Perennial Concentrated Australian Shares Trust

MONTHLY REPORT SEPTEMBER 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Concentrated Australian Shares Trust (Net)	-4.6	-1.0	-1.0	-15.6	-3.3	-	0.1
S&P/ASX300 Accumulation Index	-3.6	-0.1	-0.1	-10.0	0.7	-	4.6
Value Added	**-1.0**	**-0.9**	**-0.9**	**-5.6**	**-4.0**	**-**	**-4.5**

Trust inception: May 2017. Past performance is not a reliable indicator of future performance.

Overview

- Global markets were weaker in September, with most major indices declining on the back of increasing COVID-19 infections in many countries and the uncertainty caused by the looming US election.
- The Australian market was also weaker, with the ASX300 Accumulation Index declining 3.6%. This was despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings, which will be important in supporting domestic economic activity.
- The market has now recovered over half of its losses from the COVID-induced sell-off and now appears to be in a holding pattern as it attempts to weight up the increasingly positive domestic outlook with increasing global risks.
- The Trust has performed strongly since the market began to recover, outperforming the index by +3.5% since the market's low and continues to be positioned to benefit from any sustained recovery in the outlook.

Perennial Concentrated Australian Shares Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in a concentrated portfolio of Australian companies and to provide a total return that exceeds the S&P/ASX300 Accumulation Index measured on a rolling three-year basis.

Portfolio Manager
Dan Bosscher

Trust FUM
AUD $15 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2017

Strategy Inception Date
May 2014

APIR Code
WPC6780AU

Fees
0.92%

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.7	16.5
Price to Free Cash Flow (x)	13.7	15.7
Gross Yield (%)	6.0	4.7
Price to NTA (x)	1.8	2.2

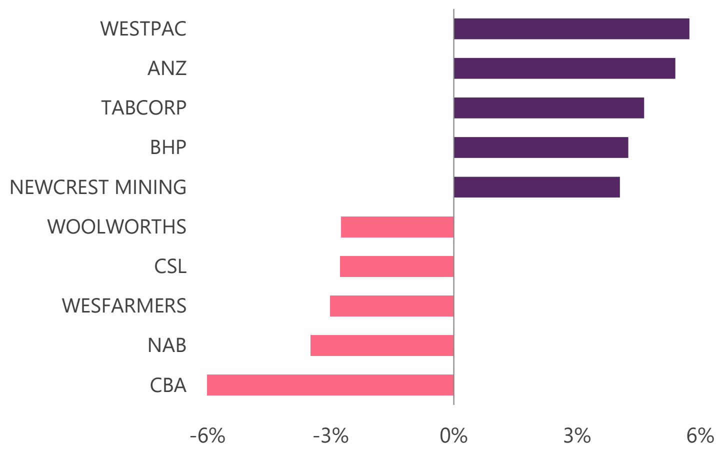
Source: Perennial Value Management. As at 30 September 2020

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.

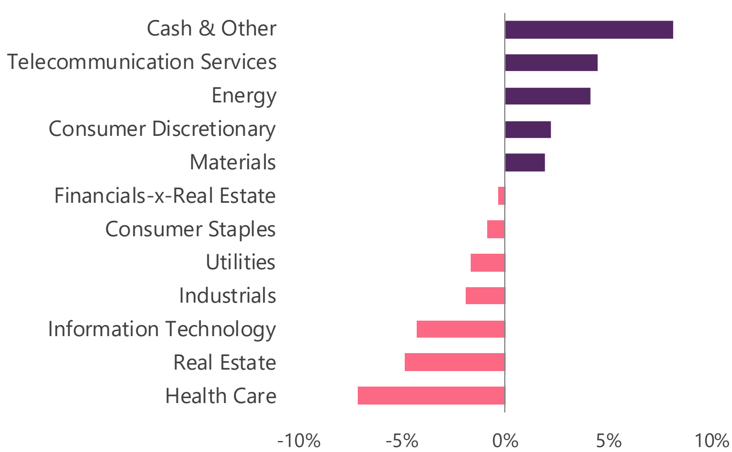
Trust Thematics Exposure

Offshore earners	Aristocrat, NWS
Long cyclicals	Origin, BHP, Santos, Alumina
Defensives	Newcrest Mining, Metcash
Short US10 Yr. Bond	Underweight Utilities

