Perennial Concentrated Australian Shares Trust

Perennial Partners

Monthly Report June 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)	-5.8	-9.1	-4.3	-4.3	12.9	3.5	5.4	5.1
S&P/ASX 300 Accumulation Index	-9.0	-12.2	-6.8	-6.8	9.4	3.4	6.9	6.7
Value Added	**3.2**	**3.1**	**2.5**	**2.5**	**3.5**	**0.1**	**-1.5**	**-1.6**

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

Overview

Markets declined sharply in June, with most major indices falling, as the market began to worry about the impact of rising interest rates on the global growth outlook. These macro concerns saw the S&P500 fall -8.4%, the FYSE100 decline -5.8% and the Nikkei 225 ease -3.3%. The NASDAQ, which had borne the brunt of previous selling, continued to slide, falling -8.7%, as tech stocks continued to be derated due to the perceived end of the "free money" era. The Chinese market was once again the bright spot during the month, with further optimism that lockdowns are easing, and that the government will unveil more stimulus measures. This saw the Shanghai Composite up strongly, rallying +6.7%.

The Australian market also fell in June, with the ASX300 Accumulation Index declining by -9.0% over the month. The market was dragged down by the more cyclical sectors, with Financials (-11.9%) and Metals & Mining (-13.5%), as investors worried about the prospects for a sharp economic slowdown. REITs (-10.4%) and IT (-11.2%) also dragged as rising bond yields pressured their valuations.

Consumer Staples (+0.2%) was the only sector to post a positive return, with the risk-off sentiment seeing investors flock to the perceived safety of the sector. The Energy sector (-0.6%), also outperformed the rest of the market, with the oil price remaining strong, as supply continues to be impacted by Russian sanctions, with little scope for other producers to increase production in the near-term. Other defensive sectors also outperformed, with Healthcare (-3.2%) and Telcos (-3.9%), holding up relatively well.

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 $19.4 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

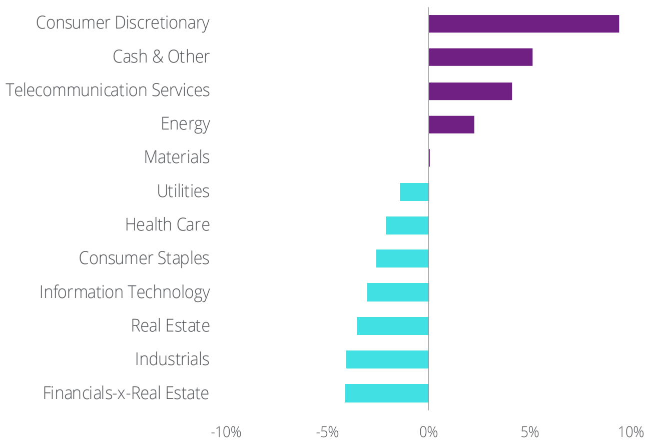
Portfolio Characteristics – FY23	Trust	Market
Price to Earnings (x)	12.7	14.4
Price to Free Cash Flow (x)	9.3	12.8
Gross Yield (%)	7.0	6.0
Price to NTA (x)	2.3	2.5

Source: Perennial Value Management. As at 30 June 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
BHP
CSL
Insurance Australia Group
Newcrest Mining
Tabcorp
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Trust returned -5.8%, after-fees in June, outperforming the index by 3.2%. Over the past 12 months, the Trust has outperformed the index by +2.5%, after-fees, as the market has rotated towards value. While the current uncertainties may cause a short-term pause, we expect that this rotation still has 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 Woodside Energy Group (+7.0%), which rallied on the continued strength in the oil price and the completion of its merger with the BHP Petroleum business. In addition to delivering significant cost savings, the merger has significantly increased the scale and diversification of Woodside's business.

While our portfolio is overall positioned to benefit from an ongoing cyclical recovery as COVID recedes, we balance this with a selection of high-quality defensive holdings. During the month, the flight to safety saw outperformance from our defensive holdings, with Telstra (-0.8%) and CSL (-1.0%) both holding up well. These stocks are experiencing positive drivers, with Telstra seeing improved profitability in its mobile business and CSL recovering from the COVID disruption to its business. In selecting our defensive holdings we are looking for stocks whose earnings will be relatively protected in a slower growth environment, but importantly will not be too impacted by rising interest rates. This means finding stocks which also have reasonable valuations and low levels of debt. Insurance holding IAG (-0.2%) also fit this bill, with earnings which are both relatively defensive and positively leveraged to rising interest rates, which boost the returns on their investment portfolios.

Holdings in gaming stocks also performed well, with wagering company, Tabcorp (+14.5%), rallying strongly post its demerger from Lotteries Corporation (-4.5%), which also outperformed. The demerger aims to realise value by creating two businesses with quite different characteristics. Lotteries Corporation provides a very stable, annuity-like revenue stream, underpinned by long-term licences, worthy of a high valuation. By contrast, the Tabcorp wagering business, which has been challenged by competition in recent years, is likely to be taken over as part of the consolidation which is occurring in the sector. Aristocrat Leisure (+1.7%) also outperformed over the month.

Trust Activity

During the month we sold our holding in Atlas Arteria. At month end, stock numbers were 18 and cash was 5.2%.

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	-8.4
Nikkei 225	-3.3
FTSE 100	-5.8
Shanghai Composite	+6.7
RBA Cash Rate	0.85
AUD / USD	68.8c
Iron Ore	-11.9
Oil	-6.5
Gold	-1.6
Copper	-13.8

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