

	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 Shares Wholesale Trust (Net)	-2.7	-0.8	12.9	2.4	5.1	13.3	6.9	7.1	7.2	8.1
S&P/ASX 300 Accumulation Index	-2.5	-1.0	12.4	2.4	3.5	11.3	7.4	8.3	8.1	7.7
Value Added	-0.2	0.2	0.5	0.0	1.6	2.0	-0.5	-1.2	-0.9	0.4

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

Overview

Markets continued to oscillate in May, with the combination of higher-than-expected inflation, weakening US economic data and a slowing in the Chinese post-COVID recovery, weighing on sentiment. The Tech sector bucked this trend, driven by frenzied interest in everything AI-related, following the release of Chat GPT and a massive profit upgrade by chip maker, Nvidia. This saw the NASDAQ rally +5.8%, while the broader S&P500 was up a modest +0.2%. The FTSE100 was down -5.4% and the Shanghai Composite fell -3.6%. By contrast, the Nikkei 225 rallied +7.0%, as the economy began to show signs of growth.

The Australian market was also weaker, with the ASX300 Accumulation Index finishing the month down -2.5%. As in the US, the Australian CPI reading came in higher than expected and the RBA surprised the market by raising interest rates again. This added to concerns over the outlook for the domestic economy, where despite house prices appearing to be rising again, pressures are clearly building. For example, cost of living pressures are becoming severe, exacerbated by rising mortgage payments and surging rents. While unemployment remains low and wages are rising, real incomes are falling and cracks in retail spending are beginning to appear. Further, while there is still a backlog of work, building approvals have fallen dramatically.

While the Tech sector rallied strongly (+10.4%) in sympathy with the US, most other sectors delivered negative returns, with the Metals & Mining (-4.9%), Financials (-3.2%) and Consumer Discretionary (-6.2%) sectors all weaker.

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 \$501 million

Distribution Frequency

Half yearly

Minimum Initial Investment

\$25,000

Trust Inception Date

June 2001

Fees

0.92% p.a.

APIR Code

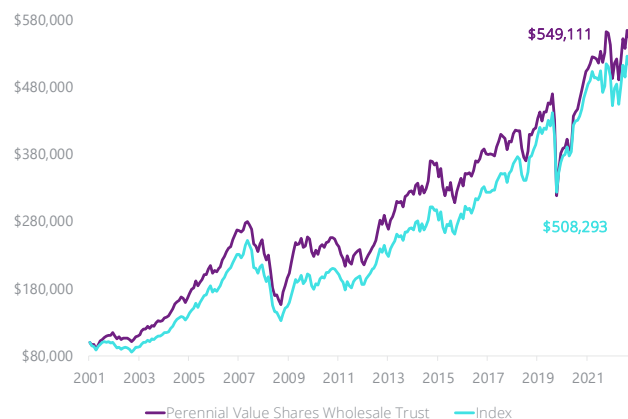
IOF0206AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	14.1	15.0
Price to Free Cash Flow (x)	13.6	13.9
Gross Yield (%)	5.2	5.5
Price to NTA (x)	2.1	2.6

Source: Perennial Value Management. As at 31 May 2023

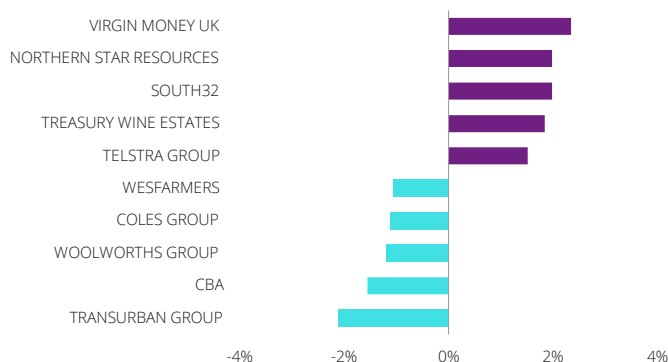
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of \$100,000 Since Inception

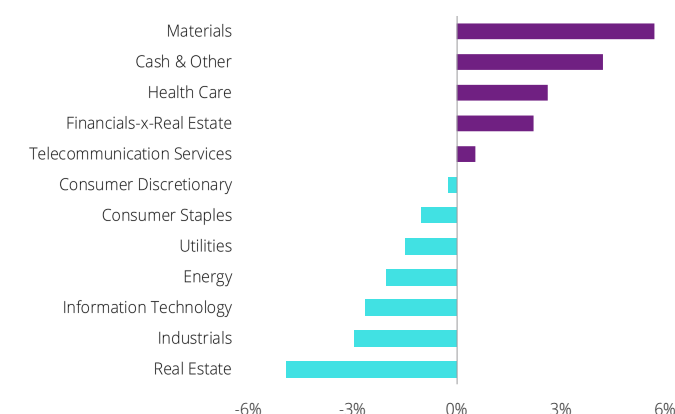


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust delivered -2.7%, after-fees in May, underperforming the benchmark by -0.2%. Key positive contributors to performance included Telix Pharmaceuticals (+15.3%), which added to its very strong performance in April.

