Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
30 September 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*	-3.6	-6.1	-6.1	1.0	-	-	0.2
S&P/ASX 300 Accumulation Index	-2.9	-6.5	-6.5	-0.7	-	-	-2.0
Value Added (Detracted)	**-0.7**	**0.4**	**0.4**	**1.7**	**-**	**-**	**2.2**
Net Performance	-3.5	-6.3	-6.3	0.3	-	-	-0.5

*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 30/09/15):	AUD 59 million
Income distribution frequency:	Half yearly
Strategy FUM (as at 30/09/15):	AUD 766 million
Team FUM (as at 30/09/15):	AUD 7.3 billion
Trust redemption price (as at 30/09/15):	$ 0.9489
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.

- Since inception, with the market down 2.0%, the Trust is up 0.2%, outperforming the Index by 2.2%.
- The S&P/ASX300 Accumulation Index (the Index) finished the month down 2.9%.
- Globally, the month was dominated by extreme gloominess about the prospects for growth in China.

September proved to be a difficult month for both investors generally as well as the Perennial Value Wealth Defender Australian Shares Trust (the Trust), with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 2.9%. The sell-off, in our view, has been very much led by global macro funds taking a very bearish view on the outlook for China and therefore Australia.

Fortunately for investors, over the last few months, periods of poor returns have often been followed by rallies where a considerable portion of the value lost is subsequently restored. With this higher level of volatility it is more expensive to carry protection, but it is certainly good to know it is there if situations turn for the worse. As it happened whilst the markets have been lower, and we have had a couple of big moves, such as the 12% move down up to the 24th August, the fall in the markets has been quite slow. Had the fall been quicker we would have expected the protection to have had an even more positive impact as the protection strategy works more effectively in sharper market falls. Wealth Defender is designed to really kick in as markets capitulate, as in August, and other times to act as a traditional long only equity style investment. Whilst September was a difficult month, with our stocks underperforming, we feel the protection overlay since inception continues to perform well. As at the end of September, and since inception, with the market down 2.0%, the Trust is up 0.2%, outperforming by 2.2%.

For the quarter the Trust is down 6.1% against the Index which was down 6.5%, thereby outperforming by 0.4%.

For our investors we want to provide a way to access the long term benefits of Australian shares whilst providing comfort that if we do get a sudden significant fall in the market their fund comes with an in built mechanism to mitigate part of that fall. At the same time, we want to provide that without having to invest too much in the protection overlay. Most importantly over time we feel this will provide better long term returns and avoid investors selling at the bottom.

With markets exhibiting a higher level of volatility and given the fall in markets to date, we have chosen to remain cautious which means we are not trying to second guess the markets and continue to carry levels of protection that will meaningfully cushion the impact should we get a serious market capitulation. We believe we are not out of the woods yet.

The Trust's stock underperformance was primarily due to the sell-off in housing and resource stocks. This is discussed in more detail below. The resultant downward move in share prices has also been magnified by unusually low stock turnover levels during the month.

Globally, the month was dominated by extreme gloominess about the prospects for growth in China. Key data disappointed, including the latest monthly production and investment prints, alongside the manufacturing Purchasing Managers Index (PMI) and many investors seem to be losing faith that China can maintain growth of close to the 7.0% target.

This is despite even more stimulus being announced and further exchange rate depreciation. The weakness in China is reverberating through the region, with Taiwan, Singapore and now Japan in technical recession. Outside Asia, however, the news was better, with European growth seemingly tracking close to 2.0%, although inflation across the region has dropped back close to zero. Similarly, the US economy is doing well, although employment growth was unexpectedly weak early in the month. The Federal Reserve (the Fed), however, baulked at raising interest rates, citing offshore "wobbles" as a key reason for caution. Equity markets had a very tough month, with most indexes losing further ground, as many investors reassessed the prospects of a world without the same momentum in China's growth engine.

In Australia, the biggest development was not in economics, but in politics, with Malcolm Turnbull successfully challenging incumbent Tony Abbott to become Australia's fifth Prime Minister in as many years. There has been no significant policy change yet, but consumer and business confidence likely will lift on hopes of a fresh start, particularly around economic reform. The domestic data was a mixed bag. Retail sales growth was weak and consumer and business confidence fell, but the August employment report was much better than expected and the jobless rate fell slightly to 6.2%. The Q2 Gross Domestic Product (GDP) report was also underwhelming, showing that growth was barely positive, albeit after a decent Q1. The Australian Dollar (AUD) weakened further over the month, in line with Reserve Bank of Australia (RBA) expectations, dropping below 70 US cents, and the RBA left the cash rate steady, as was widely expected.

In this risk-off environment with concerns over Chinese growth, the industrials segment of the market (down 2.0%) significantly outperformed the resources sector (down 8.1%), with metals & mining (down 6.4%) and energy (down 12.0%). Within the industrials, the domestic cyclicals tended to underperform as investors worried about the broader impacts of the slowing resources sector and a potential peaking in the housing market. This also impacted the major banks, which fell an average of 3.6%.

Share portfolio news

Strong Trust performers included Newcrest (up 13.4%) which rallied on the stronger AUD gold price and Graincorp (up 11.0%) which responded positively to an improved grain crop outlook and the potential for another takeover approach from ADM following the changes in Canberra. Other strong performers included Amalgamated Holdings (up 3.8%), Fairfax (up 3.5%), Orora (up 2.6%), Henderson Group (up 2.4%), CIMIC Group (up 2.3%) with its leverage to rising infrastructure investment and Aristocrat Leisure (up 2.0%) whose new product portfolio continues to gain market share.

In terms of stocks which detracted from performance, the sell-off in housing-related companies held in the Trust has been significant and, we believe, often indiscriminate, including Boral (down 23% off August highs), BlueScope Steel, Harvey Norman and Lend Lease (each down 20%) and Stockland (down11%). Perennial Value does not subscribe to this sudden and negative change in sentiment, which appears to be driven by an overheated apartment building sector. Each of the building-related companies has diversified earnings streams. Boral's domestic housing exposure represents 21% of total profits, Lend Lease around 10% and Stockland 30% to 35%. Stocks held also generally have a far greater reliance on detached housing and renovations, where the cyclical upturn to date has been more muted. These companies have their largest presence in the eastern seaboard, especially New South Wales (NSW) where the detached housing cycle most likely has at least two years to run. Queensland is only starting to improve while Victoria is likely to slow from a high level.

During the month, Brickworks (up 4.3%) delivered a record FY15 profit result and highlighted strong momentum in building approvals on the east coast, with an "extremely strong order book in most east coast divisions". Further, this group of companies offers significant value at current levels. Harvey Norman, for example, is currently trading on a prospective FY16 gross yield of 8.0%, Lend Lease on a FY16 P/E of 11.2x and Stockland on a FY16 price to NTA of 1.0x. Thus, we continue to retain these stocks in the Trust.

With regards to our materials and resources exposure, the Trust has held a range of companies providing select, diversified industry exposure. From a portfolio construction perspective, given global macro uncertainties, we have ensured in recent times that the Trust was not overly exposed to any one stock. Notwithstanding, this sector took the brunt of the global macro sell-off. Stock holdings which were hardest hit included AWE (down 33.3%), Origin Energy (down 26.2%) and Iluka (down16.4%). Mid-month, we reduced the Trust's exposure to Origin at an average price of $7.13 and it closed the month at $6.10. On 30 September, Origin announced $4.7 billion of capital initiatives, including a $2.5 billion capital raising, to strengthen its balance sheet. This comes on top of recently announced $2.2 billion in capital initiatives, including capex reductions, reduced cost of doing business and asset sales. Sims Metal (down 15.9%) and BlueScope Steel (down 15.8%) fell due to their exposure to steel prices despite Sims recently reiterating its business improvement targets and BlueScope setting out its plans for Port Kembla.

In terms of Trust activity, in addition to reducing Origin, we sold down Asciano following the recent takeover announcement from Brookfield and also took profits in AMP and Macquarie Group following outperformance over the past year. Proceeds were reinvested into a limited number of existing holdings, including AWE, News Corp and Sandfire Resources, each of which were significantly sold down during the month. Of note is that we view both AWE and Sandfire as being mid cap stock specific opportunities offering outstanding value at current levels. In the case of Sandfire (down 9.4%), the stock was sold off despite the copper price actually rising in AUD terms, clear evidence emerging of global copper production curtailments and continuing positive drilling results adjacent to Sandfire's existing operations in Western Australia.

Outlook

To conclude as at month end we have an effective exposure to the market of 55%. This is more conservative a position than normal but we feel it is prudent at this time.

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Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Westpac Banking Corporation	7.4%	7.1%
Commonwealth Bank	7.1%	9.3%
National Australian Bank	6.9%	5.9%
BHP Billiton Limited	6.0%	5.4%
ANZ Banking Group Ltd	5.4%	5.9%
Telstra Corporation	4.9%	5.2%
Woolworths Limited	3.2%	2.4%
Macquarie Group Ltd	3.1%	1.9%
QBE Insurance Group	2.5%	1.3%
AMP Limited	2.4%	1.2%

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	4.2%	4.0%
Materials	17.9%	13.9%
Industrials	3.8%	8.0%
Consumer Discretionary	11.3%	4.7%
Consumer Staples	6.6%	7.1%
Health Care	0.3%	6.4%
Financials-x-Real Estate	36.0%	38.4%
Real Estate	3.7%	8.4%
Information Technology	0.3%	1.1%
Telecommunication Services	5.0%	5.7%
Utilities	2.4%	2.3%
Other	8.5%	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment