Perennial Partners

Perennial Value Shares Wholesale Trust

Monthly Report November 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)	2.8	4.9	8.0	19.8	9.5	8.7	7.7	7.5	7.5	8.4
S&P/ASX 300 Accumulation Index	3.7	5.5	10.3	23.2	11.6	9.1	8.2	9.2	9.1	8.2
Value Added	**-0.9**	**-0.6**	**-2.3**	**-3.4**	**-2.1**	**-0.4**	**-0.5**	**-1.7**	**-1.6**	**0.2**

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

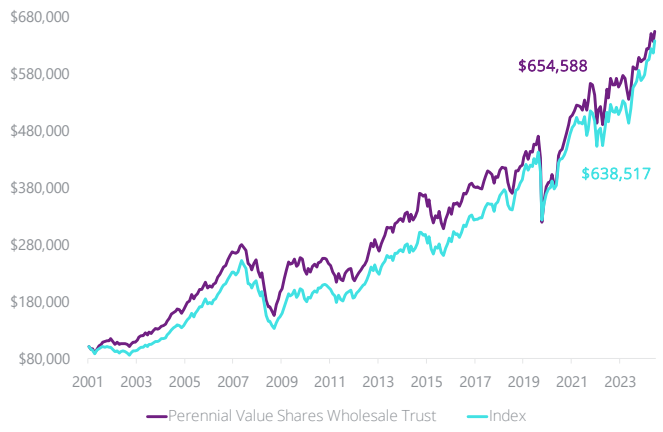
Overview

Markets rallied strongly in November, led by the US, which was buoyed by optimism that a Trump administration would be more business-friendly, with lower regulation and taxes, while at the same time being unlikely to rein in spending, at least in the near-term. The market's view is that this would set the animal spirits loose, boosting growth and markets. Markets also benefited from a decline in bond yields, which finished the month lower, after initially rising post the election.

This euphoria saw the S&P500 +5.9% (+33.9% LTM) and the NASDAQ +6.3% (+36.1% LTM), both reaching record highs. The FTSE 100 rose +2.6% (+15.4% LTM), the Chinese market added +1.5% (+13.2% LTM) while the Nikkei 225 eased -2.2% (+16.2% LTM).

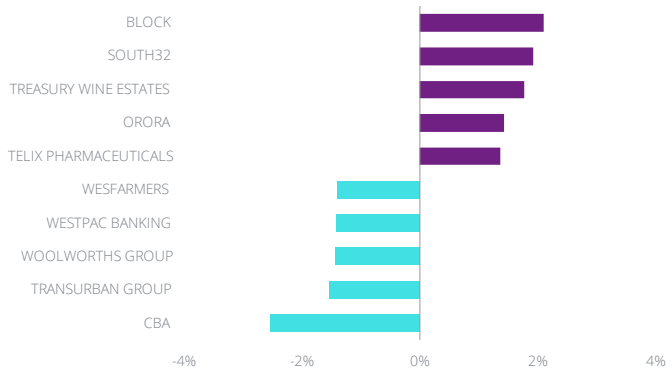
The Australian market was also strong, with the ASX300 Accumulation Index up +3.7%, also reaching a new high, and having delivered a total return of +23.2% over the last 12 months. IT (+10.2%) was the best performing sector, taking its lead from the US Tech sector. Utilities (+9.1%), Consumer Discretionary (+6.6%) and Telcos (+5.4%) performed strongly, while Financials (+7.0%) outperformed, driven by the major banks (+5.8% average). Metals & Mining (-4.0%) and Energy (-0.7%) were the only sectors with negative returns, with generally softer commodity prices on back of USD strength.

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



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 $445 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

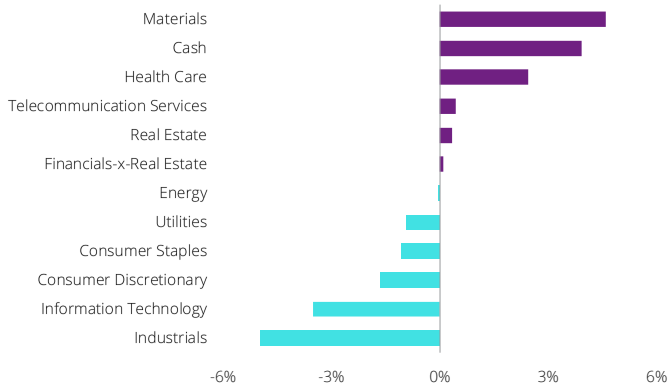
Fees
0.92% p.a.

APIR Code
IOF0206AU

Portfolio Characteristics – FY26	Trust	Market
Price to Earnings (x)	17.5	18.4
Price to Free Cash Flow (x)	13.1	15.9
Gross Yield (%)	4.6	4.3
Price to NTA (x)	2.3	2.8

Source: Perennial Value Management. As at 30 November 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.

