PERENNIAL

Perennial Volatility Alpha Trust

Monthly Report
30 June 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Volatility Alpha Trust*	0.1	6.8	-	-	-	-	5.2
RBA Cash Rate Target	0.1	0.4	-	-	-	-	0.4
Value Added (Detracted)	**0.0**	**6.4**	-	-	-	-	**4.8**
Net Performance	0.0	5.7	-	-	-	-	4.2

*Gross performance. ^Since inception: 14 March 2017. Past performance is not a reliable indicator of future performance.

Perennial Volatility Alpha Trust

The Trust aims to outperform the RBA Cash Rate Target by investing in global equity derivatives that provide volatility exposure such as futures and options on the CBOE S&P 500 VIX index (VIX).

Trust manager

Michael Pollard

Risk profile

High

Trust FUM

AUD $0.9 million

Distribution frequency

Annual

Trust redemption price

$ 1.0402

Any material changes to risk profile, strategy, key service providers or portfolio managers during the period

Nil

Minimum initial investment

$100,000 (wholesale investors only, as per Reg. S761G of the Corps Act 2001)

Trust inception date

March 2017

APIR code

WPC8778AU

Contact us

1300 730 032
invest@perennial.net.au
www.perennial.net.au

Despite some minor flutters intra-month the average VIX level for the month of June, at 10.5, was the lowest ever recorded since the VIX was created in 1990, the year Nelson Mandela was released from prison and the Berlin Wall came down. Indeed if you exclude April there have been only three months with average VIX levels as low as those we have seen so far in 2017, over the last ten years. In our discussions with investors we are commonly asked why this may be the case. The most obvious response is that realised volatility is also very low. Relative to realised volatility, implied volatility, which is what the VIX measures, does not look particularly low. In fact the spread between implied volatility and realised volatility is fairly consistent with comparable periods through history.

Why, then, is realised volatility so low? This is a more complicated question to answer. It is certainly true that the macro environment, where we are seeing synchronised emerging and developed market growth for the first time in nearly a decade, is supportive of risk taking and lower volatility, though we have some softening of data points in recent months. In addition, whilst individual stock volatilities have declined, there has also been a marked decline in correlations between stocks. This increased dispersion produces a much lower level of realised volatility at the index level. Marko Kolanovic of JP Morgan estimates that 60% of equity assets are now owned by passive and quantitative investors (up from less than 30% a decade ago), and only 10% of trading volumes originate from fundamental discretionary traders (Market and Volatility Commentary, 13 June 2017). Passive investors tend to buy and hold, and quant funds tend to rotate between stocks, sectors, or factors. A further dampener is the sizeable volatility selling flows that come from risk premia and overwriting strategies looking to monetise the volatility premium. The actions of all these participants are predicated on a benign risk environment, and in turn reinforce such an environment, the snake eats its own tail. And really the key driver of attitudes towards risk in recent years have been the actions of central banks. These now look increasingly set to unwind stimulus over the coming years. We do not believe the market is pricing this risk efficiently.

Due to the depressed levels of volatility the opportunity set for the strategy has been much reduced, consequently we have been in cash for much of the month, resulting in a minor positive return of 0.1%. Short volatility strategies have worked this year, but the risk/reward to being short volatility at these levels does not lend itself to a strategy with a core aim of keeping volatility and drawdowns low.

Portfolio Characteristics (since inception)		
	Trust	**S&P 500**
Volatility	10.8%	7.1%
Upside Deviation	10.0%	5.1%
Downside Deviation	3.9%	4.9%
Largest Drawdown	-2.0%	-2.2%
Return	5.2%	3.0%
Sharpe Ratio	1.5	1.2
Sortino Ratio	4.1	1.8
Calmar Ratio	2.6	1.4
Correlation to Equity Market	-30.3%	-

Upside (Downside) Deviation: the volatility realised on days of profit (loss), annualised with reference to the total number of days since inception
Sortino ratio: variation of Sharpe ratio that uses downside deviation in the denominator
Calmar ratio: return divided by maximum drawdown

VIX Strategies Utilised* (since inception)	
Strategy	**Utilised***
Long Momentum	8.9%
Short Momentum	2.5%
Contrarian	20.3%
Carry	0.0%
Cash	69.6%

Long momentum: positioned long for expected short-term rise in VIX
Short momentum: positioned short for expected short-term fall in VIX
Contrarian: positioned short (or long) for expected medium-term fall (rise) from high (low) levels relative to historical levels
Carry: positioned to earn structural decay over the short to medium term

*Percentage of the number of days the strategy was in use from inception.

Signatory of:

PRI Principles for Responsible Investment