

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [^] (% p.a.)
Perennial Concentrated Australian Shares Trust (Net)	2.8	-1.2	-1.0	16.6	11.4	-	6.4
S&P/ASX 300 Accumulation Index	2.7	2.2	4.0	17.5	14.0	-	10.0
Value Added	0.1	-3.4	-5.0	-0.9	-2.6	-	-3.6

[^]Since inception: May 2017. Past performance is not a reliable indicator of future performance.

Overview

Markets rallied in December, with most major global indices rising strongly. This was despite the rapid spread of the Omicron COVID variant, as early indications are that vaccination provides effective protection against serious disease, suggesting that the economic recovery is unlikely to be derailed.

The Australian market was also strong in December, with the ASX300 Accumulation Index finishing the month +2.7%. This brought the total return for the 12 months to a healthy +17.5%, with all sectors delivering positive returns.

The resources sector was the standout over the month, on the back of broad-based commodity price strength. Importantly, the iron ore price has begun to recover and there are signs that the Chinese are beginning to take steps to support their property market.

Rising inflation expectations and increasingly hawkish commentary from the US Federal Reserve saw bond yields rise. This was positive for financials, with the banks performing well, while presenting a headwind for the more expensive parts of the market such as the Tech sector. This may well be a feature of the year ahead.

Fund Characteristics

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 \$20 million

Distribution Frequency

Half yearly

Minimum Initial Investment

\$25,000

Trust Inception Date

May 2017

Fees

0.70% p.a. + Performance fee

APIR Code

WPC6780AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	12.3	17.0
Price to Free Cash Flow (x)	9.2	15.5
Gross Yield (%)	6.4	4.8
Price to NTA (x)	2.3	3.0

Source: Perennial Value Management. As at 31 December 2021

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 Thematic Exposures

Offshore Earners Aristocrat Leisure , Macquarie Group

Long Cyclical BHP, Woodside

Defensives Newcrest Mining, Charter Hall Wale

Short US10 Yr. Bonds Underweight Utilities

Top 10 Positions (A -> Z)

ANZ

Aristocrat Leisure

Atlas Arteria

BHP

Charter Hall

Macquarie Group

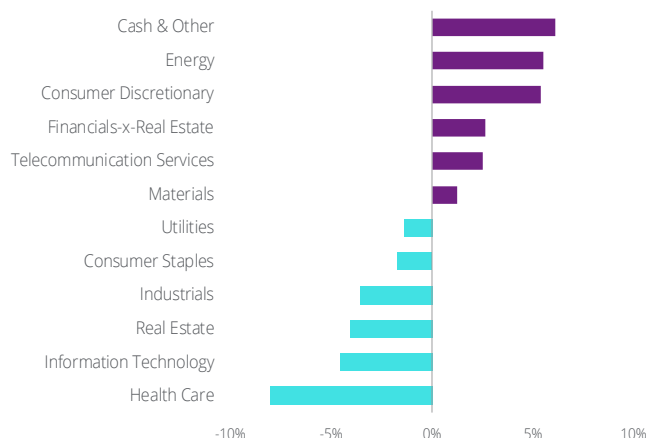
Newcrest Mining

Telstra

Westpac

Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Resources sector was again the standout in December, with broad-based commodity price strength driving rallies across the sector. Having fallen sharply over the past 6 months, the iron ore price has now begun to recover, with the Chinese beginning to take steps to support their property market. This saw the prices of the iron ore miners rally, with our preferred exposure, BHP (+5.4%) outperforming over the month.

We see significant upside in BHP, which is currently delivering strong operational performance and is leveraged to an expected upturn in the iron ore price. The company is trading on a very attractive valuation and has a de-gearred balance sheet. Further, the demerger of its energy assets into Woodside Petroleum, is likely to be a positive catalyst as it significantly decarbonises the company's asset portfolio and allows it to focus on future-facing commodities to participate in the energy transition. Finally, the collapsing of the DLC structure is also likely to be a positive for the stock.

Also in the materials space, Bluescope Steel (+5.7%), outperformed over the month. While subject to a high degree of cyclicality, operating conditions remain very favourable and the stock is trading on an extremely cheap valuation, with a debt-free balance sheet. Not only do we believe that the current demand outlook for commodities is positive, but historically, commodities have performed strongly in more inflationary periods, such as we are currently experiencing. Similarly, gold can be expected to outperform in such an environment, with Newcrest (+3.6%) also outperforming over the month.

Metcash (+13.1%) rallied after delivering a strong first half result, with particularly pleasing growth from their Hardware operations. This stock, which was added to the portfolio last month, is well placed to benefit from increased at home eating and local shopping as a result of the recent COVID resurgence.

The major banks outperformed over the month, rising an average of +5.3% and regaining some of last month's declines. The Trust has an overweight position in the sector, as the banks currently offer attractive long-term valuations and are in very strong financial positions. Overall operating conditions are positive, with loan growth picking up, very good credit quality and a strong focus on cost control. However, sector earnings are currently being held back by ongoing low interest rates and intense mortgage competition, which is impacting margins. This will be alleviated when interest rates eventually begin to rise, and we expect that this will be a catalyst for sustained outperformance by the sector.

Finally, the Trust benefitted from not holding a number of expensive growth stocks which underperformed over the month including Afterpay (-23.7%).

Trust Activity

During the month we added to our positions in Tabcorp and Bluescope. In the case of Tabcorp, we see significant value to be realised post the demerger of the lotteries and wagering divisions, while Bluescope represents compelling value, trading at less than 3x forecast current year EBITDA. At month end, stock numbers were 18 and cash was 6.1%.

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.

Global, Currency & Commodities (%)

S&P 500	+4.4
Nikkei 225	+3.5
FTSE 100	+4.6
Shanghai Composite	+2.1
RBA Cash Rate	0.10
AUD / USD	72.7c
Iron Ore	+13.9
Oil	+8.2
Gold	+1.2
Copper	+2.3

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