Perennial Concentrated Australian Shares Trust

Monthly Report August 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)	-0.5	3.7	1.9	12.0	5.5	12.8	7.2	6.7
S&P/ASX 300 Accumulation Index	-0.8	3.9	2.1	9.0	2.5	10.5	7.0	8.1
Value Added	**0.3**	**-0.2**	**-0.2**	**3.0**	**3.0**	**2.3**	**0.2**	**-1.4**

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

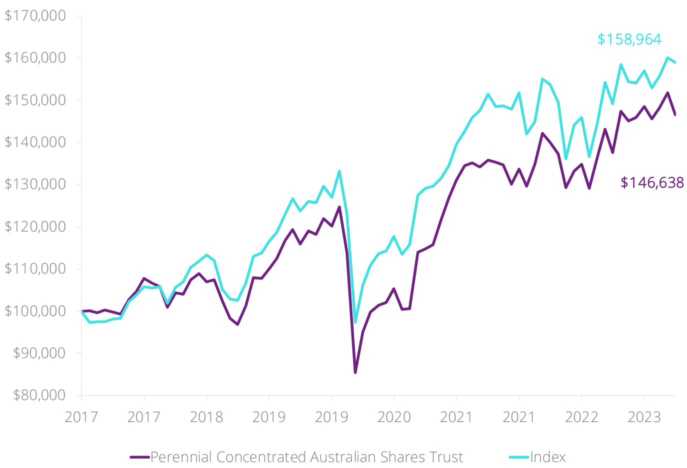
Overview

Markets were generally softer in August, with good economic news in the US being interpreted as bad for equities as it suggested rates will remain higher for longer. At the same time, bad economic news in China was interpreted as also being bad for equities, as what has been the main engine of global growth continued to splutter. This saw the S&P500 fall -1.8% and the NASDAQ decline -2.2%, while the FTSE100 fell -3.4% and the Nikkei 225 gave back -1.7%. The continuing weak Chinese data, and renewed concerns over the property market, saw the Shanghai composite fall -5.2%.

After selling off in the early part of the month, the Australian market staged a late recovery, with the ASX300 Accumulation Index finishing the month down only -0.8%. Reporting season was the highlight of the month. Many of the more cyclical stocks delivered better than feared results, while many of the defensives disappointed. Overall, results were sound, and highlighted that the economy continues to perform strongly. The RBA remained on hold at its August meeting, and inflation continued to ease. Retail sales bounced, house prices continued to rise, and employment remained strong.

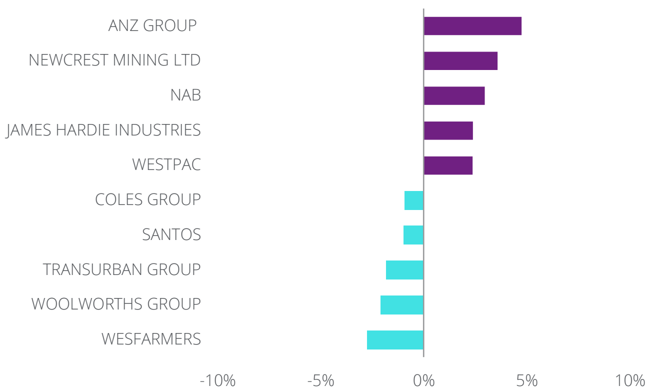
The better than feared results from consumer-facing stocks saw Consumer Discretionary (+5.8%) the best performing sector for the month, followed by REITs (+2.2%), which also experienced a relief rally. Energy (+0.7%) also outperformed. By contrast, Metals and Mining (-2.5%) underperformed, weighed down by the negative China sentiment and generally softer commodity prices. Consumer Staples (-3.1%) were also softer as investors rotated towards more discretionary exposures.

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 $22.5 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2017

Fees
0.70% p.a. + Performance fee

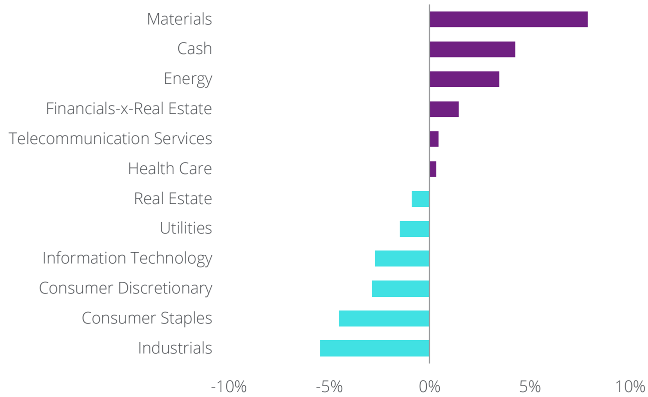
APIR Code
WPC6780AU

Portfolio Characteristics – FY24	Trust	Market
Price to Earnings (x)	15.3	15.9
Price to Free Cash Flow (x)	13.4	15.1
Gross Yield (%)	5.2	5.1
Price to NTA (x)	2.2	2.5

Source: Perennial Value Management. As at 31 August 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 -0.5%, after-fees in August, outperforming the benchmark by +0.3%.

One of the top contributors to performance over the month was building material James Hardie (+7.0%). We have previously written about how we regard this as a very high-quality business, able to generate strong earnings growth, while maintaining a high return on equity. During the month, the company reported its first quarter results, delivering record earnings and strong margins, despite the soft market conditions, which saw sales revenue decline over the quarter. However, there are indications that the US housing market has stabilised after being impacted by the rapid rise in mortgage rates. As is the case in Australia, there is a shortage of housing in the US, with inventories of single family (ie detached) homes well below pre-pandemic levels, which bodes well for underlying demand. 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.

Goodman Group (+13.7%) performed strongly. This is a high-quality business and the clear leader in the industrial property sector. Unlike other REIT sectors such as office or retail, where rental income is under pressure, industrial is experiencing very positive conditions. Demand for logistics properties remains strong and legacy rents are being rolled over at higher rates.

Aristocrat Leisure (+4.0%) also outperformed, with continuing strong US casino trading data indicating that operating conditions remain favourable. Not only does positive trading conditions suggest that casinos will continue to invest in new gaming machines, but Aristocrat also benefits as many of its machines are sold on a revenue participation basis. The company also began distributing a new range of NFL-themed gaming machines called "NFL Super Bowl Jackpots", timed to coincide with the start of the NFL season.

The major banks, where the Trust holds a neutral position, performed in line with the market in August. The CBA result and Q1 trading updates from the others indicated that while credit conditions remain very strong, with minimal evidence of stress in either consumer or business lending, margins are coming under increasing pressure as deposit rates increase.

The main detractors from performance over the month tended to be our Resources holdings, which were weaker on the back of lower commodity prices and negative sentiment around China.

Telstra (-3.9%) also underperformed as investors generally rotated out of defensives and into more cyclical, consumer exposed names. This was despite the company delivering a solid full-year result. It remains one of our preferred defensive exposures.

Trust Activity

During the month, we reduced our holdings in the banks, where we see the outlook as somewhat muted and the valuations around fair. We also took profits and trimmed our holding in James Hardie. Proceeds were used to increase our resources holdings by adding Sandfire Resources and Lynas Corporation to the portfolio. We also increased our energy exposure via adding to our holding in Woodside Energy and introducing Santos to the portfolio. We also moved overweight CSL following a period of material underperformance. At month end, stock numbers were 29 and cash was 4.3%.

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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