

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	3.5	-2.8	3.0	-	-	2.4
S&P/ASX 300 Accumulation Index	6.5	-0.4	2.8	-	-	2.3
Value Added (Detracted)	-3.0	-2.4	0.2	-	-	0.1
Net Performance	3.5	-3.0	2.2	-	-	1.8

*Gross Performance. ^Since inception: 31 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 31/12/15):

AUD 68 million

Income distribution frequency:

Half yearly

Strategy FUM (as at 31/12/15):

AUD 700 million

Team FUM (as at 31/12/15):

AUD 6.7 billion

Trust redemption price (as at 31/12/15):

\$ 0.9920

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:

31 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.

- ▶ In the December 2015 quarter, the Trust delivered a return of 3.5%, underperforming the Index by 3.0%.
- ▶ Since inception, the Trust has delivered a return of 2.4%, largely in line with the Index return of 2.3% while carrying significant downside protection.
- ▶ The Trust announced a December half-yearly distribution of 1.6 cents per unit (CPU) or 2.4 CPU including franking credits, up 17% on the prior corresponding period. This equates to a half-yearly distribution yield of 1.5% or 2.3% including franking credits.

Trust Characteristics

In line with the objective, the Perennial Value Wealth Defender Australian Shares Trust (the Trust) is invested in a diversified portfolio of financially sound companies and carries a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

Trust performance

During the December quarter, the S&P/ASX300 Accumulation Index (the Index) delivered a return of 6.5%. The Trust delivered a return of 3.5%, underperforming the Index by 3.0%.

Globally, markets were dominated by the US Federal Reserve's decision to finally lift interest rates by 0.25%. Markets were generally stronger over the quarter, with the S&P 500 up 6.5%, FTSE 100 up 3.0%, Nikkei 225 up 9.5% and Shanghai Composite up 15.9%. In Australia, strong job growth continued in October and November, with the unemployment rate falling to 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The Reserve Bank of Australia (RBA) left the cash rate steady at 2% and the Australian Dollar (AUD) moved higher over the quarter to close at 72.9 US cents.

Better performing sectors over the quarter included consumer discretionary (up 13.4%), healthcare (up 12.4%), financials (up 11.5%), information technology (up 9.2%) and utilities (up 8.6%), while metals and mining (down 11.8%), materials (down 6.9%) energy (down 1.3%) and telecommunications (up 0.9%) lagged.

Stocks which contributed positively to performance over the quarter included Metcash (up 53.8%) which rallied after holding a strategy day which was well-received by investors and delivering a H116 result which was ahead of market expectations. Event Hospitality and Entertainment (formerly known as Amalgamated Holdings) continued its strong performance (up 27.6%) after reporting a strong start to FY16 across all its divisions and Crown Resorts (up 26.3%) rallied amid speculation that James Packer may attempt to privatise the company.

The Trust also benefited from not holding stocks such as Spotless Group (down 49.8%) which fell after issuing a surprise profit warning. Along with the performance of Dick Smith (down 72.5%), this serves as a reminder of why we always treat initial public offerings (IPO's) with caution – particularly when buying from private equity.

The Trust also benefited from not holding Primary Healthcare (down 38.3%), which fell after the government unexpectedly cut the bulk-billing rebate. We have previously highlighted the funding risks associated with this sector and the current Medicare review suggests that this may be an ongoing theme.

Stocks which detracted from performance included resource holdings BHP (down 19.6%), AWE (down 19.4%), Rio Tinto (down 8.0%) and Woodside Petroleum (down 0.7%) which all fell as a result of lower commodity prices. Sims Metal (down 23.7%) fell after downgrading earnings expectation due to falling scrap metal prices. While this was disappointing, the company has moved swiftly to lower its cost base in the face of this pressure. Importantly, the balance sheet remains strong.

The quarter delivered two very strong months in October and December. In October the characteristics of a V – shaped recovery after the selloff in August and September was a detractor from the protection portfolio performance. December was much better as although the market rallied strongly the protection portfolio quickly regained strong exposure to the market.

Trust activity

During the quarter we sold out of our positions in Asciano and BlueScope Steel both of which had been strong performers for the Trust, with Asciano having received a takeover offer and BlueScope Steel rallying after announcing a major restructuring. We also took profits in a number of stocks which have performed strongly in recent times including Aristocrat Leisure, CIMIC Group, Macquarie Group and Metcash. In addition, we continued to selectively reduce exposure to the resources sector, exiting a number of holdings including Iluka Resources, Origin Energy and South32. The Trust remains mildly overweight to resources companies, with balance sheet strength a key criteria of the stocks held.

Proceeds were used to add to a number of existing holdings where we see attractive value including Flight Centre, Myer, Navitas, Telstra and Wesfarmers. We also increased our weightings in CBA and Westpac and introduced Suncorp Group to the Trust.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert to ESG issues in the Trust. During the quarter, the tailings dam at BHP's Samarco JV in Brazil failed causing significant environmental damage and loss of life. BHP Billiton and Vale have pledged to establish an emergency fund for community support and rebuilding works and to work with the authorities to ensure that this fund is functioning as soon as practicable. Minimising the environmental impact of this incident is also a priority and an Environmental Recovery Plan is to be developed with the support of an external expert. Further, BHP have subsequently conducted a review of all its tailings dams and engaged an independent international investigation into the event. We are very disappointed by this issue and will continue to monitor developments from an ESG perspective.

Outlook

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Trust is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors, while carrying a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank.	8.9	10.3
Westpac Banking Corp	8.6	7.9
National Aust. Bank	6.5	5.6
ANZ Banking Grp Ltd.	6.3	5.8
Telstra Corporation	5.5	4.9
BHP Billiton Limited	4.7	4.1
Woolworths Limited	3.4	2.2
Wesfarmers Limited	2.9	3.3
AGL Energy Limited	2.6	0.9
Woodside Petroleum	2.5	1.4

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	3.1	4.0
Materials	12.7	12.1
Industrials	2.2	7.9
Consumer Discretionary	12.2	5.0
Consumer Staples	8.2	7.2
Health Care	0.4	6.8
Financials-x-Real Estate	39.5	39.9
Real Estate	5.6	8.3
Information Technology	0.3	1.2
Telecommunication Services	6.2	5.4
Utilities	2.7	2.3
Other	6.9	-

Rounding accounts for small +/- from 100%.