Perennial Value Shares Wholesale Trust

Monthly Report April 2024

	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)	-1.2	2.2	7.8	6.3	4.2	7.5	7.9	6.7	6.5	8.2
S&P/ASX 300 Accumulation Index	-2.9	1.2	10.0	9.0	5.5	7.1	8.0	8.0	7.8	7.9
Value Added	**1.7**	**1.0**	**-2.2**	**-2.7**	**-1.3**	**0.4**	**-0.1**	**-1.3**	**-1.3**	**0.3**

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

Overview

The global risk rally which began in November, ran into a wall in April. While markets had been ignoring rising bond yields for some time, higher than expected inflation readings caused the market to sharply reassess the prospects for near term rate cuts. At the same time, economic data, which had been remarkably resilient, also came in a little softer than expected.

This saw markets correct globally, with most major markets falling over the month. In the US, the S&P500 declined -2.6%, while the NASDAQ fell -2.4%. The Nikkei 225, which had been the star performer over the last 12 months, lost -6.0%. On the positive, the FTSE100 gained +2.4% to a new record high. The Shanghai Composite, which had been the only market to deliver a negative return over the last 12 months, also gained +2.4%. Sentiment towards China has been very negative in recent times, and some glimmers of positive news saw some money move back towards the region.

The Australian market was also weak, with the ASX300 Accumulation Index falling -2.9% over the month, to register its first decline in 6 months. The changing view on the outlook for interest rates saw REITs (-8.4%) the worst performing sector, giving back some of its recent rally. Consumer Discretionary (-6.0%) also fell as shadows of doubt crept in around the consensus soft landing view. Most other sectors also delivered negative returns. Metals & Mining (+1.3%) outperformed, with generally stronger commodity prices and improved China sentiment.

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 $452 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92% p.a.

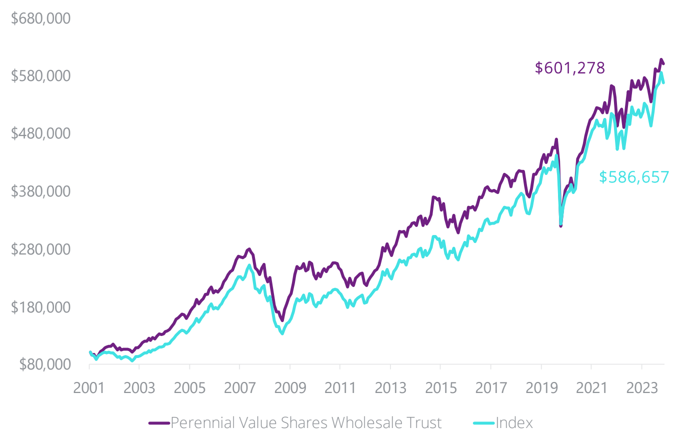
APIR Code
IOF0206AU

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	15.3	16.2
Price to Free Cash Flow (x)	12.6	13.9
Gross Yield (%)	5.3	5.1
Price to NTA (x)	2.2	2.5

Source: Perennial Value Management. As at 30 April 2024

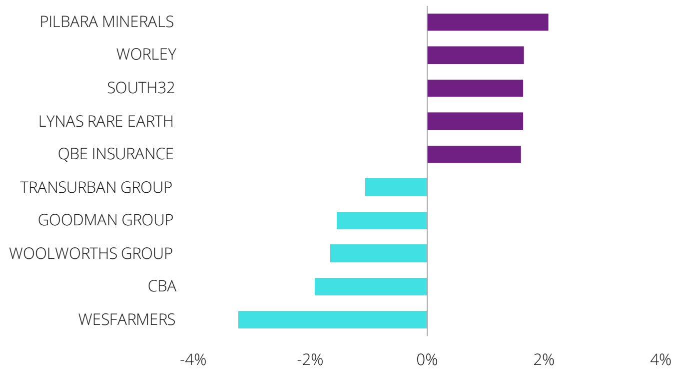
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

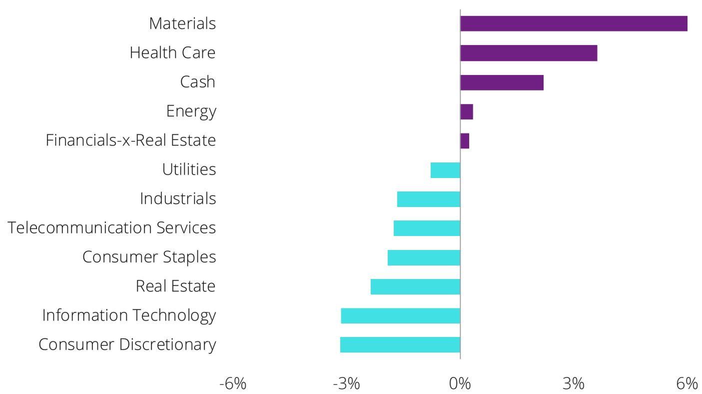


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -1.2%, after-fees in April, outperforming the benchmark by +1.7%.

Key contributors to performance over the month included the Trust's gold miners. The gold price has been very strong in recent times, setting new highs despite rising bond yields and reduced expectations of interest rate cuts. This could potentially be explained by increased central bank buying by certain countries as geopolitical tensions escalate. At the stock specific level, Newmont (+20.6%) rallied sharply after delivering a strong first quarter result, with higher production and lower costs. Northern Star (+4.1%) also outperformed.

Base metals continued to recover, with copper, aluminium, zinc, manganese and nickel, all up strongly over the month. In terms of commodity prices, supply is just as important as demand, and in many commodities, supply is tight. Copper is a good case in point, seeing significant downgrades to global production forecasts. The sum of these cuts is expected to move the market from surplus into deficit this year. This has driven the copper price to well over US$4/lb, seeing our holding in pure-play copper miner, Sandfire Resources (8.3%), continue to perform well, while diversified base metals producer, South32 (+17.0%) performed very strongly. There were also some signs of life in the pricing of lithium and rare earths, which drove outperformance by Lynas Corporation (+13.0%) and Pilbara Resources (+3.4%) respectively.

The iron ore price also rose modestly, continuing to prove far more resilient than many had expected, seeing Rio Tinto (+7.6%) and Fortescue Metals (-0.1%) also outperform. BHP (-2.9%) was softer, after announcing a takeover offer for Anglo American. This transaction would significantly increase BHP's exposure to copper, which is likely to see strong long-term demand growth, driven by electrification and the energy transition. By contrast, demand for iron ore, the current driver of the business may well slow over the coming years.

Resmed (+8.1%) outperformed as it continues to recover after being sold off on the back of concerns around the potential impact of GLP-1 weight loss drugs on demand for its sleep apnea devices. During the month, the results of a key clinical study were released showing the impact of these weight loss drugs on sleep apnea. As expected, as people lost weight, their sleep apnea improved. However, they were generally still at a severity where ongoing CPAP therapy would be recommended by a doctor. In our view, this risk is exaggerated as, while the "slimming down" of the population will no doubt have some effect of the incidence of sleep apnea, weight is only one risk factor. For example, age is another key risk factor and populations continue to age globally. More generally, sleep apnea is an under-diagnosed condition, with a large unaddressed market.

The sell-off on the back of these concerns was the perfect example of when from time to time, you get the opportunity to invest in a very high-quality business when it is trading at a significant discount to its historical relative valuation. In the case of Resmed, we have made over +30% on our investment as the stock has been re-rated towards its historical levels. As a result, we have recently been taking profits as their valuation discount has narrowed.

The Trust also benefitted from its underweight position in the REITs and consumer facing stocks, which retreated as yields rose and hopes of rate cuts receded.

Also in the Healthcare sector, there were very strong performances from Telix (+20.3%) and Immutep (+17.1%). Telix is experiencing very strong growth in sales of Illucix, its prostate cancer imaging agent. This is gaining significant market share due the logistical benefits to hospitals from its ease of preparation compared to alternative products. The company also has a solid pipeline of new products under development. Immutep rallied after reporting positive trial data for the immunotherapy drug is it developing for use in conjunction with Merck's blockbuster oncology drug, KEYTRUDA. These stocks have significant upside potential from here.

The main detractors from performance over the month were packaging company, Orora (-19.1%), as investors continue to be concerned about their recent French acquisition. While there are many red flags around the deal, in our view, these have now been largely factored into the share price. Other underperformers included Aristocrat Leisure (-7.6%) and Ramsay Healthcare (-7.1%).

Trust Activity

During the month, we exited the majority of our holding in Virgin Money UK, believing that there was unlikely to be a competing bid or an increase in the price of the current takeover offer. A number of other holdings were trimmed to take profits such as Goodman Group and Northen Star. At month end, stock numbers were 62 and cash was 2.2%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace, as while goods inflation has fallen sharply, services inflation is proving more persistent. While the expected timing of interest rate cuts has been pushed out, the consensus view is that rate cuts are coming, 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, the Australian economy continues to look reasonably healthy, boosted by immigration, however, GDP growth is weakening, and per capita GDP growth is negative. While the prospect of RBA interest rate cuts is positive for sentiment and the upcoming tax cuts will also boost disposable income, there are signs the labour market is beginning to soften, leaving us cautious on the consumer.

Despite the Chinese economic woes, demand for most commodities remains healthy and supply is generally constrained. We continue to believe that Resources represent the clear Value opportunity in the market at the present time.

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