

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Shares Wholesale Trust (Net)	-3.3	-1.1	1.7	15.4	10.4	6.9	8.3
S&P/ASX 300 Accumulation Index	-6.5	-4.5	-2.7	9.6	10.1	8.6	7.8
<b>Value Added</b>	<b>3.2</b>	<b>3.4</b>	<b>4.4</b>	<b>5.8</b>	<b>0.3</b>	<b>-1.7</b>	<b>0.5</b>

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

### Overview

Global markets were weaker in January, as the comments by the US Federal Reserve were interpreted as suggesting that monetary tightening may be earlier and more aggressive than had previously been expected.

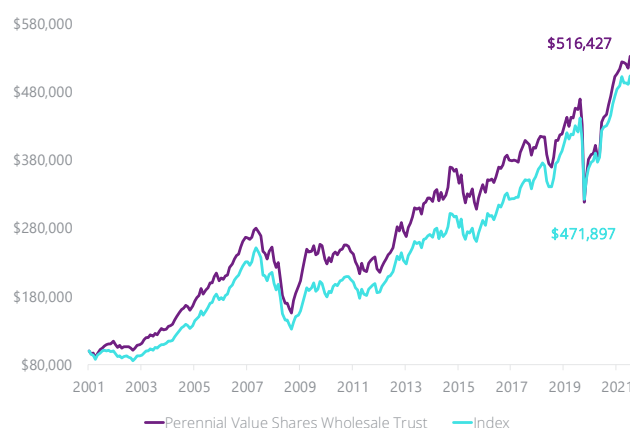
The looming end of “free money” and the “Fed put”, saw a sell-off in the more expensive parts of the market. The Tech sector was hit particularly hard, with the NASDAQ down some -9% for the month.

The Australian market was also down in January, with the ASX300 Accumulation finishing the month down -6.5%. The Index was cushioned to some extent by very strong performances from the Resources and Energy sectors, driven by rallies in the iron ore and oil prices.

The Trust outperformed the market by +3.2%, as the prospect of rising interest rates saw a strong rotation into the better value parts of the market where we typically invest.

Given the historically low level of current interest rates and the extreme levels of valuation dispersion in the market, this rotation may have a long way to run.

### 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 \$544 million

#### Distribution Frequency

Half yearly

#### Minimum Initial Investment

\$25,000

#### Trust Inception Date

June 2001

#### Fees

0.92% p.a.

#### APIR Code

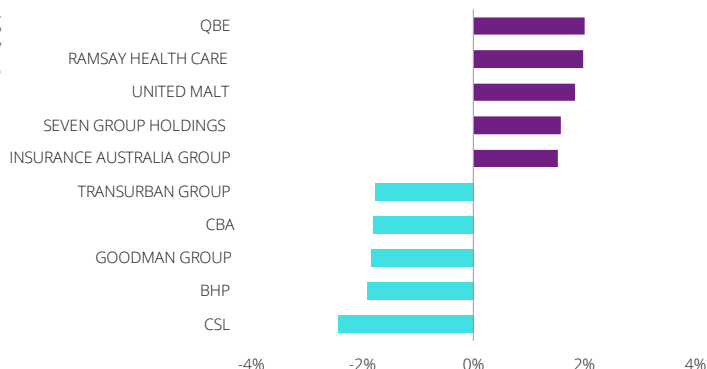
IOF0206AU

Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	14.3	16.8
Price to Free Cash Flow (x)	14.4	16.0
Gross Yield (%)	5.3	4.8
Price to NTA (x)	2.3	2.7

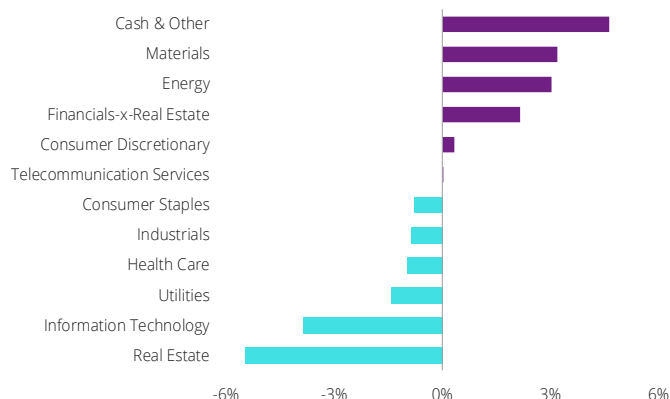
Source: Perennial Value Management. As at 31 January 2022

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.

### Top 5 Over / Underweight Positions vs Index



### Sector Active Exposure vs Index



## Trust Review

The strong run global markets had been experiencing came to an abrupt end in January, as investors began to factor in the prospect of interest rate hikes and the end of bond buying by the Fed. This had been expected for some time, given the strength of the post-COVID economy and the high level of inflation, however, the tone of commentary from the Fed was more hawkish than some had hoped. The result was a sharp sell-off in those parts of the market most lacking in valuation support. In particular, expensive growth and loss-making tech stocks were hit very hard. By contrast, the better value parts of the market tended to outperform. This saw the Trust outperform by +3.2% over the month.

Within the Australian market, commodities were again the standout in January, with the Energy (+7.5%) and Metals and Mining (+1.6%) sectors outperforming strongly. While over the long-term, the demand for oil and gas will decline as it is replaced by renewables, in the short-term, it is indispensable. The rebound in demand post-COVID, combined with a period of underinvestment has seen prices rising very strongly, with Brent crude finishing the month at over US\$90 per barrel – the highest level since 2014. Gas prices have been similarly strong, exacerbated by the tensions in Ukraine. This saw very strong performances from Woodside Petroleum (+14.3%), Santos (+13.2%) and engineering firm, Worley (+8.7%).

Moves by the Chinese government to stimulate their economy and support their property market have seen a strong rally in the iron ore price, which finished the month at over US\$140 per tonne. At these levels, the iron ore miners are generating huge amounts of cash. Given their already de-gear balance sheets, this can be returned to shareholders or used to fund growth projects. This saw strong outperformance by the bulks miners, with BHP (+11.7%), Rio Tinto (+11.4%) and Fortescue Metals (3.4%). During the month, BHP also completed the collapse of its dual listing structure, converting all of its shares into one class. This resulted in its index weighting in Australia increasing by around 60%, making it the largest stock on the ASX.

Other resources holdings which performed well included new energy metals miner, Independence Group (+2.4%), on the buoyant outlook for lithium and Iluka Resources (+2.4%), as prices for its mineral sands increased. This company also provides an exposure to the strategically valuable rare earth minerals market. The company is investigating the feasibility of building a rare earths refinery in Western Australia, which has the potential to provide long-term upside.

UK challenger bank, Virgin Money UK (+8.2%), performed very strongly. Bank earnings are highly leveraged to interest rates and the expectation is that rates will soon rise in the UK. This stock is trading on a very cheap valuation and has the potential to re-rate strongly as the UK economy normalises.

Insurance stocks IAG (-0.5%) and QBE (-1.9%) also both outperformed, with continuing strength in premium rates, combined with the benefits they will receive from higher interest rates on earnings from their investment portfolios. We believe that the insurance sector is trading on an attractive valuation and offers significant upside at present.

The Trust also benefited from not holding a number of expensive stocks which de-rated sharply over the month including, Xero (-20.2%), Wisetech Global (-22.7%) and Altium (-21.0%). Given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks.

Fertiliser manufacturer, Incitec Pivot (+1.2%), also outperformed. Global fertiliser pricing is at record levels, with strong demand driven by positive agricultural conditions in most regions. Margins are at very high levels due to the dynamics of the gas market which have pushed up the cost curve of the marginal producer. Should this continue, we expect ongoing earnings upgrades over the coming year.

Holdings which underperformed during the month included radiology provider, Integral Diagnostics (-16.4%), whose earnings were impacted by a combination of lower demand as COVID kept patients away and higher operating costs due to disruptions. Hospital operator, Ramsay Healthcare (-12.2%), was also weaker after elective surgery was cancelled to create capacity for COVID patients. In both cases, we expect this to normalise in time and there is likely to be an element of catch up due to the backlog of deferred procedures once COVID subsides. Pathology provider, Healius (-15.9%), also declined, as the level of PCR testing began to fall from its recent very high levels. We remain comfortable with each of these holdings.

## Trust Activity

During the month, we took profits in a number of holdings which had performed strong in recent times, including Graincorp, Healius, City Chic Collective, Qantas and Oz Minerals. Proceeds were used to increase our holdings in Integral Diagnostics, Incitec Pivot, United Malt and Newscorp. At month end, stock numbers were 57 and cash was 4.1%.

## 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**

## Contact us



Level 27, 88 Phillip Street  
Sydney NSW 2000



1300 730 032



invest@perennial.net.au



www.perennial.net.au

Signatory of:



Issued by: Perennial Partners Limited (ABN 90 612 829 160) (Perennial) as a Corporate Authorised Representative (No. 1293138) of the Investment Manager Perennial Value Management Limited (ABN 22 090 879 904, AFSL No. 247293). Responsible Entity: Perennial Investment Management Limited (ABN 13 108 747 637, AFSL No. 275101). This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation and is not intended to constitute advertising or advice of any kind and you should not construe the contents of promotional statement as legal, tax, investment or other advice. This promotional statement does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. While every effort has been made to ensure the information in this promotional statement is accurate, its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, additional information booklet, application forms and target market determination can be found on Perennial's website [www.perennial.net.au](http://www.perennial.net.au). Use of the information on our website is governed by Australian law and is subject to the terms of use. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful.