Perennial Partners

Perennial Concentrated Australian Shares Trust

Monthly Report October 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)	-3.2	-6.5	-4.2	4.0	2.7	12.2	6.8	5.5
S&P/ASX 300 Accumulation Index	-3.8	-7.3	-4.6	2.5	-0.1	8.7	7.2	6.7
Value Added	**0.6**	**0.8**	**0.4**	**1.5**	**2.8**	**3.5**	**-0.4**	**-1.2**

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

Overview

Markets declined again in October, with ongoing strong economic data sending bond yields surging higher. This saw the S&P500 fall -2.2%, the NASDAQ decline -2.8%, and the Nikkei 225 give back -3.1%. The FTSE100 fell -3.8%, with inflation data in the UK ticking back up. The Shanghai composite resumed its decline, down -2.9%, as economic data out of China continued to be soft.

The Australian market was also weak, with the ASX300 Accumulation Index finishing the month down -3.8%, logging its third consecutive monthly decline. While there are some signs of activity slowing, the domestic economy remains resilient. Despite the ongoing economic strength, inflation seems to have peaked, and the RBA remained on hold at its October meeting. However, we would caution that this data is backward looking and given the long lags in the transmission of monetary policy, the impact of previous rate increases is still yet to be fully felt on the real economy.

Resources was the best-performing sector over the month, with Metals & Mining (-0.3%) holding its ground, as the iron ore price remained around US$120/t. This has occurred despite the reported weakness in China and suggests that some segments of the economy may be performing better than thought. Gold stocks also outperformed on the back of the outbreak of hostilities in the Middle East. By contrast, interest rate sensitive sectors again underperformed as bond yields rose, with REITs (-5.7%), Healthcare (-7.1%) and IT (-7.4%) all lagging.

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
Stephen Bruce

Trust FUM
AUD $21.3 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 – FY25	Trust	Market
Price to Earnings (x)	14.2	14.9
Price to Free Cash Flow (x)	12.7	14.2
Gross Yield (%)	5.4	5.5
Price to NTA (x)	2.0	2.3

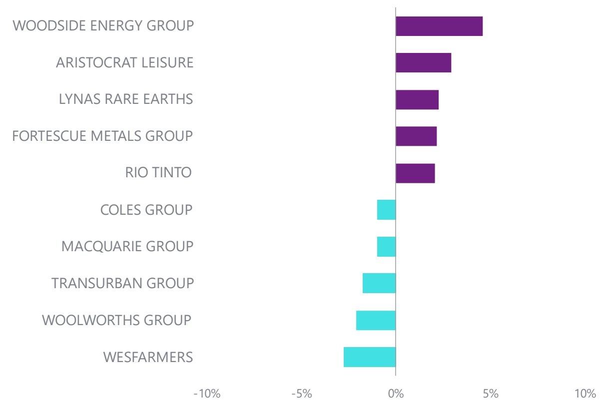
Source: Perennial Value Management. As at 31 October 2023

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.

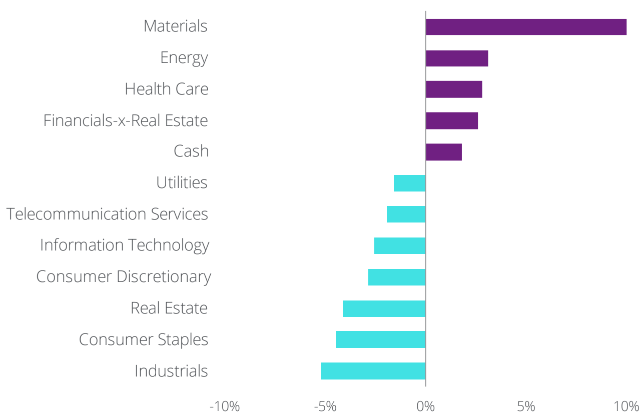
Growth of $100,000 Since Inception

Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -3.2%, after-fees in October, outperforming the benchmark by +0.6%.

