Perennial Concentrated Australian Shares Trust

Monthly Report February 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)	-1.5	1.4	12.2	7.7	9.2	8.4	6.6	6.6
S&P/ASX 300 Accumulation Index	-2.5	0.2	13.5	6.5	8.4	7.9	7.9	8.3
Value Added	**1.0**	**1.2**	**-1.3**	**1.2**	**0.8**	**0.5**	**-1.3**	**-1.7**

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

Overview

Markets continued to seesaw in February, with last month's optimism giving way to pessimism, as stronger economic data saw bond yields rise and dampened hopes of an early end to the rate tightening cycle. The S&P500 finished the month down -2.6%, while the NASDAQ fell -1.1%. Other major markets were slightly stronger, with the FTSE100 rising +1.3%, the Nikkei 225 gaining +0.4% and the Shanghai Composite lifting +0.7%.

The Australian market eased in February, with the ASX300 Accumulation Index finishing the month down -2.5%. The market was weighed down by the Financials (-3.1%) and Resources (-6.2%) sectors, both of which sold off during the reporting season, after having performed relatively strongly over the last 12 months. Better performing sectors included Utilities (+3.4%), IT (+2.3%), Industrials (+1.2%) and Consumer Staples (+1.1%).

Company reporting season was the highlight of the month. Overall results were reasonable, reflecting the underlying resilience of the economy. However, some early signs of weakness are starting to emerge, suggesting that the aggressive rate rise cycle is beginning to have an effect on activity levels. While companies are benefitting from the ongoing post-COVID normalisation of supply chain and other issues, they are facing significant input cost pressures around factors such as energy and labour, where the market remains very tight, with historically low unemployment levels.

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)	12.6	14.6
Price to Free Cash Flow (x)	10.6	13.5
Gross Yield (%)	6.3	5.4
Price to NTA (x)	2.3	2.6

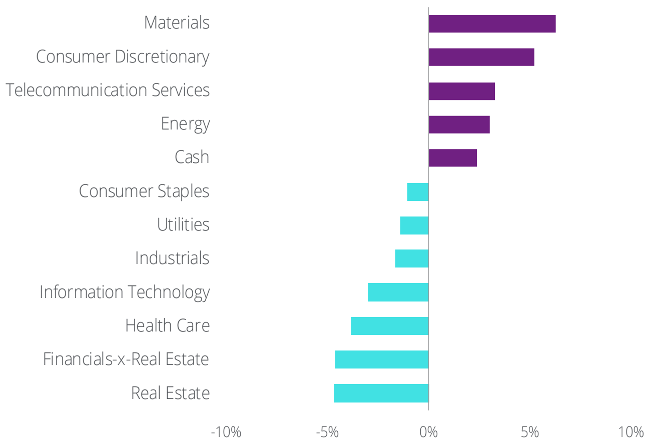
Source: Perennial Value Management. As at 28 February 2023

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 -1.5%, after-fees in February, outperforming the benchmark by +1.0% 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 rate rises have a way to go yet. On this front, January's optimism gave way to pessimism, as strong economic data suggested that Central Banks have more work to do.

The reporting season was the highlight of the month in the domestic market. For the past several reporting periods, results have come in slightly ahead of market expectations, with the stronger than expected economic backdrop providing good support to corporate earnings. This period, however, while results were solid, overall they came in slightly below market expectations, with the first signs of slowing starting to appear. While revenue growth was stronger than expectations, margins are beginning to be pressured by rising input costs and guidance indicated that consumer spending has eased in the early part of this year.

Key positive contributors to performance included Telstra (+2.0%) who delivered a solid result and reiterated its full year financial guidance. With the impacts of the NBN roll-out behind it, the company is able to grow earnings from its dominant mobiles division, which delivered good revenue growth in the half. The outlook for the mobile industry is positive, with a rational oligopoly structure following the merger of TPG and Vodafone. Telstra remains one of our preferred defensive exposures.

Other outperformers included Macquarie Group (+1.2%) who provided a Q3 trading update which suggested that they are on track to deliver another record full-year profit on the back of very strong earnings from their commodities trading division. This division has benefited from the extreme volatility in commodity prices over the last year, particularly dislocations in the gas market.

The main detractors over the month tended to be resources holdings, where softer commodity prices saw them give back some of their recent strong performance.

Trust Activity

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

Outlook

Global growth is clearly slowing, as interest rates rise and economies grapple with the impacts of high inflation and energy supply problems. However, we believe that this will be offset to some extent by the benefits to economies as COVID disruptions continue to recede. 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. 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 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	-2.6
Nikkei 225	+0.4
FTSE 100	+1.3
Shanghai Composite	+0.7
RBA Cash Rate	3.35
AUD / USD	67.4c
Iron Ore	-2.3
Oil	-0.7
Gold	-5.3
Copper	-3.4

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