Perennial Concentrated Australian Shares Trust

Monthly Report February 2024

	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)	-0.9	7.1	6.7	9.0	8.3	9.1	7.9	6.9
S&P/ASX 300 Accumulation Index	1.0	9.5	9.7	10.5	8.5	9.1	8.6	8.6
Value Added	**-1.9**	**-2.4**	**-3.0**	**-1.5**	**-0.2**	**0.0**	**-0.7**	**-1.7**

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

Overview

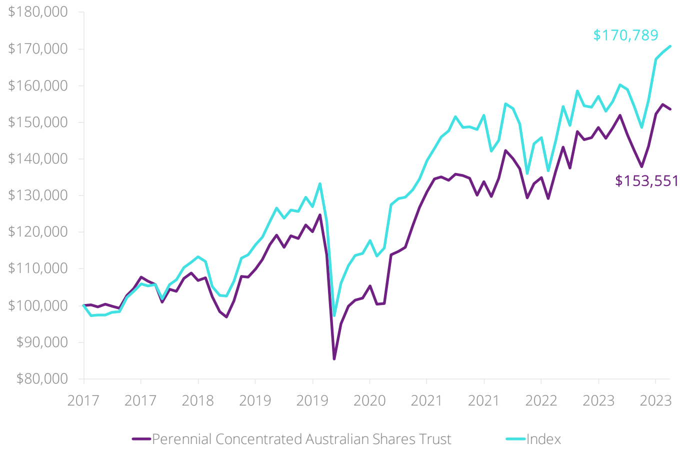
Markets logged another strong performance in February. While bond yields moved higher over the month, this was more than offset by positive sentiment around better than expected company earnings and resilient economic data. This combined to drive most major indices higher. The US market was particularly strong, with the mega-cap Tech sector pushing the S&P500 +5.2% and the NASDAQ +6.1%. The Nikkei 225 returned +7.9%, while the FTSE100 was the laggard, finishing flat. The Chinese market, which has been the worst performing major market over the last 12 months, also saw a rally, closing up +8.1%.

The Australian market was also positive, with the ASX300 Accumulation Index rising +1.0%, to an all-time high. Following the offshore lead, Tech was the best performing sector (+19.7%). The company reporting season was the highlight of the month, and saw results come in overall slightly better than expected, allaying fears of a looming slowdown in consumer spending.

Sentiment to the domestic outlook was further buoyed by the changes to the Stage 3 tax cuts, which will see the benefits spread more broadly, and to people with a higher propensity to spend. This saw the Consumer Discretionary sector (+9.7%) perform very strongly, followed by REITs (+4.8%) and Financials (+3.5%), boosted by the banks (average +4.6%).

By contrast, sentiment towards the Chinese outlook is very negative, and this saw Resources underperform over the month, with Energy and Metals & Mining (both -5.9%), 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.

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 $24 million

Distribution Frequency
Half yearly

Minimum Initial Investment[1]
$50,000

Trust Inception Date
May 2017

Fees
0.70% p.a. + Performance fee

APIR Code
WPC6780AU

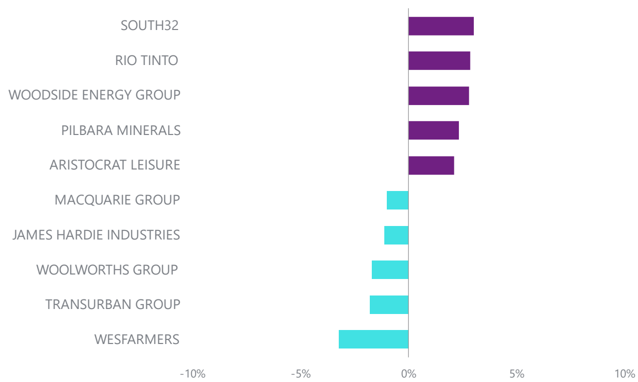
[1] Perennial Concentrated Australian Shares Trust is open to wholesale investors only.