Sector Active Exposure vs Index



Trust Review

The Trust returned +2.8%, after-fees in November, underperforming the benchmark by -0.9%.

Key contributors to performance included Block (+23.8%). This stock is a recent addition to the portfolio and is best known in Australia for its "Square" point of sale payments system – and for its disastrous US$29bn acquisition of Afterpay. While this was an enormously value destructive transaction (and one of the greatest exits in history!), with the share price down some -65% from its peak, this is well and truly factored into current valuations. Going forward, the stock offers a dynamic, well-established Fintech exposure to the US market, trading on an undemanding valuation. The company has significant scope to grow both its consumer and merchant businesses, as it both adds new users, as well as more products and services to its platform. The stock has returned over +40% since we invested in August, and we believe it has further upside going forward.

Healthcare stocks, Telix (+18.2%) and Immutep (+14.0%) both performed strongly. Telix, which is developing a range of radiopharmaceutical products for the diagnosis and treatment of various cancers, rallied after the announcement of positive changes to the way its products are funded by the US Government. It had been expected that there would be a cut to reimbursement rates in mid-25, however, this will no longer be the case, lifting revenue expectations. Immutep, which is developing an immunotherapy drug, also for the treatment of a range of cancers, rallied after announcing positive trial data which showed improved response and survival rates for patients. While relatively high risk, this stock has massive upside potential as its main product is currently being trialled for use in combination with Merck's KEYTRUDA, one of the biggest selling drugs globally, with sales of over US$25bn p.a. However, it is coming off patent in 2028, and the development of an effective combination therapy could extend this revenue stream. As a result, should the data continue to be positive, Immutep's value would be many times its current market cap of $470m.

Insurance holdings QBE (+16.2%) and IAG (+13.7%) both outperformed in November as well as over the last 12 months. While many companies are facing margin pressures, the insurance sector has been able to pass on price increases sufficient to offset their claims inflation. This inelasticity of demand demonstrates the relative defensiveness of the sector, with insurance in many cases being a non-discretionary purchase. The sector has also benefitted from the rise in bond yields, which has boosted the earnings from their investment portfolios. We have been taking profits in the sector in recent months as, while valuations are still generally undemanding, premium rate increases are slowing, and bond yields may decline.

US exposed cyclicals, James Hardie (+15.0%) and Aristocrat Leisure (+10.8%) both outperformed. Both companies delivered solid earnings results during November, which demonstrated strong operational performance against a somewhat subdued demand backdrop. Both companies are leaders in their respective markets and stand to benefit materially should the US economy accelerate.

During the month, ANZ, NAB and Westpac reported their FY24 financial results and CBA gave a first quarter trading update. As expected, the results showed that the sector is devoid of earnings growth. While credit growth is moderate and interest margins were very slightly better than expected, persistent cost pressures saw the sector deliver flat pre-provision earnings.

In terms of credit quality, while bad debts remain low, the results showed that arrears are rising. On the positive, the banks are well-provisioned and well-capitalised, which should support dividends and ongoing buybacks, should the economy continue to struggle along and not deteriorate further from here. However, given the above, and the outlook, the current valuations of the banks cannot be explained on any fundamental basis. As a result, we remain moderately underweight the sector and its outperformance detracted modestly from relative performance over the month.

Other stocks which detracted from performance were predominantly our Resources holdings which were weaker on the back of generally lower commodity prices, with Pilbara Resources (-16.1%), Lynas Corporation (-9.5%) and Iluka Resources (-4.9%). The bulk miners were also down (-2.2% average), although it's interesting to note that the iron ore price is still comfortably >US$100/t. We continue to see attractive value in the Resources sector.

Trust Activity

During the month, we took profits and trimmed our positions in Aristocrat Leisure (+71.9% LTM) and NWR Holdings (+51.0% LTM) and exited A2 Milk (+44.8% LTM). Proceeds were used to re-establish a position in Wesfarmers, which has pulled back somewhat from its recent highs. We also reduced our holding in Newmont and switched it into Northern Star, which is performing better from an operational perspective. At month end, stock numbers were 62 and cash was 3.9%.

Outlook

The result of the US election was well-received by markets and comes on top of the beginning of the long-awaited US rate cutting cycle. As a result, sentiment to the US outlook is very positive at present. While trade tensions and tariffs present risks, the step-up in Chinese stimulus measures in response to their economic slowdown is also positive for the global outlook. As a result, the consensus view is that a soft landing will be achieved. This would be an excellent outcome. However, history suggests that soft landings are few and far between. Should inflation prove resurgent, then the sentiment could change quickly. In addition, it could be argued that factors such as the AI boom have driven a divergence between valuations and fundamentals, leaving large components of the market very fully-valued. Overall, we feel a degree of caution is warranted.

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. This all leaves us cautious on discretionary sectors.

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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Signatory of:

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