Perennial Concentrated Australian Shares Trust

Monthly Report July 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)	3.0	-4.8	3.0	-0.7	14.3	3.8	5.9	5.6
S&P/ASX 300 Accumulation Index	6.0	-6.2	6.0	-2.3	12.3	4.4	8.1	7.8
Value Added	**-3.0**	**1.4**	**-3.0**	**1.6**	**2.0**	**-0.6**	**-2.2**	**-2.2**

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

Overview

Markets rallied in July, partially reversing June's sharp sell-off, as investors took the view that we may be close to peak inflation and therefore that the rate hiking cycle may not be as steep and prolonged as had been feared. This saw a fall in long-term bond yields, which was supportive of equities markets. Most major indices were strong, with the S&P500 +9.1%, the NASDAQ +12.3%, the FTSE100 +3.5% and the Nikkei 225 +5.3%. The exception was the Chinese market, which saw the Shanghai Composite -4.3% on rising COVID numbers and weak economic data due to lockdowns.

The easing of bond yields saw a rotation in markets, with growth and interest rates sensitive sectors outperforming. By contrast, concerns over the impact of coordinated central bank cash rate increases on global economic growth saw the more cyclical parts of the market underperform.

The Australian market also rallied in July, with the ASX300 Accumulation Index rising by +6.0%. The best performing sector was IT (+15.4%), as falling bond yields provided some reprieve to many of the tech stocks which had been aggressively sold down in recent months. Similarly, REITs (+11.8%) outperformed over the month. The Financials (+9.4%) were also stronger, with the banks recovering some of last month's losses, as the prospect of a less aggressive tightening cycle reduced fears over bad debts.

Metals & Mining (-1.3%) was the only sector to deliver a negative return, as investors worried about the combined impacts of ongoing COVID lockdowns and weak activity levels in China, as well as slowing growth more generally. Energy (+2.2%) also underperformed the market, having performed very strongly over the last 12 months.

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 $20.0 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 – FY23	Trust	Market
Price to Earnings (x)	12.9	15.1
Price to Free Cash Flow (x)	9.4	13.5
Gross Yield (%)	6.9	5.6
Price to NTA (x)	2.2	2.6

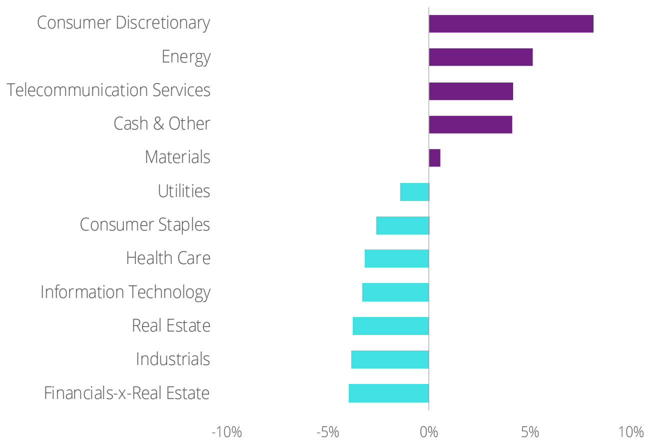
Source: Perennial Value Management. As at 31 July 2022

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, Charter Hall Wale
Short US10 Yr. Bonds	Underweight Utilities

Top 10 Positions (A -> Z)
ANZ
Aristocrat Leisure
BHP
CSL
Insurance Australia Group
Newcrest Mining
Tabcorp
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Trust returned +3.0%, after-fees in July, underperforming the index by -3.0%. While the Trust delivered a solid absolute return, its relative performance was impacted by the Trust's underweight positions in a number of expensive growth and interest rate sensitive stocks, which rallied during the month on the pull-back in bond yields.

Positive contributors for the month included James Hardie (+10.8%) which has started to perform again after US housing stocks have been sold of indiscriminately of the back of fears of a housing slowdown. The market seems to be now coming to terms with the fact that James Hardie is not really in the new home builder market but is more exposed to the Repair and Renovation market (about 70% of revenues come from this sector). In addition, feedback from US builder groups has been quite resilient over the last few months showing a strong back log of work to be done in the sector to manage the significant underbuild in the market.

The main detractors over the month were the Trust's Resources holdings, with the iron ore stocks lower as Chinese demand decreased due to COVID lockdowns. Energy holdings, Santos (-1.6%) and Woodside Energy (+0.4%), also underperformed as the oil price softened on the prospect of weakening global demand. We maintain an overall positive view on the outlook for resources, with constrained supply in most commodities and an expectation for demand to recover as China emerges from COVID lockdowns.

Finally, much of the months underperformance was partly on the back of a very strong performance last month for our holdings, and a rebound in the growth stocks segment of the market we are underweight on valuation grounds.

Trust Activity

During the month we decreased our holding in CSL. At month end, stock numbers were 19 and cash was 4.1%.

Outlook

Economic growth is clearly slowing, however, on balance, we view the outlook as sound. While interest rates are rising, economies stand to benefit as COVID disruptions continue to recede. Critically, despite mixed data, unemployment rates remain 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 normalisation, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary 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	+9.1
Nikkei 225	+5.3
FTSE 100	+3.5
Shanghai Composite	-4.3
RBA Cash Rate	1.35
AUD / USD	69.8c
Iron Ore	-4.1
Oil	-4.2
Gold	-2.3
Copper	-3.7

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