Perennial Concentrated Australian Shares Trust

Perennial Partners

Monthly Report December 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)	-3.9	6.5	6.3	2.8	9.5	4.6	5.0	5.8
S&P/ASX 300 Accumulation Index	-3.3	9.1	9.6	-1.8	7.5	5.5	7.1	7.8
Value Added	**-0.6**	**-2.6**	**-3.3**	**4.6**	**2.0**	**-0.9**	**-2.1**	**-2.0**

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

Overview

Markets ended the year on a soft note, with persistently high inflation and hawkish commentary, dashing hopes that Central Banks would pivot to a more accommodative stance and towards monetary tightening. This saw all major global markets finish the month lower, reversing much of the previous month's gains. The S&P500 finished down -5.7%, while the NASDAQ fell -8.6%, on a heavy tech sell-off. The FTSE100 declined by -1.6%, while the Nikkei 225 shed -6.7%, as the Bank of Japan allowed long-term bond yields to increase. On the positive, the Chinese Government has moved far more quickly than expected in abandoning its COVID zero policy, removing restrictions on the population and reopening borders. While the Shanghai Composite still had a negative return of -2.0%, this followed a very strong +8.9% rally in November. This likely reflects the fact that, while the removal of restrictions will lead to an economic recovery through 2023, the reality is that the rapid spread of the virus will impact activity in the very near-term.

The Australian market was also weaker in December, with the ASX300 Accumulation Index finishing the month down -3.3%. All sectors delivered negative returns, however, the Metals & Mining sector (-0.8%) again performed best, driven by expectation of a pick-up in Chinese commodity demand as their economy reopens. Defensive sectors such as Consumer Staples (-1.8%) and Telcos (-2.6%) also outperformed in the more cautious environment. By contrast, more cyclical and interest rate sensitive sectors such as Consumer Discretionary (-7.0%), IT (-5.6%), Industrials (-4.9%), Healthcare (-4.4%) and REITs (-4.0%) lagged. Financials (-3.5%) were also softer, with the major banks declining by an average of -4.0%.

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 $20.6 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 – FY24	Trust	Market
Price to Earnings (x)	13.2	14.7
Price to Free Cash Flow (x)	11.8	13.6
Gross Yield (%)	5.6	5.3
Price to NTA (x)	2.5	2.6

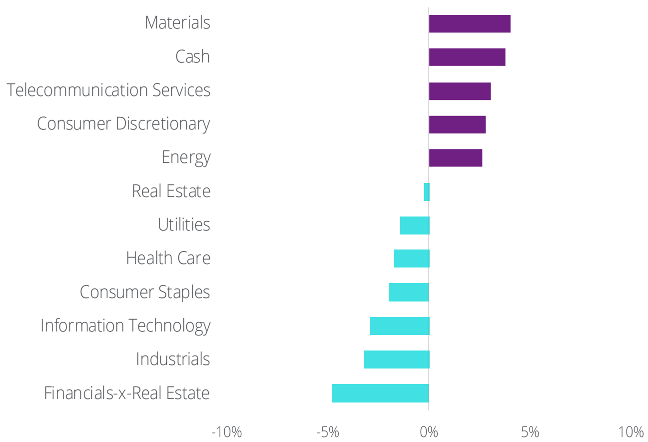
Source: Perennial Value Management. As at 31 December 2022

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
Short US10 Yr. Bonds	Underweight Utilities

Top 10 Positions (A -> Z)
ANZ
Aristocrat Leisure
BHP
CSL
Goodman Group
James Hardie Industries
Newcrest Mining
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Trust returned -3.9%, after-fees in December, underperforming the index by -0.6%. Key positive contributors to performance included the Trust's resources holdings, with the prospects of Chinese reopening seeing strong rallies in the prices of iron ore (+15.7%) and other commodities. This pushed the bulk miners higher, with BHP adding to performance. Miners have been very strong performers over the last 12 months, rising an average of +28.9%, compared to the market which declined by -1.8%. Gold stock Newcrest (+4.2%) also outperformed on the rising gold price and weakening USD.

The main detractors over the month were stocks exposed to the consumer, with gaming machine manufacturer Aristocrat Leisure (-12.9%) weaker. Building materials company, James Hardie (-9.6%), was weaker again, as data showed that rapidly increasing US mortgage rates are crimping demand for new homes. However, we remain very confident in the longer-term outlook for these businesses, each of which is well-managed and holds a very strong position in its market.

As a general note, we believe that M&A will likely be a significant feature of the market over the coming year. While interest rates have risen materially and the economic outlook has deteriorated, there is an enormous amount of dry powder in private equity funds which needs to be deployed. Further, many share prices are depressed, making valuations attractive on a medium-term view. Finally, slowing economic growth will likely drive a wave of in-market consolidations, as management teams pursue earnings growth via cost synergy realisation.

Trust Activity

No position changes were made during the month. At month end, stock numbers were 17 and cash was 3.8%.

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 reopening, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Diversified Financials, as well as select parts of the Consumer Discretionary and Resources sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and a modest overweight in gold.

Global, Currency & Commodities (%)	
S&P 500	-5.7
Nikkei 225	-6.7
FTSE 100	-1.6
Shanghai Composite	-2.0
RBA Cash Rate	3.1
AUD / USD	67.8c
Iron Ore	+15.7
Oil	+0.6
Gold	+3.1
Copper	+1.9

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