Key contributors to performance over the month included gold holdings Northern Star (+11.5%) and Newmont (formerly Newcrest, +5.3%), which rallied as the gold price rose +7% to just shy of US$2,000/oz, in response to the outbreak of conflict in the Middle East. We like to hold a position in gold to hedge the portfolio against tail events such as either an unexpected surge in inflation or unexpected shocks which send people fleeing to safety. While these stocks are being held primarily for the exposure to the gold price, in terms of quality, they are both top-10 global producers, with portfolios of tier 1, long-life assets. Further, in addition to their gold production, they also produce significant amounts of copper, for which demand is expected to outstrip supply over the medium term.

Despite the ongoing weakness in Chinese economic data, the iron ore price held firm, closing the month at just under US$120/t. The strength in the iron ore price and the ongoing high level of steel production, suggest that some parts of the economy are performing more strongly than the official data would indicate. As we know, Chinese data needs to be interpreted with a degree of caution at the best of times. Further stimulus measures were also announced over the month, aimed at supporting activity levels. This saw the bulk miners rallying, with Fortescue (+6.6%), Rio Tinto (+3.5%) and BHP (+0.6%) all outperforming.

Also in the resources sector, Lynas Corporation (+3.8%) lifted after announcing that the Malaysian Government had extended its licence to operate its processing facility until March 2026. Lynas now has significant capacity, having recently completed construction of an alternative processing plant in Western Australia, in anticipation of having to cease operations in Malaysia. Rare earths are used in a range of applications which are critical to technologies such as electronics and the energy transition. Currently China supplies around 90% of the world's rare earths. Given increasing strategic competition and trade barriers, reliable alternatives are becoming increasingly valuable. Lynas fits the bill perfectly, with its Mount Weld mine being one of the largest rare earths mines in the world, safely located in Western Australia. This strategic value is highlighted by the fact that Lynas is also building a rare earths processing plant in Texas, in partnership with the US Department of Defence.

Other holdings which outperformed included biotech Immutep (+12.5%), which reported very promising clinical trials data. This company's immunotherapy drug candidate is being trialled for use, in conjunction with Merck's KEYTRUDA, for the treatment of non-small cell lung cancer. Results to date look very promising and, if these continue to be successful, we believe it is highly likely that the company will be acquired for multiples of the current share price. Insurers IAG (-0.2%) and QBE (-0.7%), also outperformed, with their positive leverage to higher interest rates which boost their investment earnings.

Key detractors over the month included Pilbara Resources (-14.7%), which fell due to ongoing weakness in the lithium price. Slowing demand from battery makers has seen a fall in the lithium price from its very high levels. However, even assuming significantly lower prices, this stock is trading on an undemanding valuation. Further, the company is in a very strong financial position, with around $3bn net cash on the balance sheet and is operating in an industry seeing significant corporate activity. Given all this, plus the fact that the stock is 16% short, it wouldn't take much to see a sharp rally, in our view.

Trust Activity

During the month, we reduced our holding in Newmont and established a new position in Northern Star, increasing our overall holdings in the gold sector. We also added a new position in Resmed. In our view, Resmed has been sold down sharply due to concerns over the impacts of GLP-1 weight loss drugs. In our view, the market is overestimating the likely effect that these drugs will have on the incidence of sleep apnea. We believe the stock is likely to experience a material re-rating once more data to this effect becomes available over the coming periods. At month end, stock numbers were 30 and cash was 1.8%.

Outlook

The global economy has proven surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions. Further, recent data suggests that, while inflation is proving sticky, it appears to have peaked. Importantly, unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, with strong employment growth, robust spending and rising property prices. The resources and agricultural sectors continue to experience positive conditions and the surge in immigration is providing a further boost to activity.

While the backdrop is currently sound, growth is slowing and the level of uncertainty is elevated, given the long lags in the transmission of monetary policy. As a result, a degree of caution is warranted and we prefer holding stocks with positive company specific drivers, as opposed to pure cyclical leverage, in addition to stocks with solid defensive characteristics. Importantly, the portfolio is set for an environment of slowing growth, higher inflation, and higher interest rates.

While there is a high level of economic uncertainty, our focus remains on investing in quality companies with proven business models and strong balance sheets, which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

Invest Online Now

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au