Perennial Value Wealth Defender Australian Shares Trust

Quarterly Report
30 September 2014

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	0.7	0.7	-	-	-	-0.7
S&P/ASX 300 Accumulation Index	-0.6	-0.6	-	-	-	-2.0
Value Added (Detracted)	**1.3**	**1.3**	**-**	**-**	**-**	**1.3**
Net Performance	0.5	0.5	-	-	-	-0.9

*Gross Performance. ^Since inception: May 2014. Past performance is not a reliable indicator of future performance.

Perennial Value Wealth Defender Australian Shares Trust

The Trust aims to outperform the S&P/ASX 300 Accumulation Index by investing in a diversified portfolio of Australian shares and using protection strategies to dynamically protect the portfolio through market cycles, thereby reducing the magnitude of significant negative returns in falling equity markets.

Trust manager:	Dan Bosscher
Risk profile:	High
Trust FUM* (as at 30/09/14):	AUD12.4 million
Income distribution frequency:	Half yearly
Team FUM (as at 30/09/14):	AUD7.6 billion
Trust redemption price (as at 30/09/14 2014):	$0.9887
Any material changes to risk profile, strategy, key service providers or portfolio managers during the period:	Nil
Minimum initial investment:	$25,000
Trust inception date:	May 2014
APIR code:	IOF0228AU

*Trust FUM is equivalent to the net asset value of the Trust. It is the value of the assets less the liabilities of the Trust, as calculated in accordance with the terms of the Trust's constitution.

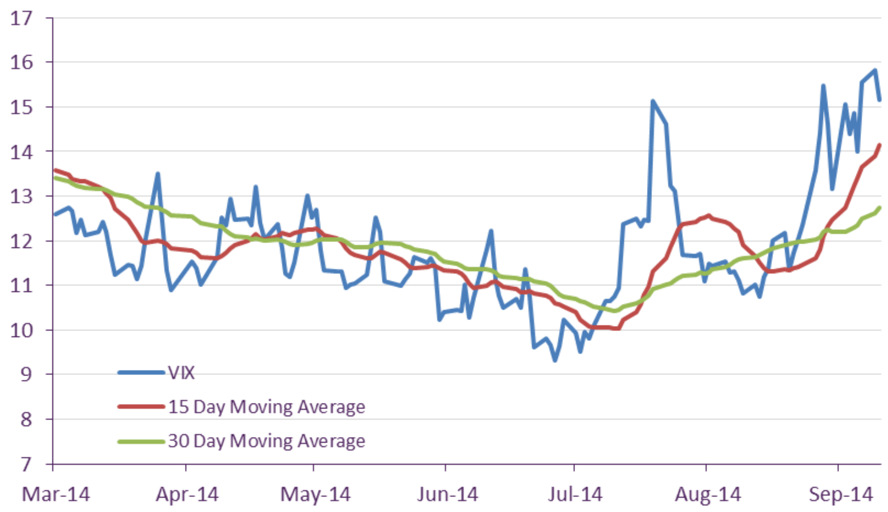
- **Since inception in May 2014 the Trust has outperformed the Index by 1.3% delivering a -0.7% return versus a market return of -2.0%.**
- **The portfolio benefitted from its positioning in the banks sector over the quarter.**
- **Positions which performed well during the quarter included Harvey Norman (up 17.1%), Lend Lease (up 13.1%), Aristocrat Leisure (up 11.0%), Amcor (up 10.9%) and QBE (up 8.6%).**

The benchmark S&P/ASX 300 Accumulation Index was down 0.6% for the quarter. The Perennial Value Wealth Defender Australian Shares Trust (the Trust) finished the quarter up 0.7%, outperforming the benchmark by 1.3%.

