Perennial Concentrated Australian Shares Trust

Perennial Partners

Monthly Report September 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)	-2.9	-1.1	-1.1	13.6	4.1	13.5	6.4	6.1
S&P/ASX 300 Accumulation Index	-2.9	-0.8	-0.8	12.9	1.9	10.8	6.6	7.5
Value Added	**0.0**	**-0.3**	**-0.3**	**0.7**	**2.2**	**2.7**	**-0.2**	**-1.4**

^Since inception: May 2017. Past performance is not a reliable indicator of future performance. Performance is shown to 29 September 2023, which was a public holiday in Melbourne. Since our unit registry is based in Melbourne, no unit price was struck for this day. An indicative unit price was calculated so that the performance of the fund may be compared to that of the market (the ASX was open on 29 September 2023). No reliance should be placed on the indicative unit price for 29 September 2023.

Overview

Markets were weaker again in September, with stronger than expected economic data pushing bond yields higher. By contrast, the economic news from China continued to be weak. This saw the S&P500 fall -4.9%, the NASDAQ decline -5.8%, and the Nikkei 225 give back -2.3%. The FTSE100 bucked the trend, rising +2.3% as inflation data in the UK came in lower than expected. After a sharp fall last month, the Shanghai composite was relatively stable, down only -0.3%, as a number of additional stimulus measures were put in place over the month.

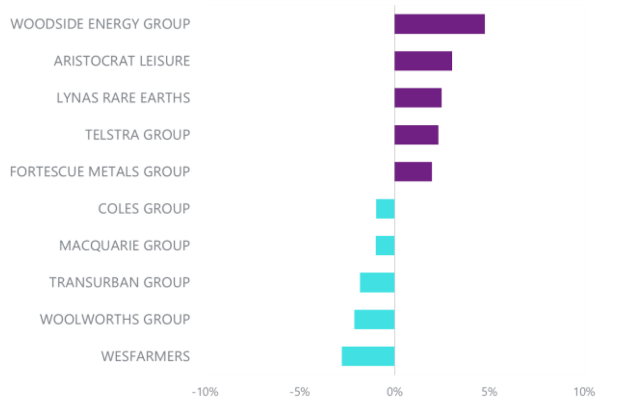
The Australian market was also weak, with the ASX300 Accumulation Index finishing the month down -2.9%. The domestic economic data remains strong, and inflation continues to ease, allowing the RBA to remain on hold at its September meeting. However, we would caution that this data is backward looking, and given the long lags in the transmission of monetary policy, the impact of previous rate increases is still yet to be fully felt on the real economy.

Energy (+2.2%) was the only sector to deliver a positive return in September, as production cuts by OPEC+ combined with strong demand to see the oil price rise to over US$87/bl. Metals and Mining (-1.4%) outperformed as the iron ore price remained resilient, despite the China weakness. Financials (-1.6%) also outperformed in a relative sense, with signs of an easing in mortgage competition supporting the banks. Interest rate sensitive sectors underperformed as bond yields rose, with REITs (8.7%), IT (-7.7%) and Healthcare (-6.4%), the worst performing sectors.

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 $21.9 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2017

Fees
0.70% p.a. + Performance fee

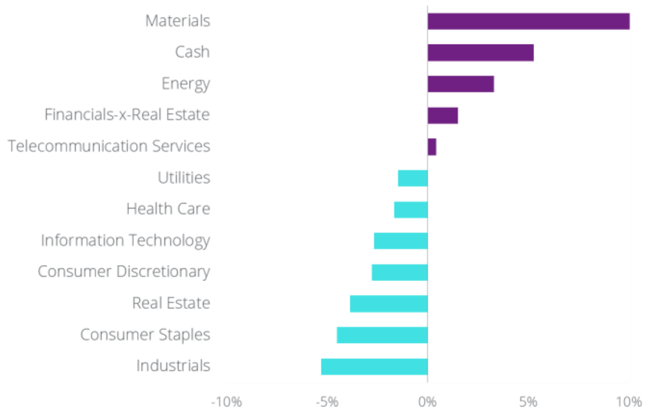
APIR Code
WPC6780AU

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	14.4	15.1
Price to Free Cash Flow (x)	12.6	14.2
Gross Yield (%)	5.4	5.3
Price to NTA (x)	2.0	2.3

Source: Perennial Value Management. As at 30 September 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 returned -2.9%, after-fees, in September, performing flat relative to the benchmark.

Strength in the oil price, which rose to +9% to US$87/bl, saw the Energy sector (+2.2%) be the only sector to deliver a positive return over the month. The price rise was the result of a combination of production cuts by OPEC+ and strong demand, all at a time when the US strategic reserve is at near historical low levels. The Trust is overweight the Energy sector and benefitted from holdings in Santos (+3.0%) as well as Woodside Energy (-1.4%), which also outperformed but was held back by regulatory delays to its Scarborough project.

Other holdings which outperformed included stocks positively leveraged to higher interest rates such as QBE Insurance (+4.9%) and Computershare (+3.1%).

QBE continues to benefit from the strong premium rate increases being experienced globally in the insurance industry. In addition, its earnings are positively leveraged to higher interest rates as these increase the earnings generated from its capital reserves. Further, insurance tends to be a quite defensive industry, as much insurance is, in effect, non-discretionary.

Computershare derives its benefit from increasing interest rates from the earnings it generates from client cash balances it holds. For example, when Computershare performs a corporate action, funds pass through its cash accounts on the way between investors and companies. The balances that Computershare holds at any given time can be very large, and the interest earned on these balances is a meaningful contributor to earnings. In the low interest rate environment of recent years, this has been lacking, however, as rates have increased, this has become a significant tailwind. Further, Computershare will benefit from the eventual recovery in corporate activity. Finally, Computershare are in the process of selling their US mortgage servicing business, and a successful exit of this would be viewed positively by investors.

In our view, these are ideal holdings for the current market, being positively leveraged to a "higher for longer" interest rate environment, having defensive characteristics and offering good value. For example, both QBE and Computershare are trading on undemanding valuations, with FY24 of P/E multiples of 10.7x and 13.6x respectively.

The Trust is also overweight the Metals and Mining sector, which outperformed over the month. The iron ore price rallied as demand from steel makers remained robust, despite the weaker economic data. While the issues in the Chinese housing market are well-documented, steel production remains strong. Interestingly, the large "other" category in steel usage continues to grow. This encompasses a range of activities from commercial construction to ship building. It also includes construction of public housing, which continues to be strong. Should the iron over price currently hold at over US$100/t, then consensus upgrades to the major miners are likely.

The main detractor from performance over the month was packaging company, Orora (-13.8%), which fell after announcing a $1.3bn capital raising to fund the $2.2bn acquisition of Saverglass. Based in France, but with global operations, Saverglass is a manufacturer of glass bottles, with a leading position in the luxury spirits market. The size and location of the acquisition make it relatively high risk, however, management has a good track record, and the valuation is undemanding.

Other detractors included James Hardies (-12.3%), which gave back some of its recent strong gains, as US mortgage rates moved higher. Macquarie Group (-5.5%) was also softer, given ongoing weakness in M&A activity, as well as the continuing challenging environment for asset realisations, which are a key driver of profits and performance fees.

Trust Activity

During the month, we reduced our holdings in the REITs, moving further underweight, as they face renewed headwinds from higher bond yields. We also reduced our holding in Macquarie Group, as the current environment will make asset divestments more challenging. Proceeds were used to increase our holdings in the major miners, where we see strong cash flows and upgrade potential. We also increased holdings in the major banks, where an easing of competition in the mortgage market is a positive for the earnings outlook and valuations are relatively attractive. At month end, stock numbers were 28 and cash was 5.3%.

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 rising 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, growth is slowing and 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 set for an environment of slowing growth, 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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