

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception <sup>^</sup> (% p.a.)
Perennial Concentrated Australian Shares Trust (Net)	-4.3	-0.2	-0.2	-4.6	13.4	2.8	5.4	4.8
S&P/ASX 300 Accumulation Index	-6.3	0.5	0.5	-8.0	9.7	2.7	6.8	6.5
<b>Value Added</b>	<b>2.0</b>	<b>-0.7</b>	<b>-0.7</b>	<b>3.4</b>	<b>3.7</b>	<b>0.1</b>	<b>-1.4</b>	<b>-1.7</b>

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

## Overview

Persistently high inflation and ongoing hawkish commentary from the US Fed and other central banks, saw bond yields rise and growth expectations fall, sending global markets sharply lower in September. The S&P500 finished the month down -9.3%, the NASDAQ fell -10.5%, FTSE100 declined -5.4%, the Nikkei 225 shed -7.7% and the Shanghai Composite was off -5.6%.

The Australian market was also weaker in September, with the ASX300 Accumulation Index finishing the month down -6.3%. While all sectors of the market delivered negative returns, the Resources sector again outperformed, with Metals and Mining (-1.9%) and Energy (-3.9%) the best performing sectors over the month. The prospect of higher interest rates saw rate sensitive sectors such as Utilities (-13.8%), REITs (-13.6%) and IT (-10.4%) down sharply, while a darkening economic outlook saw Industrials (-9.5%) and Consumer Discretionary (-9.2%) weaker.

Looking forward, while activity remains strong, markets are increasingly pricing recessions in the US and Europe. Investors are searching for signs of slowing activity and easing inflationary pressures, which could foretell the end of the current rate tightening cycle. In this respect, the coming US quarterly earnings season will be very interesting. Economic activity in Australia also remains very robust, with consumer spending holding up despite interest rate rises and inflationary pressures.

## 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 \$19.3 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)	12.3	14.4
Price to Free Cash Flow (x)	10.5	13.6
Gross Yield (%)	7.0	5.6
Price to NTA (x)	2.0	2.5

Source: Perennial Value Management. As at 30 September 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 Cyclical** 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

James Hardie Industries

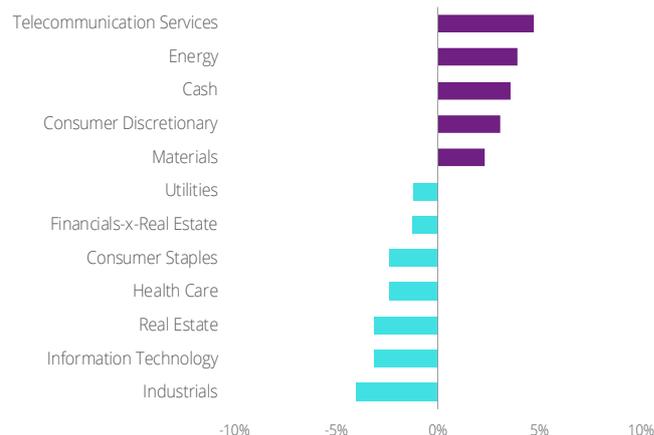
Newcrest Mining

Telstra

Westpac

Woodside Petroleum

## Sector Active Exposure vs Index



## Trust Review

The Trust returned -4.3% net of fees in September, outperforming the index by +2.0%.

Key positive contributors to performance included resources holdings, with BHP (+1.2%) outperforming. The Trust holds a modest overweight position in the miners, seeing positive sector dynamics as demand for minerals is boosted by the post-COVID reopening of China near-term and the energy transition medium-term. Further, in these times of rising geopolitical tensions and ESG focus, Australian producers are particularly well-placed, as customers seek reliable supply from “strategically-aligned” and well-governed jurisdictions.

The Energy sector outperformed, with Woodside energy (-2.8%) the key driver. Woodside is very well-placed to benefit from the current strong energy prices, with around a quarter of its production uncontracted and able to be sold into the spot market. While the Energy sector is, hopefully, in a long-term decline as fossil fuels are replaced with renewables, this will not be a rapid process and LNG will be a transition fuel along that journey. In the meantime, Woodside is generating enormous cash flows and sitting on an ungeared balance sheet. While the war in Ukraine has dramatically increased gas prices, it is important to remember that, prior to the invasion in February, Brent crude was trading at around US\$100 per barrel. This strength reflected tight supply resulting from several years of significantly reduced investment across the sector. This underinvestment has continued and, as a result, energy prices can be expected to remain relatively high for some time.

Rising bond yields saw IAG (-1.1%) outperforming, with insurance companies being leverage to higher Interest rates. Further, while a spate of extreme weather events means there is currently no shortage of natural perils, the premium pricing environment continues to remain strong for the sector.

Underperformers included Aristocrat and Betmakers. Both of these stocks continues to have considerable upside in our view.

## Trust Activity

During the month we exited our holdings in Tabcorp. At month end, stock numbers were 17 and cash was 3.5%.

## Outlook

Global growth is clearly slowing as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. While economic data is mixed, and varies greatly from region to region, unemployment rates are very low in most major markets. 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 post-COVID normalisation, 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.

### Global, Currency & Commodities (%)

S&P 500	-9.3
Nikkei 225	-7.7
FTSE 100	-5.4
Shanghai Composite	-5.6
RBA Cash Rate	2.35
AUD / USD	64.3c
Iron Ore	+2.0
Oil	-8.8
Gold	-2.9
Copper	-3.0

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