Perennial Concentrated Australian Shares Trust

Monthly Report July 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)	2.4	2.3	2.4	14.0	6.4	14.2	6.9	6.9
S&P/ASX 300 Accumulation Index	2.9	2.0	2.9	11.1	4.2	11.9	7.5	8.3
Value Added	**-0.5**	**0.3**	**-0.5**	**2.9**	**2.2**	**2.3**	**-0.6**	**-1.4**

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

Overview

After selling off in the earlier part of the month, markets staged a strong recovery to finish up strongly. While most central banks raised rates in July, improving inflation data supported the view that we are close to the end of the tightening cycle. At the same time, ongoing healthy economic data gave rise to optimism that a soft landing may be achievable. This saw the S&P500 gain +3.1%, the NASDAQ rally +4.0% and the FTSE100 rise +2.2%. Despite Chinese economic data continuing to be weak, the Shanghai composite added +2.8% on hopes of further stimulus measures. By contrast, the Nikkei 225 eased -0.1%, following its very strong recent performance.

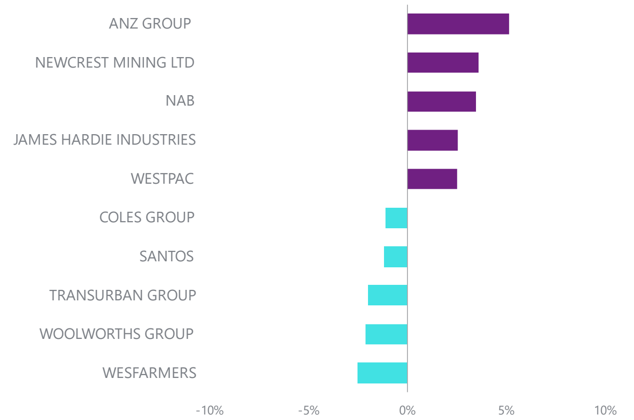
The Australian market was also strong, with the ASX300 Accumulation Index finishing the month up +2.9%. The market reacted positively as the RBA paused its rate increases, leaving the cash rate unchanged at 4.1% in July. As in other markets, there are clear signs that inflation has peaked, while economic data remains robust, with key measures such as employment, spending and house prices remaining resilient. However, we would caution that this data is backward looking and given the long lags in the transmission of monetary policy, the impact of previous rate increases is still yet to fully felt on the real economy.

Energy (+8.4%) was the best performing sector, with the oil price rallying on OPEC+ production cuts and the improving global outlook. Easing inflation and interest rate expectations also saw Financials (+4.9%), IT (+4.8%), Utilities (+4.0%) and REITs (+3.9%) outperform.

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 $22.7 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2017

Fees
0.70% p.a. + Performance fee

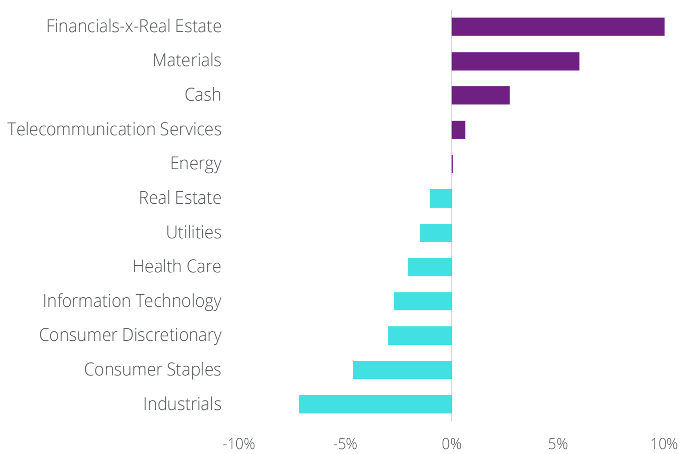
APIR Code
WPC6780AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	13.9	15.7
Price to Free Cash Flow (x)	12.5	14.4
Gross Yield (%)	5.9	5.2
Price to NTA (x)	2.2	2.6

Source: Perennial Value Management. As at 31 July 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.

Sector Active Exposure vs Index



Trust Review

The Trust delivered +2.4%, after-fees in July, underperforming the benchmark by -0.5%.

The Energy sector (+8.4%) performed strongly, as the oil price rallied on the combination of improved sentiment around the economic outlook as well as production cuts by OPEC+. This saw a strong performance from Woodside Energy (+10.3%).

James Hardie (+9.4%) continued its rally, with indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. While the company is subject to the cycle, over time it has consistently outgrown the overall market as its premium, differentiated products take share from other building materials. Management continues to focus on investing in the brand and distribution channels and we expect this to drive double-digit earnings growth over the medium term. The company recently announced that it has become the exclusive supplier of siding and trim to D.R. Horton until the end of 2026. D.R. Horton is the largest home builder in the US, delivering over 80k homes per annum, and this deal is a strong validation of James Hardie's standing in the US market.

Other positive contributors included ANZ (+8.6%) and Westpac (+4.7%), with the banks seeing some recovery as improving confidence in the economic outlook eased fears around rising bad debts.

Key detractors from performance BHP (+2.3%) and Iluka Resources (-8.0%), following weaker than expected quarterly updates. Quarterly reports were generally weaker across the resources sector, as companies grappled with rising costs and production difficulties. While this is disappointing at a company level, it suggests a supportive environment for commodity prices as cost curves rise and supply struggles to meet demand.

Macquarie Group (-1.5%) underperformed after delivering what was, in our view, conservative FY24 guidance at their AGM. While operating conditions are challenging in certain parts of their business, Macquarie is highly-diversified and has a strong ability to manage their earnings. History also shows that they have a track record of over-delivering versus market expectations

Defensives such as gold miner Newcrest (0.0%) and Telstra (-0.9%) also lagged as the market rotated to more cyclical names.

Trust Activity

Effective 1 July 2023, Stephen Bruce assumed portfolio management responsibilities for the Trust. This saw a significant restructuring of the portfolio such that it represents a concentrated version of the highest conviction holdings within the Perennial Value Australian Shares Trust portfolio. Key changes included exiting holdings in Treasury Wine Estates, Transurban, Star Entertainment Group, Reliance Worldwide, Metcash and Betmakers Technology Group. New positions were established in CBA, Rio Tinto, Fortescue Metals Group, Pilbara Resources, South32, Charter Hall Group, Dexus, Goodman Group, IAG, Nufarm, Orora and Telix Pharmaceuticals. At month end, stock numbers were 25 and cash was 2.4%.

Outlook

The global economy has proven surprisingly resilient in the face of the sharp rise in interest rates and other economic disruptions. Further, recent data suggests that, while inflation is proving sticky, it appears to have peaked. Importantly, unemployment rates remain very low in most major markets. The Australian economy continues to perform strongly, with strong employment growth, robust spending and healthy property prices. The resources and agricultural sectors continue to experience positive conditions and the surge in immigration is providing a further boost to activity.

While the backdrop is currently sound, the level of uncertainty is elevated, given the long lags in the transmission of monetary policy. 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, in addition to stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to post-COVID normalisation, higher inflation, and higher interest rates.

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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Signatory of: PRI Principles for Responsible Investment

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