Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
29 February 2016

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-1.9	-3.4	-9.0	-13.3	-	-	-1.6
S&P/ASX 300 Accumulation Index	-1.7	-4.5	-7.4	-13.4	-	-	-2.1
Value Added (Detracted)	**-0.2**	**1.1**	**-1.6**	**0.1**	-	-	**0.5**
Net Performance	-2.0	-3.6	-9.3	-14.0	-	-	-2.2

*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 29/02/16):	AUD $60 million
Income distribution frequency:	Half yearly
Strategy FUM (as at 29/02/16):	AUD 649 million
Team FUM (as at 29/02/16):	AUD $6.1 billion
Trust redemption price (as at 29/02/16):	$ 0.9024
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.

- **February reporting season was solid with 44.0% of results ahead of consensus and 32.0% in line.**
- **The transition to an east coast recovery is continuing.**
- **The protection overlay contributed 75 basis points to the total return in February while the S&P/ASX300 Accumulation Index declined 1.7%.**

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 market falls.

Trust performance

The S&P/ASX300 Accumulation Index (the Index) finished the month down 1.7%. The Perennial Value Wealth Defender Australian Shares Trust (the Trust) was down 1.9%, underperforming the Index by 0.2%.

What worked against the Trust during the month was the strong performance of a range of non-held stocks, the large majority of which we cannot justify owning on valuation grounds. The Trust fared well through reporting season and a number of holdings delivered good gains for the month.

Globally, markets struggled in the early part of the month on concerns around global economic growth before recovering somewhat. The S&P500 was down 0.4%, the Shanghai Composite was down 1.8% the Nikkei225 fell 8.5% while the FTSE100 was up 0.2% over the month. The Brent oil price ended the month 4.0% higher and the iron ore price rose 18.0%. In Australia, the employment report was soft after a number of strong months and the unemployment rate increased from 5.8% to 6.0%. However, forward looking job advertisements data remained solid and auction clearance rates in Sydney and Melbourne had a strong start to the New Year. The Reserve Bank of Australia (RBA) cash rate remained at 2.0% and the Australian Dollar (AUD) closed the month up slightly at 71.4 US cents.

Better performing sectors over the month included resources (up 11.2%), industrials (up 5.8%) and REITs (up 2.8%). The weaker sectors included financials (down 7.0%), telecommunications (down 5.5%) and consumer staples (down 4.8%).

A large number of companies reported during the month and, on the whole, reporting season was solid with 44.0% of Earnings per Share (EPS) results ahead of expectations and 32.0% in line with expectations. While resources companies reported weaker results given falls in commodity prices, the results were largely in line with expectations. Trust holdings Newcrest Mining (up 35.9%), Downer (up 10.9%) and Rio Tinto (up 6.8%) performed well over the month. The profit results of a number of industrial holdings confirmed that the transition to an improving east coast economy is occurring. These included Harvey Norman (up 7.7%), Boral (up 6.3%) and Flight Centre (up 5.9%), with Myer (up 11.6%) also benefitting from this theme.

Stocks which detracted from performance included News Corporation (down 12.8%) which delivered a weak result and Woodside Petroleum (down 7.2%) which fell despite delivering a result in line with expectations and a higher oil price. Our overweight position in the major banks also detracted. CBA delivered a rock solid result during reporting season and the other banks provided reassuring updates as well.

February was another volatile month, with the index down 4.7% at its lowest point. At the same time the protection strategy was up 2.3%, mitigating 48.0% of the short, sharp fall. Similarly to January, the Index rallied in the final two weeks eventually finishing down 1.7%. In this smaller drop, the overlay still added 75 basis points, which is a pleasing result.

Since inception the protection overlay has contributed 13 basis points on an annualised basis. In that time the market declined 2.1% p.a. So, we have maintained constant portfolio protection for effectively no cost, in a market that has seen only a small decline. We have also seen the airbag activate in sharp market falls. It is in these swift moves that the portfolio strategy most effectively protects capital. The Trust also exhibits lower annualised volatility of 11.5% versus the market of 13.8%, or almost 20% less. A lower volatility of returns than the market is a key benefit of having permanent protection in place.

Trust Activity

In terms of Trust activity, we have sold out of CIMIC (formerly Leightons) and sold down Fairfax, both largely on valuation grounds. The former had performed very well over the holding period, having delivered a return of some 20.0% since purchase in mid 2015.

Proceeds were predominantly reinvested into Henderson and Macquarie Groups while Ansell was re-introduced into the Trust. In the case of both Henderson and Macquarie, we had taken significant profits in the December/January period. Both stocks were subsequently sold off by some 20% and this lead us to again increase our holdings in these stocks during the month. We remain confident in the medium term prospects of both companies and current valuations are attractive, with both companies trading on forecast FY17 Price to Earnings (P/E's) of 11.8 times and 10.7 times respectively. Readers may recall that the Trust sold out of Ansell in July 2015 at an average price of $25.00. Again, the share price subsequently experienced a sharp sell-off of some 30.0%. This partly reflected an adverse reaction to its reported profit result. Having met with senior management post-result, we like the company's medium term prospects and bought back into this company during February at an average price of $17.20. Based on a forecast FY17 P/E of 11.3 times, this represents an attractive valuation.

Outlook

As noted, reporting season has confirmed the ongoing transition to a recovering east coast economy and the portfolio continues to be exposed to this theme through overweight positions in retail, building and infrastructure/construction-related stocks. The portfolio remains overweight both in the major banks as noted, and in the large-cap, low-cost, financially-sound resources companies, where the recent very substantial sell-off has opened up medium-term value. We remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs. This group has become a crowded trade and valuations have become increasingly stretched as a result of historically low interest rates. Transurban is a stark example of this 'flight to earnings' certainty with the stock currently trading on a FY17 gross dividend yield of 4.4%. The compares poorly to the portfolio's forecast FY17 gross yield of 7.7%.

Overall the Trust continues to exhibit Perennial Value's true to label value characteristics, with the portfolio offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cashflow, gross dividend yield and price to net tangible assets.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	7.9	7.4
Commonwealth Bank	7.5	9.2
National Aust. Bank	5.9	4.9
Telstra Corporation	5.7	4.9
ANZ Banking Grp Ltd	5.4	5.0
BHP Billiton Limited	4.9	3.8
Woolworths Limited	3.5	2.2
Macquarie Group Ltd	2.7	1.7
Wesfarmers Limited	2.6	3.4
Woodside Petroleum	2.6	1.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	3.2	4.0
Materials	12.0	12.9
Industrials	1.4	8.6
Consumer Discretionary	12.3	5.1
Consumer Staples	8.2	7.3
Health Care	2.1	7.3
Financials-x-Real Estate	38.1	36.3
Real Estate	6.6	9.2
Information Technology	0.3	1.2
Telecommunication Services	6.8	5.6
Utilities	2.6	2.5
Cash & Other	6.5	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032 or visit www.perennial.net.au.

Signatory of:

PRI Principles for Responsible Investment