Perennial Concentrated Australian Shares Trust

Monthly Report May 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (% p.a.)
Perennial Concentrated Australian Shares Trust (Net)	-1.9	1.9	1.6	2.0	17.3	6.9	-	6.4
S&P/ASX 300 Accumulation Index	-2.8	3.1	2.4	4.7	16.1	8.0	-	8.8
Value Added	**0.9**	**-1.2**	**-0.8**	**-2.7**	**1.2**	**-1.1**	**-**	**-2.4**

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

Overview

Markets stabilised in May, with the S&P500 finishing flat, while the FTSE100 rose +0.8% and the Nikkei 225 rallied +2.5%. However, the NASDAQ continued to decline, falling -2.1%, as loss-making tech stocks continued to be de-rated. By contrast, the Shanghai Composite was up strongly, rallying +4.6%, as it appeared the COVID outbreaks were being brought under control.

The Australian market lagged offshore markets in May, with the ASX300 Accumulation Index declining -2.8% over the month. Metals and Mining (+0.3%) was the only sector to post a positive return, with optimism around the ending of Chinese lockdowns seeing Resources stocks outperform. The Energy sector (-0.7%), also outperformed, with the oil price rising to over US$120 per barrel, as supply was impacted by Russian sanctions.

Interest rate sensitive sectors were the worst performers over the month, with REITs (-8.6%) and IT (-8.0%) down sharply as the RBA raised the cash rate for the first time since 2010 and Australian bond yields continued to rise to levels not seen since 2014. Higher interest rates not only pressure the valuations of expensive growth stocks but reduce the willingness of investors to continue funding loss-making companies.

Despite the ongoing uncertainties, the economic backdrop in most major economies is sound, as they continue to reopen post-COVID, with strong employment conditions. However, economies now face the challenges of ongoing supply chain issues, high inflation, and the associated turn in the interest rate cycle. After many years of increasing globalisation, low inflation and falling interest rates, these factors present very significant changes to the economic backdrop and warrant a degree of caution.

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 $21.0 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 – FY23	Trust	Market
Price to Earnings (x)	13.2	15.8
Price to Free Cash Flow (x)	9.6	13.9
Gross Yield (%)	6.8	5.4
Price to NTA (x)	2.4	2.7

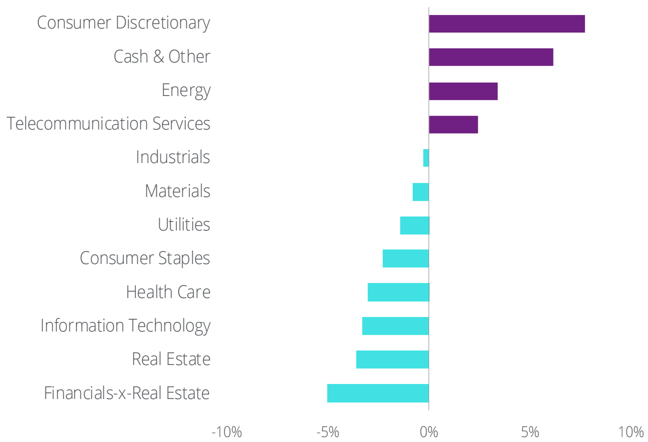
Source: Perennial Value Management. As at 31 May 2022

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 , James Hardie
Long Cyclicals	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
CSL
Insurance Australia Group
Newcrest Mining
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Trust returned -1.9% after-fees in May, outperforming the Index by 0.9%. For the last 2 years, the Trust has delivered a return of +17.3%, outperforming the Index by +1.2% after-fees. This demonstrates the Trust's leverage to the value rotation which has been taking place as economies have reopened and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation will still have a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

Better performing stocks during the month included our Resources holdings, with BHP (+4.4%) outperforming. At the beginning of the year, the Chinese government had adopted a number stimulus measures to achieve their growth target of around 5.5% for 2022. However, the impact of COVID means that far more aggressive measures will be needed if this target is to be met. As a result, many of these measures have been brought forward and it is likely that significant additional measures will be announced early in the second half of the year. As in the past, these measures will likely focus on the infrastructure and property sectors and be positive for resources and commodity prices.

Woodside Petroleum, now renamed Woodside Energy Group (-4.5%), lagged the market and sector. However, this was likely due to the overhang of stock that was expected to be sold post the completion of the merger with BHP Petroleum. The merger sees Woodside become a top 10 global oil and gas producer, with an attractive portfolio of low-cost growth options and a strong balance sheet. At current oil prices, the company is generating enormous amounts of cash flow and trading at very low multiples.

Trust Activity

Corporate actions saw us receive shares in Lottery Corporation, which was demerged from Tabcorp. At month end, stock numbers were 20 and cash was 6.1%.

Outlook

While growth is clearly slowing, on balance, we view the outlook as sound, with economies recovering as COVID recedes. Economic data continues to be sound in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with reopening leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and Insurance as well as a modest overweight in gold.

Global, Currency & Commodities (%)	
S&P 500	0.0
Nikkei 225	+1.6
FTSE 100	+0.8
Shanghai Composite	+4.6
RBA Cash Rate	0.35
AUD / USD	71.7c
Iron Ore	-4.2
Oil	+12.3
Gold	-3.1
Copper	-2.6

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