Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
31 May 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	0.9	-0.7	13.2	11.5	-	-	11.5
S&P/ASX 300 Accumulation Index	0.4	-1.3	11.5	9.9	-	-	9.9
Value Added (Detracted)	**0.5**	**0.6**	**1.7**	**1.6**	**-**	**-**	**1.6**
Net Performance	0.8	-0.8	12.5	10.9	-	-	10.9

*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 31/05/15):	AUD36.1 million
Income distribution frequency:	Half yearly
Strategy FUM (as at 31/05/15):	AUD594 million
Team FUM (as at 31/05/15):	AUD8.6 billion
Trust redemption price (as at 31/05/15):	$1.0915
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 slightly outperformed the benchmark in May.**
- **In the past year the protection strategy has cost 1.5%.**
- **For the year the Trust has outperformed by 1.6%, up a total 11.5%**

The Perennial Value Wealth Defender Australian Shares Trust (the Trust) performed well for the month finishing up 0.9%, outperforming the benchmark by 0.5%.

Pleasingly, on a one year basis the Trust continues to perform strongly, up 11.5%, some 1.6% ahead of the S&P/ASX300 Accumulation Index return of 9.9%. Importantly, we have carried protection for one year that essentially reduces material sharp moves down in the market by half. For this benefit we have invested only 1.5% in option protection. This shows it is possible, if you have a dynamic hedging strategy and a proven alpha contributor on the stock side, that you can run protection and still beat the S&P/ASX300 Accumulation Index.

We also feel that the Trust's one year performance, up 11.5%, firmly puts it in the Australian Equities bucket. Just because we use derivatives for risk management, doesn't mean we are an 'alternative asset class' and this strong return in a bull market is testament to this. One of the reasons this is possible within the protection portfolio is that we are dynamic in our risk management. We do not rely on a 'set and forget' strategy.

No 'set and forget' here

The market was nice and volatile in the month of May. We say 'nice' because when one manages derivative protection in a dynamic way, the ability to restructure the portfolio actively can add value. A standard protection strategy can be costly as generally they are 'set and forget' meaning insurance is bought and then left to either pay out, or not. In the Trust we are more dynamic in our risk management, which means we are able to take advantage of market movements and use the long volatility as an alpha generator, that can lead to superior performance.

As we always carry protection, we will always be incurring some cost for that if markets are flat. However, with volatility intra month, we can actively manage our position. In May, it didn't cost anything to carry permanent protection for our investors even though the market was indeed relatively unchanged. A 'set and forget' approach would have seen a loss based on the market closing at pretty much the same level over the month.

The chart overleaf shows the return range of the Australian equity market during May.

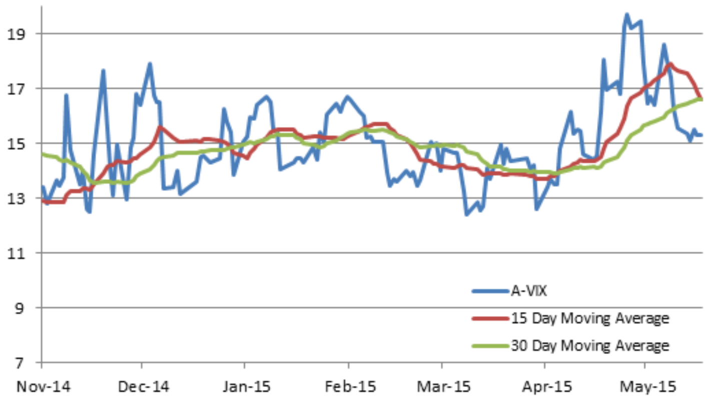
As you can see the market ranged from about 5800 to 5600 (3.5%). You can also see from this chart our Effective Exposure^ changes with the market. It is not lagged, like a reactionary hedging strategy might be, but instead it is dynamic. In some cases our exposure will change because we re-set the protection strategies, at other times it will change simply as the markets move. In practice we do not need to physically sell when markets fall as our downside protection portfolio, that we always carry, essentially moves us out of equities as the market falls, not after. On the flip side it moves us into the equity market as it rallies, not after. Nor do we have to crystallise tax by selling equities we hold.

^Effective exposure is basically the Trust's exposure to the market at any one time. You can think about "beta" or "delta" to be an equivalent measure.

Source: Perennial

This is one of the aspects of our use of the term ‘dynamic’. Of course the other is that we constantly change the option positioning in the portfolio as we see value in one protection strategy over another. We see our role as making sure we always own the best protection portfolio of derivative securities to maximise the cost/benefit equation for our investors. Buying puts and doing nothing does not cut it – being opportunistic and dynamic is imperative in managing a constant protection portfolio inside a long-only equity portfolio.

As we said, May was volatile. In fact, as you can see below, volatility has been relatively high for a while now. In both April and May the protection portfolio basically cost nothing. Again, this shows that higher volatility, whilst it makes protection more expensive, is fine if the underlying market is moving as well. This is called realised versus implied volatility. If realised (what actually happened) is higher than implied (what we actually paid) then assuming we re-hedge along the way, we can offset the cost over the course.



Source: Perennial.

Globally, conditions in the emerging world continued to be soft with trade flows from Asia, in particular, unexpectedly weak in response to muted growth in developed market demand in the first quarter. In fact, the US economy looks likely to have contracted in Q1, as it did at the same time last year. China announced more stimulus measures during the month, aimed at lifting growth back up towards the official target. Anxiety about Greece remained a key source of uncertainty, with some important payments to the IMF looming in early June. Despite this, global indices were generally positive with the Nikkei 225 (up 5.3%), Shanghai Composite (up 3.8%) and S&P 500 (up 1.0%) all stronger, while the FTSE closed flat, and the Hang Seng Index (down 2.5%) fell after a strong prior month.

In Australia, the month of May included some important policy developments, with the RBA trimming the cash rate again and Treasurer Hockey releasing his second Budget. In contrast to last year, the reaction to the budget was broadly positive. The RBA’s rate cut and the unthreatening budget helped lift consumer confidence during the month, but business confidence held steady at depressed levels. Most of the other data released during May was on the softer side, with employment falling and the jobless rate rising marginally, and firms reducing their investment intentions. Activity in housing remained strong though, with auction clearance rates in Sydney staying close to 90%, boosted by the RBA’s latest rate cut. The AUD closed the month at 76 US cents, down 3.8%.

The better performing sectors during the month were Industrials (up 5.4%), IT (up 4.0%), REITs (up 2.7%) and Health Care (up 2.6%). Sectors which underperformed included Consumer Staples (down 2.1%), Financials (down 1.7%), and Telcos (down 0.2%).

The four major banks sold off during the month on the likelihood that the regulator will force them to hold higher capital levels. The Trust remains slightly underweight the major banks as a group, with a preference for National Australia Bank (down 2.6%). During the month, NAB undertook a $5.5bn capital raising by way of a rights issue. The capital raised was used firstly to fund contingent liabilities in the UK, thereby allowing an Initial Public Offer (IPO) of the business later in the calendar year, and secondly to lift NAB’s overall capital levels to the highest in the sector. We view this development positively as securing a final exit from the UK is an important step for NAB in returning its focus to its core Australian operations. In addition, it is likely that the bank will be required to hold incrementally higher capital levels going forward and NAB is now ahead of the game in this respect. The rights issue was done at $28.50 and was well-received by the market, with the stock finishing the month at $34.32.

The best performing stock in the portfolio for the month was Downer (up 16.3%) following a strategy day which highlighted the progress of its infrastructure business. CIMIC Group (up 14.9%) rallied after announcing contract wins and Orica (up 10.3%) rose after delivering a better than expected earnings result. Other solid performers included Iluka (up 10.3%), Henderson (up 9.2%) and Myer (up 8.7%).

Stocks which detracted from performance included Westpac (down 5.4%) as discussed above, Aristocrat Leisure (down 5.3%) despite releasing a strong first half result and Stockland (down 2.3%).

During the month, the Trust received shares in South 32 following its spin-off from BHP. South 32 comprises a suite of assets, principally located in Australia and South Africa, which were deemed to be non-core by BHP. These assets include silver, lead, zinc, manganese, alumina, aluminium and coal. The business is attractive as many of these commodities are likely to currently be close to the bottom of their cycles with limited new supply coming onto the market. In addition, the company has a debt-free balance sheet which will give it flexibility to make acquisitions or undertake capital management. In addition, at the month-end price of $2.19, the stock is offering a forecast FY16 gross dividend yield of 5.2%.

At month end, we have a structure in place to mitigate a 15% fall in equity markets by up to 53%. That is, in an overnight fall of 15%, we expect that the Trust should fall by approximately 6%.*

*This is an expected outcome of an overnight move based on risk modelling. While we expect this to be accurate, it relies on a number of assumptions and is used as a guide only. The actual outcome may be affected by inaccurate assumptions or by known or unknown risks and uncertainties and may differ materially from the expected outcome shown above.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.0	7.0
National Aust. Bank	7.6	6.0
BHP Billiton Limited	7.4	6.3
Commonwealth Bank.	6.0	9.2
Telstra Corporation.	5.1	5.1
ANZ Banking Grp Ltd	4.2	6.1
Woodside Petroleum	3.1	1.7
AMP Limited	3.0	1.3
QBE Insurance Group	2.9	1.3
Rio Tinto Limited	2.7	1.7

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	6.1	5.1
Materials	19.4	15.3
Industrials	5.6	7.4
Consumer Discretionary	10.4	4.6
Consumer Staples	4.8	6.7
Health Care	1.1	6.1
Financials-x-Real Estate	35.5	38.1
Real Estate	3.6	7.9
Information Technology	0.2	1.0
Telecommunication Services	5.1	5.6
Utilities	2.5	2.1
Other	5.7	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI | Principles for Responsible Investment