Perennial Concentrated Australian Shares Trust

Monthly Report March 2023

	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)	0.5	6.0	12.8	2.5	7.3	19.6	7.6	6.6
S&P/ASX 300 Accumulation Index	-0.2	3.3	13.3	-0.6	7.0	16.6	8.6	8.1
Value Added	**0.7**	**2.7**	**-0.5**	**3.1**	**0.3**	**3.0**	**-1.0**	**-1.5**

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

Overview

March saw a wild ride in markets, with concerns over US regional banks leading to a sharp sell-off in the first half of the month. However, swift and decisive actions by the regulators was effective in convincing markets that systemic issues would be avoided. These interventions, in the form of forced mergers and closures of banks, along with deposit guarantees and the provision of open ended liquidity at attractive terms, stabilised markets and saw bond yields fall, as the prospect of further interest rate increases reduced. This was then followed by inflation readings which came in slightly better than expected, adding weight to the view that inflation has peaked and the rate increase cycle is nearing an end. This combined to see markets stage a recovery rally, to finish the month strongly, with the NASDAQ +5%, S&P500 +2% and Nikkei 225 +2%, while the Shanghai Composite was flat and the FTSE100 declined -3%.

The Australian market followed a similar pattern, with the ASX300 Accumulation Index declining sharply but rallying to finish the month down only -0.2%. The market was weighed down by the Financials (-4.9%) REIT (-6.8%) sectors, which were impacted by negative sentiment flowing from the US banking issues and concerns around commercial property. The Energy sector (-1.5%) also lagged, with the oil price weaker over the month. By contrast, the Metals & Mining sector (+6.4%) was stronger, with increases in base metal and iron ore prices. The gold miners were also very strong, with the gold price rising sharply as a result of elevated uncertainty.

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 $22.0 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 – FY24	Trust	Market
Price to Earnings (x)	12.4	14.5
Price to Free Cash Flow (x)	10.5	13.6
Gross Yield (%)	6.4	5.5
Price to NTA (x)	2.2	2.6

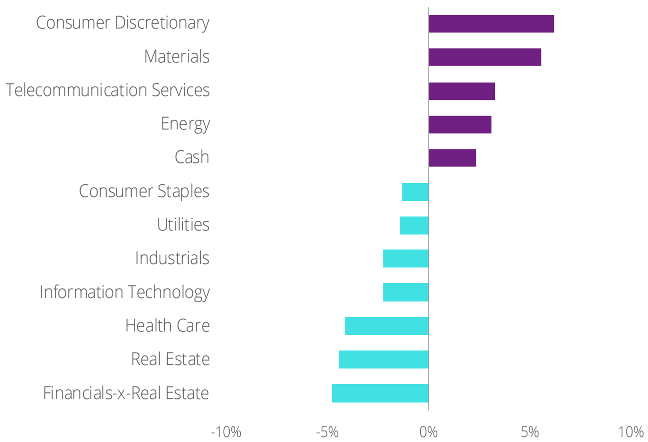
Source: Perennial Value Management. As at 31 March 2023

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
James Hardie Industries
Macquarie Group
Newcrest Mining
Telstra
Westpac
Woodside Energy

Sector Active Exposure vs Index



Trust Review

The Trust returned 0.5%, after-fees in March, outperforming the benchmark by +0.7% after fees.

The market continues to oscillate between optimism that inflation has peaked meaning, that the interest rate increases are close to an end, and pessimism that inflation will prove persistent and that rates have a way to go yet. Ironically, it was the outbreak of a banking crisis, and the likely resulting impact on the real economy, which swung the pendulum back to the view that inflation and rates had peaked.

This optimistic view was supported by the inflation readings, in both the US and Australia, which were slightly lower than market expectations. These statistics bounce around from month to month, and can often be interpreted in different ways, however, this was enough for the market to take a positive tack.

Mining stocks were also strong during the month, as the data showed the post-COVID recovery in Chinese manufacturing and construction activity accelerating. This saw BHP (+8%), Rio Tinto (+6%) and Fortescue Metals (+5%) all outperforming. The Gold sector was particularly strong, with the gold price rallying +8% and approaching US$2,000 per ounce, as investors sought safe havens amid the uncertainty sparked by the banking sector issues in the US. This saw holdings in Newcrest (+19%) outperform strongly. Newcrest is currently the subject of a takeover offer by Canadian gold miner, Newmont, and we suspect that consolidation will continue in the gold sector as in other parts of the resources sector.

More broadly, we expect corporate activity to be an ongoing feature of the market, driven by two factors. Firstly, slowing economic growth often leads mature companies to pursue growth via acquisition. Secondly, financial buyers such as private equity funds, are sitting on record levels of undeployed funds and we anticipate that they will become very active as soon as markets stabilise.

The Trust benefitted from its underweight position in the major banks, which underperformed by an average of -5% during the month, largely on the back of negative sentiment towards the financial sector, spilling over from the US banking issues.

The main detractors over the month included Woodside Energy (-1%) as the energy sector was weaker, on the back of a lower oil price.

Trust Activity

During the month we took profits and reduced our holdings in BHP. Proceeds were reinvested into Star Group. At month end, stock numbers were 21 and cash was 2.4%.

Outlook

Global growth is clearly slowing, as the delayed impacts of tighter monetary policy begin to flow through the real economy. While inflation is showing some signs of having peaked, it is still at a very high level, and this is presenting issues for consumers and businesses. Similarly, energy prices remain elevated and supply chain problems persist. On the positive, economies are benefitting from the ongoing post-COVID normalisation, particularly of migration patterns. 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. Further, an expected strong increase in immigration will be supportive for growth. However, at the high level, 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 higher 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 Insurance as well as a modest overweight in gold.

Global, Currency & Commodities (%)	
S&P 500	+2.0
Nikkei 225	+2.2
FTSE 100	-3.1
Shanghai Composite	-0.2
RBA Cash Rate	3.60
AUD / USD	66.9c
Iron Ore	+0.8
Oil	-4.9
Gold	+7.8
Copper	+0.1

Invest Online Now

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