Global markets were volatile during the quarter as a gradually improving US economy generated debate as to the likely impacts of the end of the Fed's quantitative easing in the US and the timing of any interest rate increase. At the same time the market grappled with unrest in the Middle East and Russia, concerns over a slowdown in China and a still sluggish European economy. Despite this the S&P500 (up 0.6%), Nikkei 225 (up 6.7%) and Shanghai Composite (up 15.4%) finished higher at end of the quarter while the FTSE (down 1.8%) finished lower.

In Australia the volatility increased markedly over the period as shown in the chart below.

Chart 1



Source: Perennial

Since inception in May 2014 the Trust has outperformed the Index by 1.3% delivering a -0.7% return versus a market return of -2.0%.

While more concerned with material falls in the market, we would still expect the Trust to do well in this environment. The protection strategies started to have an effect as the market moved lower. In addition to the option protection, we were also able to generate some relative outperformance with our underweight bank exposure.

Unlike August when the market fell and rebounded, September saw a controlled decline. This is relevant to the Trust in that sharp falls have a bigger impact on the option protection than slow and steady falls. We expect a much bigger return from our downside protection in a rapid sell-off than a slow sell-off. This is important to note going forward.

We finished the quarter long December put spreads with some upside cover in the form of index call options which should help mitigate losses in the protection portfolio if the market bounces. With an S&P/ASX 300 Accumulation Index benchmark, we are as concerned with managing upside market risk, as downside.

As at quarter end we currently have a structure in place to mitigate a 15% overnight fall in equity markets by an estimated 50%*.

Both globally and domestically, macro data was mixed. In the US, second quarter GDP growth came in at 4.6% on an annualised basis and employment data continued to show improvement while other data was more underwhelming, particularly towards quarter end. In China, the latest round of data indicates that growth is falling short of the official target, which prompted the announcement of additional bank liquidity measures to help stimulate growth. In Europe, the ECB also announced additional stimulus measures as growth remains barely positive. Domestically the unemployment rate remained at 6.1% despite some intra-period volatility after touching 6.4% in August. Consumer confidence and business confidence were little changed over the quarter despite some more positive signs in August. Building approvals data was strong. The RBA left the cash rate unchanged at 2.5% albeit hinted that it may be considering counter-cyclical credit controls to cool the strong housing market.

The AUD/USD weakened significantly over the quarter, ending the quarter at 87.2c down from 94.3c at the end of June.

The best performing sectors were healthcare (up 9.4%), telcos (up 5.4%), REITs (up 1.2%), IT (up 0.9%), industrials and consumer staples (both up 0.6%). The worst performing sector was metals and mining (down 3.8%) followed by materials (down 3.0%) and financials (down 2.5%).

Domestically, reporting season was the focus in August, with companies reporting results for the period to 30 June 2014. By and large, the results were well received, with many companies' share prices reacting positively. Several themes emerged from reporting season. Firstly, there was a continuation of the relatively subdued revenue growth environment of the past few years. However, there were some areas showing recovery, in particular the housing related sectors, which are experiencing strong demand conditions. Secondly, companies remain squarely focussed on self-help initiatives, in the form of cost reductions and efficiency gains, to maintain margins and help offset inflationary pressures. Finally, cash flows were generally strong, leading to healthy balance sheets and allowing increased dividend payments. In terms of the outlook, management continued to be guarded in their statements, however, the majority of companies we hold indicated that they expect earnings to grow in the coming year.

The best performing large cap stock in the portfolio over the quarter was Harvey Norman (up 17.1%) which rallied after delivering a significantly improved profit result, lifting the dividend significantly and indicating that they may consider steps to return excess franking credits. Other strong performers included Lend Lease (up 13.1%), Aristocrat Leisure (up 11.0%), Amcor (up 10.9%) and QBE (up 8.6%).

The portfolio benefitted from its positioning in the banks sector over the quarter. Having moved to a mild underweight in the banks some six months ago, we have continued to reduce the overall bank weightings in recent months to a more meaningful underweight, albeit within the sector, NAB is our highest conviction holding. Our negative view on the sector has been driven by a number of factors, including ongoing regulatory intervention to increase capital levels and relatively less attractive yield relative to rising bond yields. The major banks fell an average of 4.3% over the quarter. NAB (down 0.7%) was the best performer, with the new CEO Andrew Thorburn taking over in August and moving quickly to change senior management, sell off non-performing UK loan portfolios and announce the intention to IPO their US operations.

Stocks which detracted from performance included Fairfax Media (down 12.2%) which gave back some of the recent outperformance despite delivering a solid full-year result. Henderson Group (down 10.6%) delivered a result below expectations, however this has been a very strong performer over the last 12 months and we have been trimming our holding in this stock as it has risen. Other weak performers included Crown (down 7.5%) on the back of weakness in Macau and AGL Energy (down 6.5%). Resource holdings BHP (down 3.8%), Orica (down 3.0%) and Iluka Resources (down 2.6%) also underperformed on weaker commodity prices.

In terms of portfolio activity, profits were taken in stocks including Amcor, Asciano, AWE (a mid cap oil and gas producer), Bluescope Steel, Harvey Norman, Lend Lease, Orora and Sims Group. In the case of both Amcor and CBA, we reduced for valuation reasons and indeed both holdings have been used as funding vehicles over the past year. Proceeds were reinvested into stocks offering better value, primarily through increasing holdings in Aristocrat, BHP, Coca Cola Amatil, Downer EDI, Iluka Resources and RIO.

Within the smaller companies stocks, the best performer was HFA Holdings (up 39.9%) following the conversion of the last remaining convertible notes and the delivery of a FY14 result ahead of expectations. Post the clean-up of the convertible notes HFA has a clean and simple balance sheet and with the bulk of the earnings in USD they are well placed to benefit from the falling AUD/USD.

After delivering a solid FY14 result, the M2 Group (owners of iPrimus, Dodo etc.) (up 31.7%), showed an improvement in cashflow and subscriber growth ahead of market expectations.

Other strong performers included Boom Logistics (up 33.3%) and Sino Gas Energy (up 31.3%) as both stocks recovered from over-sold positions. Recent IPO's including Mantra Group (up 30.0%) and Bellamy's Australia (total return of 34.2% over holding period) also contributed to performance.

Detracting from performance was BC Iron (down 44.8%) primarily due to the significant weakness in the iron ore price in the quarter. BC Iron has a relatively strong balance sheet and high margins compared to other small cap miners. Other detractors from the small cap materials sector were Aquarius Platinum (down 19.0%) and Panoramic Resources (down 18.7%) again reflecting weakness in the respective underlying commodities.

* This is expected outcome in an overnight move based on risk modelling. Whilst we expect this to be accurate it relies on a number of assumptions and is used as a guide only.

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the Trust.

During the quarter, Swick Mining demonstrated a 70% reduction in Total Recordable Injury Frequency Rate over two years. They also they have more research and development initiatives (such as automated rod handling) to rollout this year with the aim of achieving further improvements in both safety and productivity.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	8.9	8.1
Westpac Banking Corp	7.5	7.4
National Aust. Bank	6.5	5.7
ANZ Banking Grp Ltd	5.6	6.3
Commonwealth Bank.	4.7	9.1
Telstra Corporation.	4.7	4.9
Woodside Petroleum	3.4	2.1
Rio Tinto Limited	3.2	1.9
QBE Insurance Group	2.8	1.2
Asciano Limited	2.8	0.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.8	6.4
Materials	21.9	16.4
Industrials	7.0	7.1
Consumer Discretionary	7.4	4.2
Consumer Staples	2.0	7.9
Health Care	4.3	5.1
Financials-x-Real Estate	33.5	37.4
Real Estate	7.2	7.2
Information Technology	0.2	1.0
Telecommunication Services	4.8	5.4
Utilities	1.9	1.8
Other	4.0	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment