Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
31 October 2014

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	2.0	-1.0	2.7	-	-	-	1.2
S&P/ASX 300 Accumulation Index	4.3	-0.7	3.6	-	-	-	2.2
Value Added (Detracted)	**-2.3**	**-0.3**	**-0.9**	**-**	**-**	**-**	**-1.0**
Net Performance	2.1	-1.2	2.7	-	-	-	1.2

*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 31/10/14):
AUD15.4 million

Income distribution frequency:
Half yearly

Team FUM (as at 31/10/14):
AUD7.8 billion

Trust redemption price (as at 31/10/14):
$ 1.0099

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.

- **The Trust delivered 2.0% in October versus the S&P/ASX300 Accumulation Index return of 4.3%.**
- **The underperformance was roughly half stock selection and half the protection portfolio.**
- **The best performing stocks in the portfolio for the month were Aristocrat Leisure, Lend Lease and Downer.**

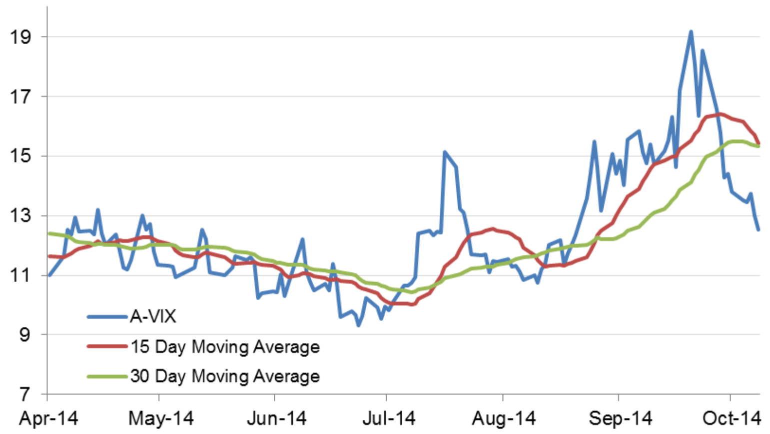
October was a month of two halves. In the first week or so the market continued the trend down which was very pronounced in September when the market fell 5.4%. At its low on 13 October the market had fallen nearly 9%. Our priority at the time was to maintain protection in the face of possible continued market weakness. The Trust throughout the month maintained a level of protection that would have seen it preserve around half of investors' capital in a market fall of 25%. Fortunately this was not needed in the end, as the market rallied strongly rising 8% from the low to finish the month up 4.3%, regaining much of that lost through September and early October.

Having just been through a very volatile period we kept our protection position to ensure we delivered on our mission to preserve capital. One of the clear positives we took from the month was the positive impact an investment in the Trust can have over a traditional equity fund. At the lows in the market there is a classic phenomenon called 'behavioural risk'. This is essentially the risk that uncertain markets lead to poor investment decisions. By investing in the Trust we hope clients felt comfortable that they didn't have to 'stop out' of the market. In this sense clients managed to achieve much of the rally from the low.

For the month, underperformance was roughly half stock selection and half protection portfolio.

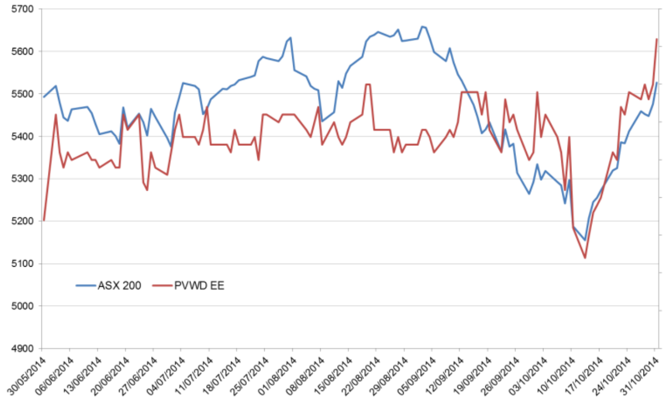
Over the five month period since inception the Trust has had a structure in place to mitigate a 15% overnight fall in equity markets by an estimated 47%.

Volatility, (as measured by the A-VIX) remained very high relative to the recent past to early October. As the market bounced aggressively, volatility fell sharply.



Source: Perennial

During the month we saw the effective exposure levels in the Trust change considerably. As the market falls, our protection increases at a faster rate. As the market rallies the protection becomes less impactful and drags on performance at a slower and slower rate. This can be seen in the effective exposure chart below.



Source: Perennial

Currently the portfolio has had a structure in place to mitigate a 15% overnight fall in equity markets by an estimated 50%.

Global equity markets performed strongly in October, with the S&P500 up 2.3% as the US economy reported real GDP growth of 3.5% in 3Q14 and the unemployment rate fell 0.2% to 5.9%. The Shanghai Composite finished up 2.4% as China's 3Q14 GDP and Industrial Production both exceeded expectations rising 7.3% and 8.0% respectively. The Nikkei 225 (up 1.5%) was supported by the Bank of Japan announcing further monetary stimulus. The exception was Europe, with the FTSE (down 1.2%) and the Euro Stoxx 50 (down 3.5%) weaker as Eurozone markets remained dogged by growth concerns.

Domestically, data was mixed. Building approvals for August rose 3.0% month on month and business confidence for September slipped three points. Retail sales and consumer confidence edged slightly higher, increasing 0.1% and 0.9% month on month respectively. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% and the AUD ended the month up one cent at US88c.

The better performing sectors during the month were financials (up 6.9%), real estate (up 6.5%) and telcos (up 6.2%). Energy (down 3.6%) was the worst performing sector, followed by metals and mining (down 1.2%) and materials (down 0.2%).

The best performing stock in the portfolio for the month was Aristocrat Leisure (up 9.8%) after announcing the completion of its acquisition of VGT, ahead of previous guidance for March 2015. Other strong performers included, Lend Lease (up 9.2%) which held its investor day during the month and highlighted its strong development, infrastructure and residential pre-sales pipeline. Downer (up 7.5%) announced that it has signed an agreement to purchase Tenix for $300m. Tenix is a leading provider of maintenance services to the electricity, gas and water sectors in Australia and New Zealand. This acquisition helps diversify earnings away from the mining sector and gearing levels post acquisition support the possibility of a future share buyback.

The major banks performed strongly, returning between 6.9% and 8.3%. Readers will recall that we have reduced the overall bank exposure in recent months. The subsequent sell off into early October was such that the overall sector was trading on a healthy forecast FY'15 gross yield of 8.5%. As a result, we bought back into CBA, NAB and Westpac early in the month, bringing the sector exposure back to a mild underweight. Our rationale is that, in looking forward over the next year or so, it is difficult to envisage scenarios where the overall sector either significantly under or outperforms. Major job losses could lead to the former and strong credit growth to the latter, neither of which we see as being likely to occur over this time period.

Stocks which underperformed included Iluka, Origin Energy and Henderson Group, which were down in the range of -1.3% to -8.4% for the month.

The small cap portion of the fund had a tough month. This underperformance can best be decomposed into a couple of stock specific events impacting WDS and BC Iron, which we discuss below, combined with general weakness across a number of our holdings during the month. Despite ongoing unrest in the Middle East and Eastern Europe, the oil price declined further, negatively impacting our energy exposure. Additionally, strong performance from index-heavy expensive stocks, namely TPG Telecom, Domino's Pizza, Sirtex Medical, Invocare, Magellan Financial Group and Platinum Asset Management, impacted our relative performance.

The worst performing stock in the Trust was WDS (down 69.4%) after announcing the fatality of one of their workers on the APLNG project in Queensland. This incident interrupted a previously impressive safety record (4yrs lost time injury free) and had a significant financial impact – the large workforce was stood down while the incident was investigated. In light of this incident, WDS was also unsuccessful in extending the APLNG contract. We will continue to monitor the situation closely in particular the safety performance of WDS and any flow-on impacts with other clients. At this stage we believe an investment in WDS remains justified given the large multi-year pipeline of work in the coal seam space, the net cash on the balance sheet at the end of FY14 and the large discount to NTA of 64c (versus the 24.5c month end share price).

BC Iron (down 33.4%) had informed the market of issues the company was experiencing with clay material in some ore from its Nullagine mine ahead of the September report. However, the quarterly report revealed an impact that was greater than initially indicated. This, combined with the company announcing its move to compulsory acquisition of Iron Ore Holdings, saw the share price aggressively sold off. Iron Ore is now entering a restock period (ahead of cyclone season in the Pilbara and shutting of mines in China due to Winter and Chinese new-year holidays) with upside risk for prices as steel mills increase iron ore inventories. Despite pervasive bearishness in the iron ore space, the seasonal reasons for the re-stock and inventory levels at steel mills indicate a re-stock should take place.

We continue to be diligent with the structure of the portfolio, with the goal of navigating through increasingly volatile markets as safely as possible.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
BHP Billiton Limited	8.7	7.8
Westpac Banking Corp	8.3	7.7
National Aust. Bank	7.0	5.9
ANZ Banking Grp Ltd	5.7	6.6
Commonwealth Bank.	5.3	9.3
Telstra Corporation.	5.2	5.0
Woodside Petroleum	3.5	2.0
Rio Tinto Limited	2.9	1.9
QBE Insurance Group	2.7	1.1
Asciano Limited	2.2	0.4

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.7	5.9
Materials	20.5	15.7
Industrials	5.3	7.0
Consumer Discretionary	8.2	4.2
Consumer Staples	2.3	8.0
Health Care	3.9	5.2
Financials-x-Real Estate	35.2	38.3
Real Estate	6.6	7.4
Information Technology	0.2	1.0
Telecommunication Services	5.3	5.5
Utilities	1.6	1.7
Other	5.0	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment