Perennial Concentrated Australian Shares Trust

Perennial Partners

Monthly Report March 2024

	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	4.0	10.1	11.9	7.1	8.8	8.7	7.3
S&P/ASX 300 Accumulation Index	3.3	5.4	13.3	14.4	6.7	9.4	9.2	9.0
Value Added	**-0.1**	**-1.4**	**-3.2**	**-2.5**	**0.4**	**-0.6**	**-0.5**	**-1.7**

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

Overview

The global risk rally continued in March. Bond yields eased while economic data remained strong, causing investors to increase their bets that the major developed economies will avoid any meaningful cyclical downturn.

The US market was particularly strong, with the S&P500 +3.1% and the NASDAQ +1.8%. The Nikkei 225 returned +2.6%, while the FTSE100 added +4.2%. The Shanghai Composite, by contrast, eased -0.1%, with ongoing negative sentiment to the Chinese outlook. The Chinese market has been the worst performing major market over the last 12 months, and the only market to deliver a negative return, falling -8.0%.

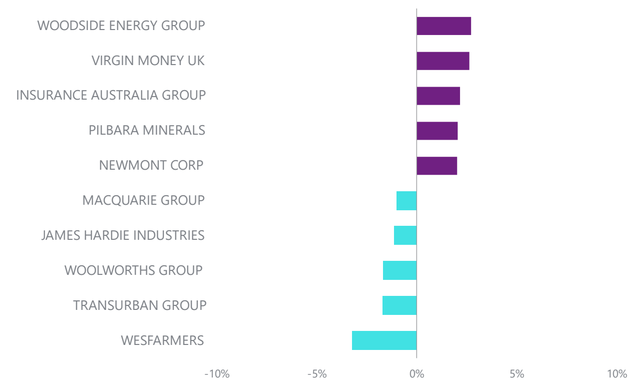
The Australian market also performed strongly, with the ASX300 Accumulation Index rising +3.3%, and having delivered a very strong return of +14.4% over the last 12 months. The further entrenchment of the no/soft landing view saw REITs (+9.6%) lead the market higher. The Utilities sector (+4.8%) also benefitted from the easing in bond yields. Other sectors which outperformed included Energy (+5.6%) on the rallying oil price, Metals & Mining (+3.9%) and Financials (+3.2%)

Communication Services (-0.8%) was the only sector to deliver a negative return, weighed down by a weakening outlook for some of the online platforms. Consumer Discretionary (+0.8%) also lagged, following its strong performance over recent months.

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



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

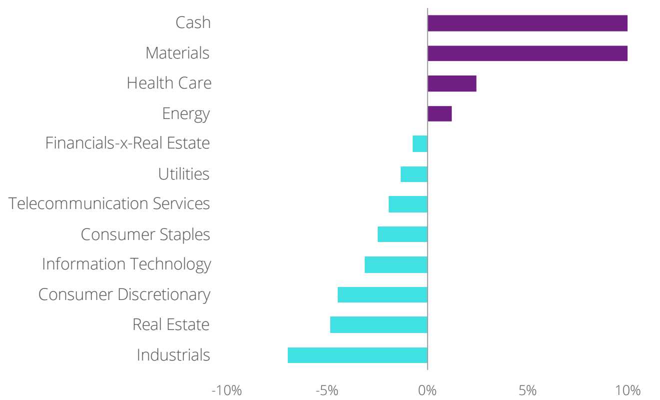
[1] Perennial Concentrated Australian Shares Trust is open to wholesale investors only.

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	14.2	16.8
Price to Free Cash Flow (x)	12.5	15.0
Gross Yield (%)	4.9	4.8
Price to NTA (x)	1.8	2.6

Source: Perennial Value Management. As at 31 March 2024

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.

Sector Active Exposure vs Index



Trust Review

The Trust returned +3.2%, after-fees in March, underperforming the benchmark by -0.1%.

Key contributors to performance over the month included Virgin Money (+35.2%), which rallied after receiving a takeover offer from Nationwide Building Society. The combination of the two businesses would create the UK's second largest provider of mortgages and savings. The Board of Virgin Money have recommended shareholders accept the offer. While we believe that there is potentially more upside to be extracted from Virgin Money over the longer-term, the offer represents a reasonable outcome given the risks around this being realised.

Gold holdings, Newmont (+17.7%) and Northern Star (+13.4%), both performed very strongly over the month, driven by the rally in the gold price, which rose +9% to over US$2,200/oz. There are several possible drivers of the gold price strength, however, a key one is that Central Banks continue to be significant buyers of physical gold. With escalating geopolitical tensions, many countries are realising that once you get into a fight, your FX reserves aren't quite as secure as gold bars in your own vault. Both of these companies are top-10 global producers, with tier 1 assets and are well-placed to benefit from this strength.

Base metals were also generally stronger over the month, with copper and aluminium both up over +4%. In terms of commodity prices, supply is just as important as demand, and in many commodities, supply is tight. Copper is a good case in point, seeing significant downgrades to global production forecasts. The sum of these cuts is expected to move the market from surplus into deficit this year. This has driven the copper price to over US$4/lb, which saw our holding in pure-play copper miner, Sandfire Resources (+17.1%), perform very strongly. Trust is also exposed to copper through holdings in BHP (+3.3%), Rio Tinto (+1.6%) and South32 (+1.9%).

Energy stocks, Woodside (+3.6%) and Santos (+9.5%) both outperformed on strength in the oil price, which has been rallying on the escalating conflicts in the Middle East and Ukraine, both of which have the potential to significantly disrupt supply. Notably, while Russian gas exports have been curtailed, crude oil is still traded freely. In response, the Ukrainians have recently begun attacking oil pipeline hubs deep inside Russia.

Resmed (+13.1%) outperformed as it continues to recover after being sold off on the back of concerns around the potential impact of GLP-1 weight loss drugs on demand for its sleep apnea devices. In our view, this risk is exaggerated as, while the "slimming down" of the population will no doubt have some effect of the incidence of sleep apnea, weight is only one risk factor. For example, age is another key risk factor and populations continue to age globally. More generally, sleep apnea is an under-diagnosed condition, with a large unaddressed market. In terms of valuation, Resmed is trading at a significant discount to its historical relative valuation, giving the opportunity to buy a high-quality business at an attractive price.

Other stock which contributed positively included, QBE Insurance (+7.8%), with the Insurance sector seeing ongoing positive industry dynamics. Iluka Resources (+5.9%), Immutep (+4.1%) and Telix (+3.6%) also outperformed.

The key detractors from performance included lithium producer, Pilbara Resources (-8.8%), as the sector bounces along the bottom, awaiting a pick-up in demand from the major battery-makers. Regardless of exactly when this will happen, Pilbara is very well-placed, ticking all the boxes you look for: good management, high-quality assets at the bottom end of the cost curve, growing production, good downstream assets and offtake agreements and net cash on the balance sheet. With the lithium price having already fallen sharply, and all the above positives, we find it very surprising that Pilbara's register is still over 20% short. Time will tell, but given this set up, we believe it wouldn't take much for the stock to rally sharply.

Nufarm (-4.5%) also detracted from performance, with industry data showing slow sales of ag chemicals and margin pressure in the Australian market. This had been foreshadowed at their AGM in January and it is likely that recent rains will see a pick-up in activity in the second half of the year.

Trust Activity

During the month, we took profits and reduced our holding Northern Star, which had performed strongly. Overall gold exposure was maintained by reinvesting the proceeds into fellow gold miner Newmont, whose share price had materially lagged since its acquisition of Newcrest. At month end, stock numbers were 59 and cash was 4.3%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace, as while goods inflation has fallen sharply, services inflation is proving more persistent. While the expected timing of interest rate cuts has been pushed out, the consensus view is that rate cuts are coming, and a soft landing will be achieved.

This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

Similarly, the Australian economy continues to look reasonably healthy, boosted by immigration, however, GDP growth is weakening, and per capita GDP growth is negative. While the prospect of RBA interest rate cuts is positive for sentiment and the upcoming tax cuts will also boost disposable income, there are signs the labour market is beginning to soften, leaving us cautious on the consumer.

Despite the Chinese economic woes, demand for most commodities remains healthy and supply is generally constrained. As a result, it would not take much for sentiment to improve significantly towards the sector.

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

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