

	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 Australian Shares Trust (Net)	2.9	3.7	2.9	9.3	10.6	7.0	7.4	7.5	6.6	9.2
S&P/ASX 300 Accumulation Index	4.1	6.0	4.1	13.3	12.2	7.1	7.5	9.3	8.0	8.3
Value Added	-1.2	-2.3	-1.2	-4.0	-1.6	-0.1	-0.1	-1.8	-1.4	0.9

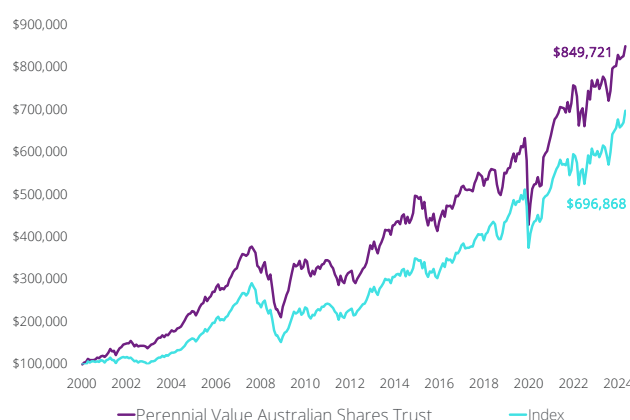
^Since inception: March 2000. Past performance is not a reliable indicator of future performance.

Overview

Markets were mixed in July, with the S&P500 up +1.1%, while the NASDAQ fell -0.8%, as the prospect of rate cuts saw investors rotate from Tech to more cyclical sectors of the market. The UK market rose, with the FTSE100 up +2.5%, while Japanese market was weaker, with the Nikkei 225 down -1.2%. Ongoing weakness in Chinese economic data saw the Shanghai Composite continue its underperformance, down -1.0% for the month and -10.7% for the year.

The Australian market was the standout in July, with the ASX300 Accumulation Index rising +4.1% over the month, to have delivered a return of +13.3% over the last 12 months. The rally was driven by a marginally more benign inflation reading, which allayed the market's fears of an August interest rate increase. This drove an aggressive relief rally in interest-rate sensitive sectors. Consumer Discretionary (+9.0%) was the best performing sector over the month, followed by REITs (+6.8%). Financials (+6.3%) also outperformed, with macro flows pushing bank stocks higher. Metals & Mining (-1.2%) and Energy (-0.5%) underperformed as weak Chinese data impacted commodity prices.

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 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 \$463 million

Distribution Frequency

Half yearly

Minimum Initial Investment

\$25,000

Trust Inception Date

March 2000

Fees

0.92% p.a.

APIR Code

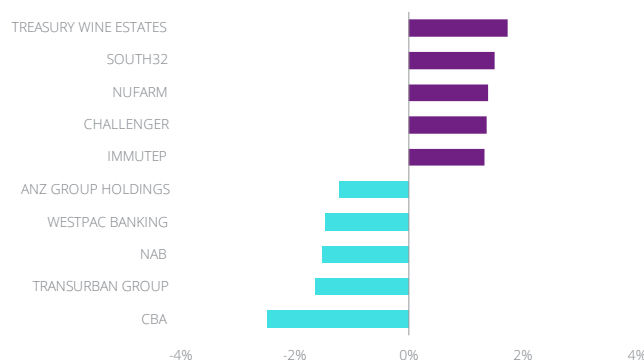
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Portfolio Characteristics – FY26	Trust	Market
Price to Earnings (x)	15.3	16.3
Price to Free Cash Flow (x)	12.2	13.3
Gross Yield (%)	5.1	5.0
Price to NTA (x)	2.2	2.5

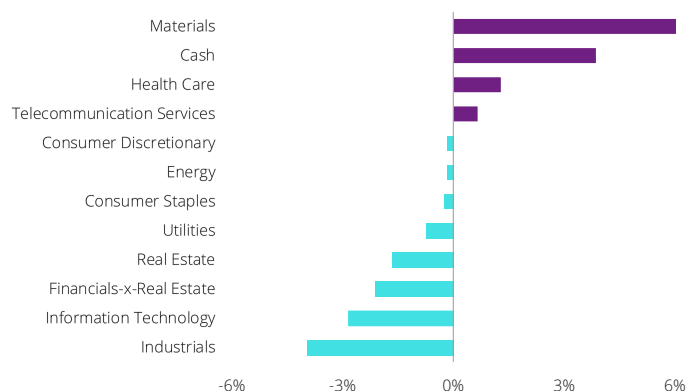
Source: Perennial Value Management. As at 31 July 2024

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 Trust returned +2.9%, after-fees in July, underperforming the benchmark by -1.2%.

More benign inflation data and some evidence of softening in the labour market, has led investors to confidently expect that the Fed will begin to ease rates in September. Cutting rates into a robust economy, combined with ongoing expansionary fiscal policy, saw a rotation in the US out of the mega-cap tech names which have been driving the market's rally since late 2023, and into the more cyclical sectors, which have lagged. This saw the S&P500 outperform the NASDAQ, and small caps make up some ground on large caps.

In Australia, while inflation has fallen significantly, it remains stubbornly above the RBA's target range, and the market is not expecting rate cuts until February next year. However, data suggesting that any further hikes are unlikely, was enough for investors here to similarly factor in a "Goldilocks", soft/no landing scenario, where domestic activity will soon re-accelerate. This optimism saw a rally in domestic cyclicals, and rate-sensitive stocks, with the Consumer Discretionary (+9.0%) and REIT (+6.8%) sectors the stand-out performers.

The banks also continued to grind higher, with the four majors up an average of +6.7%, to be trading at record valuations – despite having negligible earnings growth forecast over the next few years. While the banks are in strong financial shape, increased regulatory capital requirements and intensifying competitive dynamics, mean that the returns on equity generated are down significantly compared to historical levels. It is unlikely that any of these drivers will change materially any time soon.

The question then is, with similar returns to global peers, why are our banks trading at such a premium? The answer is likely to be macro flows. With negative sentiment to China, money is flowing out of China and more cyclical regional markets, and into the Australian market, where it tends to find its way into the larger stocks. With resources out of favour, the default "Buys" are the banks, with their large weightings in the regional indices. Further, as the banks have continued to outperform, this has forced many domestic investors to cover their underweights, adding to the upwards pressure. In other words, flows are trumping fundamentals – but that's the market!

By contrast, Resources (-1.1%), underperformed, as negative sentiment towards China intensified over the month. Ongoing weak economic data, particularly regarding the property market, combined with disappointment that the Third Plenum meeting failed to deliver a meaningful increase in stimulus measures as well as the threat of increased tariffs from the US. However, despite all the gloom and doom, it's worth noting the iron ore price still hanging in there at >US\$100/t. At this level, the major miners are printing cash, and if we assume that spot commodity and exchange rates persist for the remainder of the FY25, then BHP, Rio Tinto and Fortescue are trading on an average P/E ratio of 10.8x.

Comparing the two sectors, we have banks with record high valuations, positive sentiment, and downside earnings risk should the economy soften vs bulk miners with depressed valuations, negative sentiment and upside risk should China not completely implode (just yet). It's also worth mentioning that the big miners basically have debt-free balance sheets, unlike banks, which are geared around 15x.

South32 (-16.1%) also underperformed, after lowering production guidance for the coming year. While obviously negative for the stock, production misses are becoming increasingly common across the resources sector. This will ultimately lead to reduced supply and higher commodity prices. While preferring the resources to banks and discretionary sector has cost us recently, given relative valuations and sentiment, we continue to position the fund this way.

Other positive contributors included Immutep (+16.9%), after releasing positive clinical trial data, and US-exposed stocks, James Hardie (+15.6%) and Aristocrat Leisure (+9.0%), which rallied on the prospect of US rate cuts boosting the housing and gaming sectors respectively. Other detractors included Iluka Resources (-7.5%), Integral Diagnostics (-7.1%) and Woodside Energy (-2.2%).

REITs (+6.8%) performed strongly due to their interest rate sensitivity, and the Trust is currently running a neutral positioning to the sector.

Trust Activity

During the month, we reduced our holding Worley, fearing the market was too optimistic regarding FY25 earnings, and in Goodman Group, following its strong performance. Proceeds were reinvested in Newmont, to increase the Trust's gold exposure. At month end, stock numbers were 61 and cash was 3.9%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace. However, the consensus view is that US rate cuts will begin in September, and while the timing of cuts has been pushed out, there will be no further rate rises in Australia. As a result, growth will be supported, and a soft landing will be achieved. This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

Similarly, while corporate earnings have generally proven resilient to date, outside of the US, there is clear evidence that growth is slowing. In Australia, economic growth has stalled, and the economy has been in a per-capita recession for some time now. While tax cuts will boost disposable income, there are signs the labour market is beginning to soften and there are numerous stress points in the economy. Further, immigration – a key plank of our growth – has become a political issue and is set to be curtailed. This all leaves us cautious on discretionary sectors. This is at odds with the optimism that seems to be factored into the share prices of many consumer-facing stocks.

While Chinese data continues to be weak, sentiment is very poor, and this is now reflected in the prices of many resource stocks.

While there is a high level of economic and political 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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