Perennial Concentrated Australian Shares Trust

Monthly Report December 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)	6.2	7.3	5.8	14.1	8.3	11.0	10.1	7.0
S&P/ASX 300 Accumulation Index	7.2	8.4	7.5	12.1	5.0	9.0	10.3	8.5
Value Added	**-1.0**	**-1.1**	**-1.7**	**2.0**	**3.3**	**2.0**	**-0.2**	**-1.5**

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

Overview

Markets continued their rally in December, driven higher by the heady combination of a further easing in inflation, dovish comments from the Fed and economic data which remained generally sound. This has resulted in a near consensus view that the "Goldilocks" soft landing is in place and the Fed pivot will continue, with rate cuts now expected in March. Throw in the usual positive seasonality, plus a healthy dose of FOMO and short covering, and the path of least resistance was higher into year end.

This saw the S&P500 up another +4.4% and the NASDAQ lifting another +5.5%, to finish the year +23.9% and +43.3% respectively. This reflects the very strong performance of the mega-cap Tech sector, which has been a key driver of markets. The FTSE 100 rose +3.7%, while the Japanese market eased slightly, following its strong run last month, with the Nikkei 225 -0.1%. Ongoing concerns over the Chinese outlook saw the Shanghai Composite down -1.8%, leaving it as the only major index to finish down for the year.

The Australian market was also very strong, with the ASX300 Accumulation Index rising +7.2%, to finish the year up +12.5%. The fall in bond yields saw a continued rotation to the more rate-sensitive parts of the market, with REITs (+11.4%) the best performing sector. Healthcare (+9.1%) also performed strongly again, with several large stocks covering from oversold positions. While also delivering positive returns, Energy (+3.6%) underperformed on the lower oil price, and Consumer Staples (+5.1%) also lagged in the risk-on environment.

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 $24 million

Distribution Frequency
Half yearly

Minimum Initial Investment[1]
$50,000

Trust Inception Date
May 2017

Fees
0.70% p.a. + Performance fee

APIR Code
WPC6780AU

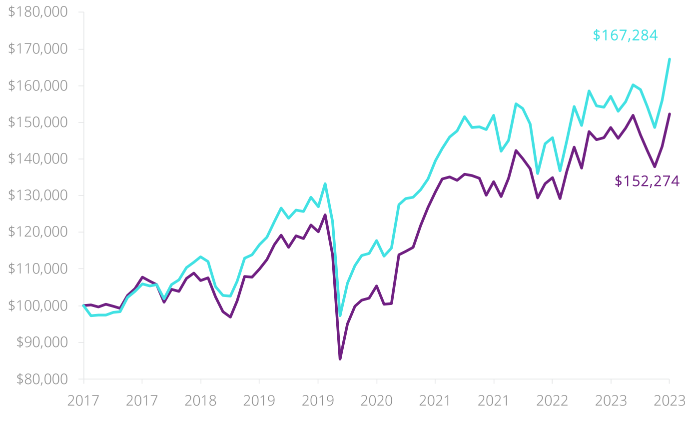
[1] Perennial Concentrated Australian Shares Trust is open to wholesale investors only.

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	13.3	15.8
Price to Free Cash Flow (x)	11.8	14.2
Gross Yield (%)	5.3	5.1
Price to NTA (x)	1.9	2.5

Source: Perennial Value Management. As at 31 December 2023

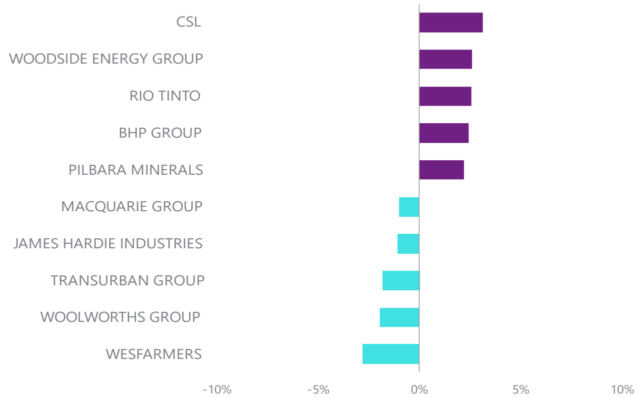
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

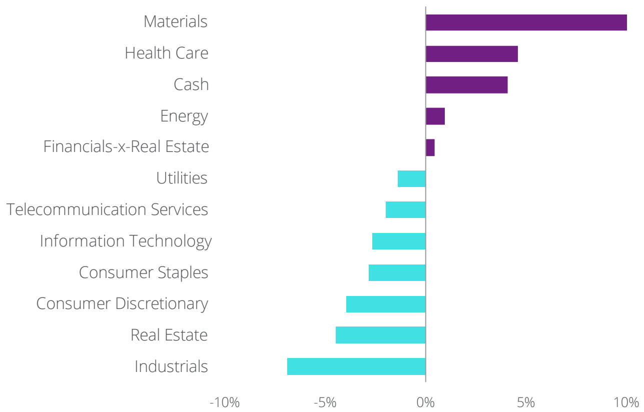


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned +6.2%, after-fees in December, underperforming the benchmark by -1.0%.

Key contributors to performance over the month included the Trust's resources holdings. The economic data out of China continues to be weak, however, additional stimulus measures continue to be put in place. While government policy is to focus on fostering growth in new industries such as Tech, AI etc, these are currently too small to be meaningful and, as a result, the stimulus measures are targeted at traditional growth drivers such as property and infrastructure, which drive commodities demand. Against this backdrop, the iron ore price climbed to over US$140/t intramonth, seeing strong performance from the bulk miners, with Fortescue Metals (+16.1%), BHP (+8.9%) and Rio Tinto (+8.5%). At current commodity prices, these stocks are trading on very low earnings and cash flow multiples.

Lithium producer, Pilbara Minerals (+8.5%), also performed strongly over the month. While the lithium price has fallen sharply from its previous highs, there is early evidence supply is beginning to respond and the long-term demand fundamentals remain strong. It is worth noting that Pilbara is exceptionally well-placed, being a well-located, low-cost, large-scale producer, with around $3bn cash on the balance sheet. Further, the stock is extremely heavily shorted, suggesting the potential for a sharp rally, should lithium pricing turn upwards. South32 (+8.1%) also outperformed over the month, however, has lagged significantly over the past year. This stock is also trading on a very undemanding valuation and has a debt-free balance sheet, suggesting significant upside should sentiment towards the outlook for base metals improve.

Gold miner, Northern Star (+7.2%), rallied as the gold price settled at over US$2,000/oz. Northern Star is a global top-10 gold miner and will likely see further buying demand should Newmont's weighting in the Australian indices reduce over time.

CSL (+9.3%) continued to recover from its oversold levels. We moved overweight CSL in October, with the share price having been sold down to around $230, on the back of spiking bond yields (yes – it was only in October that bond yields were ripping higher!) and concerns around the potential impact of the new GLP-1 weight loss drugs on the incidence of chronic kidney disease, impacting CSL's recently acquired Vifor business. While not your typical "Value stock", at these levels, CSL's valuation premium to the broader market had compressed to the point where it represented compelling relative value, given its overall quality and positive long-term outlook. The stock has subsequently begun to be re-rated and has been a positive alpha contributor since we moved overweight.

Holdings which detracted from performance over the month included those positively correlated with interest rates, such as the insurers. Iluka Resources (-4.5%), underperformed after increasing the capex guidance for the rare earths refinery they are planning to build in Western Australia. Woodside Energy (+0.2%), was weaker on the lower oil price as well as on news they were exploring a merger with Santos. These discussions are at an early stage, and Woodside investors will take some convincing that this is a good idea. In the meantime, with the northern hemisphere winter deepening and what is going on in the Red Sea and Ukraine, it wouldn't take much for energy prices to rebound.

Trust Activity

During the month, we took profits and exited our holding in James Hardie. Proceeds were used to establish new positions in Treasury Wines and Virgin Money UK as well as increasing our holdings in South32 and Pilbara Resources, both of which offer very attractive value at current levels. At month end, stock numbers were 30 and cash was 4.0%.

Outlook

After proving surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions, there are early signs of softening in key US economic data such as employment growth. The combination of this softening of the labour market with inflation generally tracking in the right direction, has seen yields sold off sharply and a dramatic change in sentiment towards the outlook for interest rates going forward.

The Australian economy continues to look reasonably healthy, however, GDP growth is weakening. While activity is receiving a strong boost from record immigration, per capita GDP growth is negative. On the positive, the Resources and Agricultural sectors continue to experience positive conditions and a stabilisation in interest rates will be positive for sentiment.

Markets are now pricing in significant cuts to interest rates in 2024. However, we suspect it would only take a couple of data points for this to swing back the other way. In terms of positioning, we have adopted a more neutral stance to bond yields, by reducing our REIT underweight and increasing our Healthcare exposure.

We continue to have a positive view on the Resources sector, with the strong cash flows of the majors and many of the smaller miners having strategically valuable assets.

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