James Hardie (+13.1%) was also stronger, with indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. James Hardie is primarily exposed to the renovation, as opposed to new construction market, however, it has still been impacted by the current slowdown. While the company is subject to the cycle, over time it has consistently outgrown the overall market as its premium, differentiated products take share from other building materials. Management continue to focus on investing in the brand and distribution channels and we expect this to continue to drive double-digit earnings growth over the medium term.

Healthcare stocks were stronger during the month, with Integral Diagnostics and Healius (both +5.7%) outperforming as industry data showed that patient volumes were recovering from COVID disruptions. CSL (+1.9%) also outperformed, with plasma collections having rebounded to above pre-COVID levels.

Energy related holdings outperformed, with Worley (+8.3%) rallying after holding an investor day which highlighted the scale of the opportunity for the business in providing engineering services to the renewable energy sector. This is already a significant part of their overall business and an increasingly large proportion of their pipeline of new work. Woodside Energy (+1.8%), also outperformed, as the oil price stabilised towards the end of the month.

Other outperformers included Tabcorp (+8.6%), which rallied on expectations that it will retain the Victorian wagering licence on attractive terms. Asset manager, MA Financial (+5.4%), rose after disclosing strong inflows into its funds and a move into the US, with the acquisition of a US credit management business.

The Financials (-3.2%) underperformed over the month, dragged down by the major banks (ave. -4.3%). The banks reported during the month and, while the results for the half year to March were strong, they indicated that net interest margins had peaked during the half. With margins now contracting again, the sector has lost its key positive driver as it faces into a slowing economy and the likelihood of rising bad debts. The Trust benefited as it has a modest underweight position in the sector.

The bulk miners were weaker over the month, with BHP (-5.4%), Rio Tinto (-4.7%), Fortescue Metals (-8.2%) all lower, as sentiment towards the Chinese economy weakened. While the pace of the post-COVID recovery has slowed, we expect to see a range of measures, particularly focussed on supporting activity in the property sector. In the meantime, the Trust currently holds a mild underweight in the bulks. Diversified base metals miner, South32 (-8.5%), also underperformed as commodity prices sold off across the board.

By contrast, lithium producers, Pilbara Resources (+4.0%) and Independence Group (+3.7%), were stronger, as major battery manufacturers moved from a period of de-stocking to re-stocking, driving the lithium price higher. Further, speculation increased that the Chinese government would increase subsidies to drive sales of EVs as part of their stimulus measures. Gold stocks Newcrest (-11.2%) and Northern Star (-4.1%) were both weaker as the gold price eased after a strong run, with rising bond yields and a stronger USD.

We continue to hold a modest overweight position in the sector, given the elevated level of macro, geopolitical and other risks at present. Further, while Newcrest has already received a takeover offer from Newmont, we believe Northern Star could also be very attractive, being a global top-10 producer, with well-located assets and strong production growth.

The other main detractor over the month was Treasury Wines (-16.6%), which fell after indicating that, while their luxury wine sales remained strong, they were seeing some softening in demand for their low-end commercial wines in Australia and the UK, and for their entry-level premium wines in the US. We continue to find the stock attractive as they rebalance their portfolio towards luxury and premium brands. Further, the removal of Chinese tariffs would be a material positive catalyst.

Trust Activity

During the month we took profits and trimmed our holdings in Tabcorp, United Malt and Newcrest. Proceeds were used to increase our holdings in the Resources and Energy sectors following their being sold off. At month end, stock numbers were 53 and cash was 4.2%.

Outlook

Global growth is clearly slowing, as interest rates rise, and economies grapple with the impacts of high inflation and the challenges of energy costs and other supply issues. Recent stresses in the banking sector have also been of concern and, given the high levels of indebtedness and the long lags associated with the transmission of monetary policy, we are unlikely to be out of the woods. On the positive, while inflation is proving sticky, it appears to have peaked, and unemployment rates remain very low in most major markets. Despite record interest rate rises, the Australian economy continues to perform strongly, and the unemployment rate remains low. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost. However, while house prices have stabilised, retail sales are beginning to weaken and building approvals have fallen sharply.

While the backdrop is currently sound, the level of uncertainty is elevated, and it seems that the rate rise cycle is not yet complete. As a result, a degree of caution is warranted and we prefer holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions in the Diversified Financials, Resources, and very select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

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.

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 Value Management Limited (ABN 22 090 879 904, AFSL No. 247293) as the Investment Manager. The Responsible Entity is Perennial Investment Management Limited (ABN 13 108 747 637, AFSL No. 275101). Perennial Partners Limited (ABN 90 612 829 160) is a Corporate Authorised Representative (1293138) of Perennial Value Management Limited. Both the Investment Manager and Responsible Entity form part of Perennial Partners. 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 Perennials website 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.