Perennial Value Wealth Defender Australian Shares Trust

Quarterly Report
31 December 2014

	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	1.6	2.4	-	-	-	0.8
S&P/ASX 300 Accumulation Index	2.9	2.4	-	-	-	0.9
Value Added (Detracted)	**-1.3**	**0.0**	**-**	**-**	**-**	**-0.1**
Net Performance	1.7	2.2	-	-	-	0.7

*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 31/12/14):
AUD18.1 million

Income distribution frequency:
Half yearly

Team FUM (as at 31/12/14):
AUD7.4 billion

Trust redemption price (as at 31/12/14):
$1.0051

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 level of volatility has increased and decreased a number of times in the last few months.**
- **Stocks with significant offshore earnings tended to outperform, rallying on the lower AUD.**

  The best performing stock in the portfolio over the quarter was Resmed (up 22.7%).

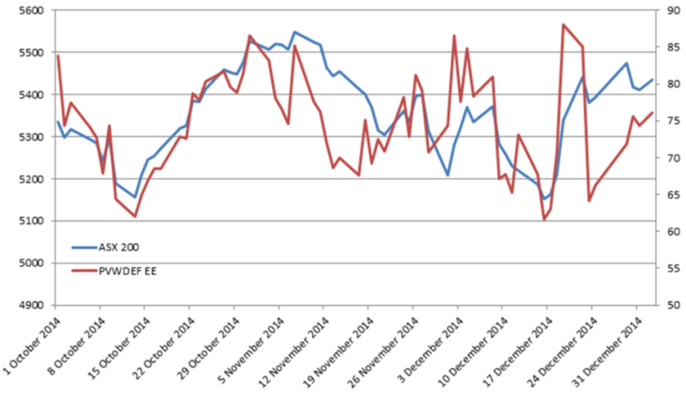
The benchmark S&P/ASX 300 Accumulation Index finished a volatile quarter up 2.9%. The Perennial Value Wealth Defender Australian Shares Trust (the Trust) finished the quarter up 1.6%, underperforming the benchmark by 1.3%.

Since inception in May 2014 the Trust is up 0.8% against a market up 0.9%, only marginally below benchmark, all the while having had significant levels of protection in place. In a relative sense, we believe this to be a reasonable outcome, as our value style has faced significant headwinds over the period. During this period there were two months in particular where the market fell meaningfully and during these months the Trust outperformed its benchmark. The Australian stock market has been driven by a small number of interest rate sensitive and perceived defensive stocks and sectors, predominantly REITs (up 26.8% CYTD) and Healthcare (up 23.0% CYTD). This continued in December. This narrowing of investor focus towards a very limited universe of perceived defensive large caps has been a global phenomenon over the past 12 months. However, we have remained true to style and have not invested in these very expensive stocks.

The level of volatility has increased and decreased a number of times in the last few months as shown in the chart below – represented by the blue line. This can actually work in favour of the Trust as we benefit from being 'long' options whose value increases as volatility does. This partly explains how the Trust outperformed in the month of December despite the market having had a decent rally. For example in December we saw the index up 3%, then down 4%, then up over 6% from there.

Source: Perennial

The chart below shows the exposure of the Trust and how it has changed as the market has moved. The effective exposure (EE) shown in the chart below is very dynamic. As the market falls, so too does our exposure. Conversely as the market rises the portfolio very rapidly participates in the rise as the characteristics of the protection portfolio organically change. This is one of the reasons the portfolio utilises options as its main form of protection as they can provide an efficient hedge against market falls, but also allow the portfolio to participate in much of the bounce as and when markets rise.



Source: Perennial

This dynamic, organic, exposure change is also reflected in the underlying volatility of returns of the Trust relative to the market. The manner in which the Trust's protection works also goes somewhat towards dampening the Trust's own volatility. So far since inception, the volatility in the returns of the Trust, as measured by standard deviation, is 9.9% versus the market at 12.9%*. We believe that this is also a good result for our investors who are looking for capital preservation.

In the seven months since inception, the protection portfolio has incurred a total cost of 30 basis points. During that time we have had a significant portion of the downside in the share portfolio covered such that had there been a material fall, the portfolio average overnight move would have been 7.5% if the market fell by 15% , i.e. half as much. This is a very small amount to pay to remain invested in the markets and not to have to worry too much about your exposure in an increasingly volatile environment, as seen over the past six months.

Global markets finished a volatile December quarter mixed, with the S&P500 (up 4.4%) and Nikkei 225 (up 7.9%) up, while the FTSE 100 (down 0.9%) and Euro Stoxx 50 (down 2.5%) declined. The major event during the quarter was the sharp decline in oil prices, which undermined confidence in the global economy as well as impacting the share prices of energy producers. However, there was further evidence that global growth is improving. In particular, the data for the US was positive, with the revised Q3 GDP data showing the firmest rate of growth since 2003 and non-farm payrolls growing 321,000, well above expectations. In other regions, key German data improved, there were positive signs that Japan's economy is emerging from recession in the current quarter and China's data was consistent with a growth rate close to 7% in Q4, although a key manufacturing PMI dropped below 50. Global inflation continued to fall suggesting a prolonged period of low interest rates.

In Australia, GDP growth was unexpectedly weak in the September quarter, with real disposable income falling again, however, the partial data for the fourth quarter pointed to improvement. Retail sales for October were soft, albeit better than expected and home building approvals boomed, as did employment for November. The jobless rate, however, rose to a new 12-year high of 6.3%, and business and consumer sentiment fell, with the mid-year economic update revealing further deterioration in the budget deficit, largely due to lower commodity prices. The RBA left interest rates unchanged at 2.5% and the AUD continued to fall, reaching a four-year low of 81 US cents.

The better performing sectors over the quarter tended to be the defensives, with Healthcare (up 13.3%), Telcos (up 12.3%) and REITs (up 11.3%). Collectively, this represented the Trust's biggest headwind for the quarter. Industrials (up 7.6%) and Financials (up 7.2%) also outperformed, while the cyclical sectors lagged, with Energy (down 17.7%) the worst performing sector, followed by Metals and Mining (down 10.9%) and Materials (down 6.1%).

The best performing stock in the portfolio over the quarter was Resmed (up 22.7%). Resmed is the global leader in the treatment of sleep apnea and is benefiting from successful new product launches. The company was introduced into the portfolio in the June 2014 quarter following considerable share price weakness. The average entry share price was below $5.00 and profits were taken during the quarter at $7.00, some 40% above the entry price.

Stocks with significant offshore earnings tended to outperform, rallying on the lower AUD. These included Amcor (up 19.9%), Orora (up 18.9%), Lend Lease (up 14.6%) and Ansell (up 15.8%). Aristocrat Leisure (up 13.7%), another beneficiary of a weaker AUD, also delivered a strong full year result which demonstrated significant market share gains in its key US and Australian markets. As a major hotel operator, Amalgamated Holdings (up 12.3%) also stands to benefit from a lower AUD as this should both generate more inbound tourism and encourage more Australians to holiday domestically.

Other stocks which performed well included Fairfax (up 12.9%) which announced the merger of its radio business with Macquarie Radio Networks, Telstra (up 12.6%) which rallied after signing the revised NBN deal and Stockland (up 7.3%) which is benefiting from the strong residential property market.

Stocks which detracted from performance tended to be resource names, with Iluka Resources (down 24.3%), Origin Energy (down 22.0%), BHP (down 13.3%) and Rio Tinto (down 2.7%). Crown Resorts (down 8.0%) also underperformed on weakness in the Macau gaming market.

Perennial Value Management remains alert to Environmental, Social and Corporate Governance (ES&G) issues in the portfolio. During the quarter, Orica reported that their greenhouse gas abatement program has seen a 50% reduction in nitrous oxide emissions from their manufacturing plants since 2010. This is the equivalent of taking over 300,000 cars off the road. In a separate initiative, Orica is a 40% stakeholder in Mineral Carbonation International. This is a collaboration between Orica, the NSW and Commonwealth Governments and the University of Newcastle to develop a new carbon capture and storage technology to be retrofitted to power stations. The technology is proven at laboratory scale and a pilot plant is to be constructed in early 2015.

*Source: Perennial. Volatility measured as the standard deviation of monthly returns annualised.

If successful, this has the potential to significantly reduce CO2 emissions.

Currently the portfolio is structured to mitigate a 15% overnight fall in equity markets by an estimated 50%.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Westpac Banking Corp	8.4	7.5
National Aust. Bank	7.7	5.9
BHP Billiton Limited	7.4	6.9
Commonwealth Bank	5.7	10.1
Telstra Corporation.	5.5	5.3
ANZ Banking Grp Ltd	5.2	6.4
Woodside Petroleum	3.2	2.0
ResMed Inc	2.8	0.4
Rio Tinto Limited	2.7	1.8
QBE Insurance Group	2.7	1.1

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.4	5.1
Materials	19.6	15.0
Industrials	4.6	7.4
Consumer Discretionary	8.2	4.1
Consumer Staples	2.5	7.4
Health Care	5.0	5.9
Financials-x-Real Estate	35.3	38.6
Real Estate	5.3	7.7
Information Technology	0.2	1.0
Telecommunication Services	5.6	5.8
Utilities	1.6	1.9
Other	6.6	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment