

	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)	0.2	3.3	3.0	10.4	10.0	6.4	8.1	7.5	6.5	9.2
S&P/ASX 300 Accumulation Index	0.4	5.6	4.6	14.6	11.8	6.4	8.1	9.2	8.0	8.3
Value Added	-0.2	-2.3	-1.6	-4.2	-1.8	0.0	0.0	-1.7	-1.5	0.9

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

Overview

Most markets delivered relatively modest returns over the month. However, this masked a very high level of intra-month volatility. While markets have been buoyed by the prospect of imminent rate cuts, weak US economic data led to a hard landing scare, which saw markets sold off aggressively early in the month. However, markets regained their composure as the month progressed, with the S&P500 finishing the month up +2.3%, the NASDAQ rising +0.6%, and the FTSE100 closing up +0.1%. The Japanese market was slightly weaker, with the Nikkei 225 down -1.2%, after staging a strong recovery, having been down -15% at its mid-month low. These markets have all delivered strong returns over the last 12 months. By contrast, the Chinese market continues to be the laggard, with ongoing weak economic data seeing Shanghai Composite continue its underperformance, down -3.3% for the month and -9.4% for the year.

The Australian market delivered a small positive return in August, with the ASX300 Accumulation Index rising +0.4% over the month, to have delivered a return of +14.6% over the last 12 months. In addition to the macro factors above, the August reporting season was generally positive, with results suggesting an ongoing degree of resilience in the domestic economy. The best performing sectors were IT (+7.2%), Industrials (+3.5%), Telcos (+3.4%) and Financials (+1.9%). Resources were again the laggard, with Energy (-6.2%) and Metals & Mining (-2.1%), on the weak China data.

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 \$459 million

Distribution Frequency

Half yearly

Minimum Initial Investment

\$25,000

Trust Inception Date

March 2000

Fees

0.92% p.a.

APIR Code

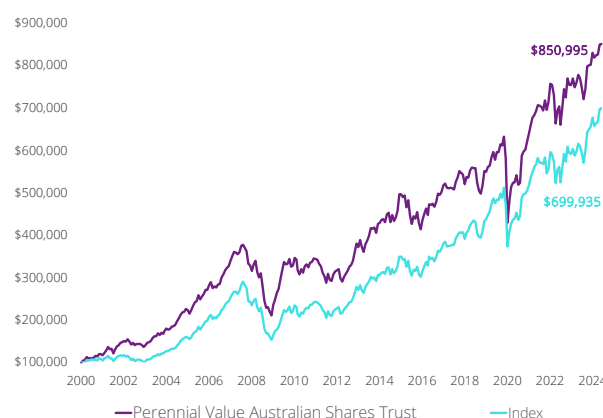
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Portfolio Characteristics – FY26	Trust	Market
Price to Earnings (x)	16.3	17.1
Price to Free Cash Flow (x)	13.7	14.3
Gross Yield (%)	4.9	4.9
Price to NTA (x)	2.3	2.6

Source: Perennial Value Management. As at 31 August 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.

Growth of \$100,000 Since Inception

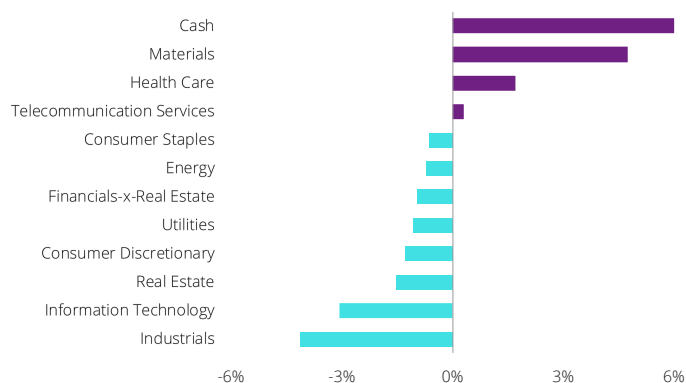


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +0.2%, after-fees in August, underperforming the benchmark by -0.2%.

Reporting season was positively received overall, with more companies surprising to the upside than the downside. Despite growing pressures in the domestic economy, it seems that demand has remained sufficiently resilient for many companies to protect margins by raising prices to recover higher operating costs. By contrast, offshore earners tended to be slightly weaker. In aggregate, company earnings declined slightly over the FY24 financial year. In terms of the outlook, guidance was generally cautious, leading to net downgrades and a reduction in market earnings forecasts for the current financial year. The consensus forecast is now for the market to deliver roughly flat earnings in FY25.

Positive contributors to performance over the month included, packaging company, Orora (+25.0%). The company delivered a result which was slightly ahead of expectations and highlighted the resilience of its business. However, the surge in the share price was driven by the news that US private equity firm, Lone Star, had made an offer for the business at \$2.55 per share. This was rejected by the Board as being opportunistic and undervaluing the business. We agree with this assessment. The Orora share price is currently depressed following its acquisition of Saverglass, a European manufacturer of glass bottles, serving the high-end spirits market. Demand for spirits has softened as post-pandemic normalisation of inventories has seen a destocking in retail channel. This is likely to be a temporary phenomenon, and we expect the business to re-rate as the acquisition case is proven out. In the meantime, management has begun a sale process to divest the US packaging business, leaving Orora as a specialised, global beverage packaging company.

Rare earths producer, Lynas (+12.4%), rallied as the prices of key rare earth minerals began to show some signs of life. Prices have been depressed recently, with lower demand from a slowdown in downstream users such as wind turbine manufacturers. However, the Chinese producers, who account for ~90% of the world's output, have begun to cut production in response to low prices. Further, the CCP's decision to ban the export of antimony, a mineral critical to high tech and military applications, to "safeguard national security and interests", again reinforced the strategic value of ex-China supply of rare earths, against a less harmonious geopolitical backdrop. Lynas fits the bill perfectly, with a world class mine in WA, and processing facilities in WA, Malaysia and soon in the US.

Medical diagnostics companies, Healius (+10.6%), and Integral Diagnostics (+6.2%) also outperformed. This sector has faced significant challenges in recent years, with depressed patient volumes and persistently high labour cost inflation. However, these headwinds are now beginning to abate, and earnings are growing again. Further, this is a sector of the market where there is a high probability of corporate activity.

The bank juggernaut continued, with the major banks outperforming, up an average +2.9%. As expected, the CBA result and Q3 updates from the others, showed a total lack of earnings growth. However, there is a clear weight of money flowing into the sector on a macro view of (1) soft landing benefits outweighing the negative impacts of rate cuts on banks earnings, and (2) not wanting to buy Resources, on weak China data. This has pushed valuations to unprecedented levels, and we remain underweight the sector.

By contrast, Resources (-2.9%), underperformed, with ongoing negative sentiment towards China, where the economic data continues to be weak and the stimulus measures continue to be rolled out incrementally, with no "Big bang" actions to boost confidence. However, despite all the gloom and doom, it's worth noting that the iron ore price is still hanging in there at around 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 around 10x. Overall, we remain overweight the Resources sector.

Other detractors included Nufarm (-14.8%), which downgraded earnings, QBE (-11.3%) which fell in rate cut expectations and Ramsay Healthcare (-10.6%), with tough conditions persisting in the private hospital sector.

Trust Activity

During the month, we increased our underweight in Wesfarmers and reduced our overweight in South32. Proceeds were used to increase our holdings in Lynas and Nufarm, where we see significant upside. At month end, stock numbers were 61 and cash was 6.6%.

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.

Corporate earnings have generally proven resilient to date, however, 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, the consumer remains under pressure, and there are numerous stress points in the economy. Further, immigration – a key plank of 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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