Perennial Concentrated Australian Shares Trust

Monthly Report May 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)	-1.9	0.3	12.6	6.1	4.0	13.4	7.0	6.4
S&P/ASX 300 Accumulation Index	-2.5	-1.0	12.4	2.4	3.5	11.3	7.4	7.7
Value Added	**0.6**	**1.3**	**0.2**	**3.7**	**0.5**	**2.1**	**-0.4**	**-1.3**

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

Overview

Markets continued to oscillate in May, with the combination of higher-than-expected inflation, weakening US economic data and a slowing in the Chinese post-COVID recovery, weighing on sentiment. The Tech sector bucked this trend, driven by frenzied interest in everything AI-related, following the release of Chat GPT and a massive profit upgrade by chip maker, Nvidia. This saw the NASDAQ rally +5.8%, while the broader S&P500 was up a modest +0.2%. The FTSE100 was down -5.4% and the Shanghai Composite fell -3.6%. By contrast, the Nikkei 225 rallied +7.0%, as the economy began to show signs of growth.

The Australian market was also weaker, with the ASX300 Accumulation Index finishing the month down -2.5%. As in the US, the Australian CPI reading came in higher than expected and the RBA surprised the market by raising interest rates again. This added to concerns over the outlook for the domestic economy, where despite house prices appearing to be rising again, pressures are clearly building. For example, cost of living pressures are becoming severe, exacerbated by rising mortgage payments and surging rents. While unemployment remains low and wages are rising, real incomes are falling and cracks in retail spending are beginning to appear. Further, while there is still a backlog of work, building approvals have fallen dramatically.

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 $21.8 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)	12.5	14.7
Price to Free Cash Flow (x)	10.7	13.6
Gross Yield (%)	6.4	5.6
Price to NTA (x)	2.2	2.5

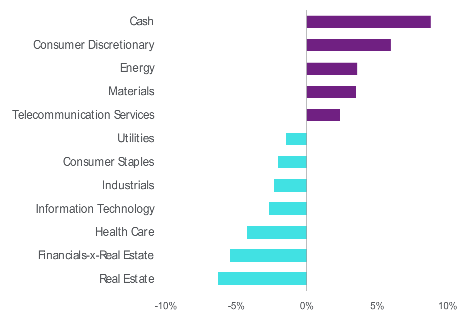
Source: Perennial Value Management. As at 31 May 2023

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
James Hardie Industries
Macquarie Group
Newcrest Mining
Reliance Worldwide
Telstra
Westpac
Woodside Energy

Sector Active Exposure vs Index



Trust Review

The Trust delivered -1.9%, after-fees in May, outperforming the benchmark by 0.6%. Key positive contributors to performance included James Hardie (+13.1%). There have been recent indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. James Hardie is primarily exposed to the renovation, as opposed to new construction market, however, it has still been impacted by the current slowdown. While the company is subject to the cycle, over time is has consistently outgrown the overall market as its premium, differentiated products take share from other building materials. Management continue to focus on investing in the brand and distribution channels and we expect this to continue to drive double-digit earnings growth over the medium term.

The Financials (-3.2%) underperformed over the month, dragged down by the major banks (ave. -4.3%). The banks reported during the month and, while the results for the half year to March were strong, they indicated that net interest margins had peaked during the half. With margins now contracting again, the sector has lost its key positive driver as it faces into a slowing economy and the likelihood of rising bad debts. The Trust benefited as it has a modest underweight position in the sector.

The bulk miners were weaker over the month, with BHP (-5.4%), Rio Tinto (-4.7%), Fortescue Metals (-8.2%) all lower, as sentiment towards the Chinese economy weakened. While the pace of the post-COVID recovery has slowed, we expect to see a range of measures, particularly focussed on supporting activity in the property sector. In the meantime, the Trust currently holds a mild overweight in the bulks.

Our holding in gold stock Newcrest which was down in the month (-11.2%) was weaker as the gold price eased after a strong run, with rising bond yields and a stronger USD. We continue to hold a modest overweight position in the sector, given the elevated level of macro, geopolitical and other risks at present. Further, Newcrest has already received a takeover offer from Newmont.

Trust Activity

At month end, stock numbers were 19 and cash was 8.8%.

Outlook

Global growth is clearly slowing, as interest rates rise, and economies grapple with the impacts of high inflation and the challenges of energy costs and other supply issues. Recent stresses in the banking sector have also been of concern and, given the high levels of indebtedness and the long lags associated with the transmission of monetary policy, we are unlikely to be out of the woods. On the positive, while inflation is proving sticky, it appears to have peaked, and unemployment rates remain very low in most major markets. Despite record interest rate rises, the Australian economy continues to perform strongly, and the unemployment rate remains low. The resources and agricultural sectors continue to experience positive conditions and the coming surge in immigration will provide a further boost. However, while house prices have stabilised, retail sales are beginning to weaken and building approvals have fallen sharply.

While the backdrop is currently sound, the level of uncertainty is elevated, and it seems that the rate rise cycle is not yet complete. 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, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates. This is achieved through overweight positions in the Diversified Financials, Resources, and very select parts of the Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Healthcare, Insurance, Telco and Gold sectors.

Global, Currency & Commodities (%)	
S&P 500	+0.2
Nikkei 225	+7.0
FTSE 100	-5.4
Shanghai Composite	-3.6
RBA Cash Rate	3.85
AUD / USD	64.7c
Iron Ore	-4.7
Oil	-8.6
Gold	-1.4
Copper	-6.5

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Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au