Portfolio Characteristics – FY25	Trust	Market
Price to Earnings (x)	13.7	16.4
Price to Free Cash Flow (x)	12.3	14.7
Gross Yield (%)	5.1	4.8
Price to NTA (x)	1.8	2.6

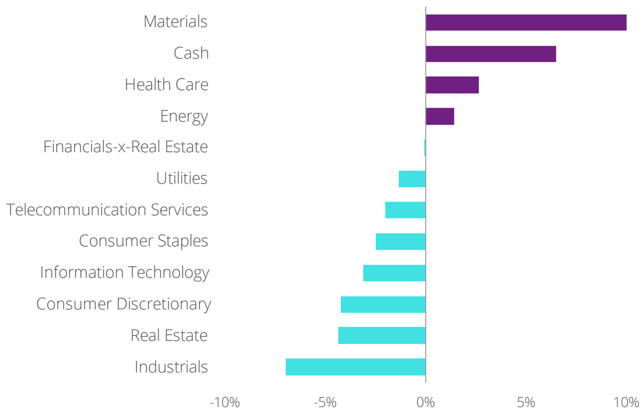
Source: Perennial Value Management. As at 29 February 2024

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.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The Trust returned -0.9%, after-fees in February, underperforming the benchmark by -1.9%.

Key contributors to performance over the month included lithium miner, Pilbara Resources (+18.3%). In contrast to most of the Resources sector, Pilbara rallied on signs of stabilisation in the lithium price, which has been weak lately, as demand from battery makers has slowed. While the lithium price will likely never see its previous highs, the longer-term demand outlook remains positive. Pilbara is very well-placed, with a global tier-1 mine, strategically located in Australia, operating near the bottom of the cost curve, with increasing production, good off-take agreements and downstream partnerships. Further, the company is in a very strong financial position, with around $3bn net cash. Despite all these positives, the register is currently over 20% short. We believe it will not take much positive news for the stock to squeeze higher.

Treasury Wines (+14.7%), also performed strongly, with expectation building that the Chinese tariffs will be removed shortly. Should this occur, there will be material earnings upside, as inventories of high-end wine such as Penfolds, are redirected back into the highest-margin market.

Engineering firm, Worley (+12.9%), outperformed after delivering a solid result, showing margin improvement and a strong pipeline of new work. This company is extremely well-placed as it serves both the traditional chemicals, oil and gas sectors as well as the renewable energy sector. Not only are renewables, which now account for nearly 40% of their work, growing rapidly, but it is also higher margin.

Insurer QBE (+9.1%) outperformed, with their results showing that premium increases remain strong and claims costs have moderated. The insurers also benefitted from the pushing out of expectations of the timing of interest rate cuts.

The Trust also benefitted from not holding Woolworths (-8.1%), which fell after guiding for lower earnings in the second half of the financial year. While the first half result was solid, cost of living pressures are seeing sales momentum slowing, while operating costs are rising.

Discretionary spending appears resilient, with many consumer-facing companies, such as retailers, reporting better than expected results. This saw strong rallies in many of their share prices. The Trust is underweight the retailers, and this detracted from performance over the month. In our view, the outlook from here is only going to get tougher for these stocks as, while tax cuts and potential interest rate cuts will be positive, this will likely be more than offset by ongoing cost of living pressures and deteriorating sentiment as the unemployment rate ticks up. As a result, we are happy to remain underweight the sector.

The Trust was also impacted by our overweight position in the Resources sector. While sentiment towards the domestic outlook is extremely positive, the opposite is true of sentiment towards China. This is being reflected in the share prices of mining stocks, with South32 (-11.9%), Fortescue Metals (-9.6%), BHP (-7.1%) and Rio Tinto (-6.9%) all underperforming. While the outlook is indeed subdued, in our view, this is more than factored into current share prices, with the bulk miners trading on FY24 P/E multiples of around only 10x. At these levels, it would not take much in the way of positive news to see a re-rating of these stocks.

Trust Activity

During the month, we added to our positions in South32 and Rio Tinto which offer very attractive value at current levels. At month end, stock numbers were 30 and cash was 6.5%.

Outlook

Globally, inflation continues to moderate, albeit at a slowing pace, as while goods inflation has fallen sharply, services inflation is proving more persistent. While the expected timing of interest rate cuts has been pushed out, the consensus view is that rate cuts are coming, and a soft landing will be achieved.

This would be an excellent outcome. However, history suggests that soft landings are few and far between, so a degree of caution is warranted. Should inflation prove resurgent, then the sentiment could change quickly. Given that much of the market – particularly the Tech sector – is very fully-valued, there is not much margin for error here.

Similarly, the Australian economy continues to look reasonably healthy, boosted by immigration, however, GDP growth is weakening, and per capita GDP growth is negative. While the prospect of RBA interest rate cuts is positive for sentiment and the upcoming tax cuts will also boost disposable income, there are signs the labour market is beginning to soften, leaving us cautious on the consumer.

Despite the Chinese economic woes, demand for most commodities remains healthy and supply is generally constrained. As a result, it would not take much for sentiment to improve significantly towards the sector.

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

Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au