	5.3
Price to NTA (x)	2.3	2.6

Source: Perennial Value Management. As at 31 December 2022

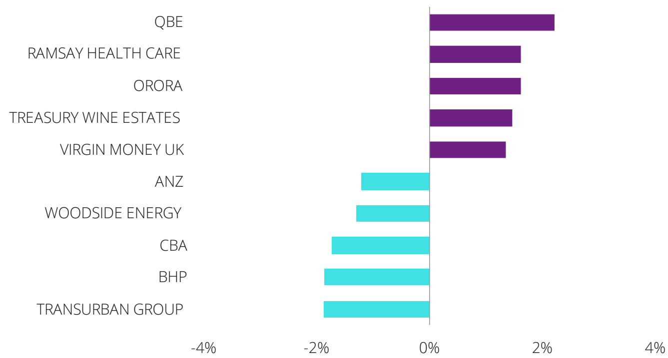
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

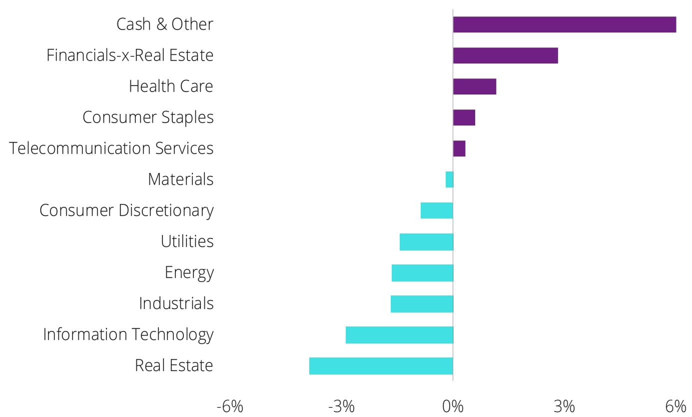


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -2.6%, after-fees in December, outperforming the index by +0.7%. Key positive contributors to performance included the Trust's resources holdings, with the prospects of Chinese reopening seeing strong rallies in the prices of iron ore (+15.7%) and other commodities. This pushed the bulk miners higher, with Rio Tinto (+6.2%), Fortescue Metals (+5.8%) and BHP (+0.2%). These stocks have been very strong performers over the last 12 months, rising an average of +28.9%, compared to the market which declined by -1.8%.

Virgin Money UK (+7.9%) continued its recovery, as the political situation in the UK stabilised. We have previously written that, while the economic outlook in the UK is highly uncertain at present, the bank is well-positioned, with provisions for loan losses well above pre-COVID levels and significant surplus capital. Subject to regulatory approval, the company could potentially return up to GBP375m to shareholders in late 2023. This equates to around 15% of the current market cap of the company. Combined with the fact that the company is trading on less than 0.5x book value, then there is likely to be significant upside to the share price.

Healthcare companies, Integral Diagnostics (+5.8%) and Healius (+5.5%) both outperformed during the month. Diagnostic services earnings are usually a defensive, however, COVID-related operational disruptions significantly impacted sector earnings during the pandemic. While performing COVID tests was a massive boost for pathology companies, underlying test volumes were impacted during this period. Similarly, attendances at radiology clinics were also affected as people stayed away from hospitals and doctors' clinics. At the same time, staffing issues increased costs and impacted margins. However, we expect to see a recovery in earnings as conditions normalise over the coming year. Further, there is likely to be a backlog of work as people have accumulated health issues attended to. More broadly, we consider parts of the Healthcare sector to be attractive, as its earnings will be improving at a time when slowing growth means much of the market is likely to be encountering earnings headwinds.

United Malt (+3.9%) continued the recovery which began with its full-year result last month. While, as expected, the result was very poor, it is clear the headwinds that the company has faced over the last several years from COVID-related lockdowns and supply chain disruptions, to the failure of the Canadian barley crop, are now behind them. As a result, earnings are expected to rebound strongly over the coming years. Further, the global malt industry is consolidating, mirroring the consolidation that has occurred amongst their brewer customers. It is highly likely that United Malt will be party to this at some point.

Salary packaging and novated leasing company, Smartgroup (+6.5%), rallied on speculation that it could be the subject of a takeover. At current levels, the stock is trading on an undemanding valuation and is set to benefit from the recovery in leasing activity as new car availability improves. The company had previously received - and rejected - an offer of $9.25 per share. This suggests a view that the long-term value of this business is well above its month-end price of $5.10.

More generally, we believe that M&A will likely be a significant feature of the market over the coming year. While interest rates have risen materially and the economic outlook has deteriorated, there is an enormous amount of dry powder in private equity funds which needs to be deployed. Further, many share prices are depressed, making valuations attractive on a medium-term view. Finally, slowing economic growth will likely drive a wave of in-market consolidations, as management teams pursue earnings growth via cost synergy realisation.

Gold stocks, Newcrest (+4.2%) and Northern Star (+2.9%) also outperformed on the rising gold price and weakening USD, while crop protection company, Nufarm (+1.8%), continued to rise, with ongoing favourable agricultural conditions.

The main detractors over the month were stocks exposed to the consumer, with gaming machine manufacturer, Aristocrat Leisure (-12.9%) and online auto sales platform, Carsales (-9.1%) both weaker. Building materials company, James Hardie (-9.6%), was weaker again, as data showed that rapidly increasing US mortgage rates are crimping demand for new homes. However, we remain very confident in the longer-term outlook for these businesses, each of which is well-managed and holds a very strong position in its market.

Trust Activity

During the month, we reduced our exposure to cyclicals, trimming our holdings in housing and retail exposed stocks such as CSR, Wesfarmers and Kathmandu. We also locked in profits and reduced our holding in Tabcorp, which had performed strongly since its demerger from Lottery Corporation. Proceeds were used to increase holdings in Woolworths and Fortescue Metals. At month end, stock numbers were 60 and cash was 7.7%.

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 Diversified Financials, as well as select parts of the Consumer Discretionary and Resources 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.

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Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au

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Significant Investor Visa (SIV) Compliant

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