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets were weaker in September, with most major indices declining on the back of "Second wave" fears, due to increasing COVID-19 infections in many countries as well as the uncertainty caused by the looming US election and a failure to agree on a further round of stimulus measures. Economic data was softer in Europe and the spectre of Brexit also returned as an issue for the UK.

The Australian market fell in sympathy with global markets, with the ASX300 Accumulation Index declining 3.6%. This was despite the ongoing decline in COVID cases in Victoria and the commencement of border re-openings, which will be important in driving a resumption of domestic economic activity. The Australian unemployment rate positively surprised during the month, although this is distorted by stimulus measures, which are now beginning to taper off.

The Trust delivered a return of -4.6% in September, underperforming the market by 1.0%. Since the market's low in March, however, the Trust has performed strongly, returning +34.0% and outperforming the market by 3.5%. Over this period, many of the Trust's holdings rallied strongly, as it is during recovery phases that value stocks often deliver significant outperformance. In addition, the Trust has benefitted from very strong performances from a number of stocks which we acquired at very attractive prices during the selloff.

In line with the more cautious mood in September, defensive sectors of the market tended to outperform, with Healthcare (+0.8%) the only sector to deliver a positive return. The REITs (-1.1%) outperformed, although this was more driven by potential upside from a re-opening rather than their supposed defensive characteristics, which have been brought into question in this downturn. More cyclical sectors tended to underperform, with Energy (-10.7%) and Metals & Mining (-4.0%) both lagging on concerns over the global outlook, while Financials (-6.1%) also lagged, weighed down by the banks.

The IT sector (-6.4%) also underperformed, with market darling Afterpay (-12.5%) giving back some of its recent gains. We have previously commented on this stock, which boasts a market capitalisation of over $20bn, despite generating negligible earnings and operating in a sector with minimal barriers to entry. Time will tell, but our guess is that this stock still has a long way to fall and is emblematic of the excessive valuations being seen in some parts of the market. By contrast, the market's fall means a significant amount of bad news is now factored into the share prices of many less "exciting" companies, suggesting significant upside for the patient investor.

Holdings which contributed positively to performance included Aristocrat Leisure (+5.6%), on the expectation of ongoing strong growth in its digital gaming business as well as the potential for one of its key competitors to reduce their focus on traditional land-based gaming activities. Other strong performers included United Malt Group (+5.1%).

Holdings which detracted from performance included QBE Insurance (-18.9%), following the shock departure of the CEO and energy stocks Origin Energy (-21.4%) and Santos (-13.9%) on the softer oil price. We continue to see significant upside in these stocks.

Trust Activity

During the month we exited our position in Reliance Worldwide. The share price has rallied strong post the company reporting its full year 2020 result and we feel the stock now reflects fair value.

At month end the portfolio comprised 21 names and 8.0% cash.

Outlook

The market has recovered over half of its losses from the COVID-induced sell-off and now appears to be in a holding pattern as it attempts to weigh up the increasingly positive domestic outlook with increasing global risks.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. Australia has, so far, fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity. The Trust continues to be positioned to benefit from any sustained recovery in the domestic and global outlook.

Finally, the silver lining of a downturn such as this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Global, Currency & Commodities (%)

S&P500	-3.9
Nikkei225	+0.2
FTSE100	-1.6
Shanghai Composite	-5.2
RBA Cash Rate	0.25
AUD / USD	71.7c
Iron Ore	-1.4
Oil	-6.8
Gold	-4.2
Copper	+2.1

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Contact Us

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