PERENNIAL VALUE MANAGEMENT

Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
31 January 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*	-4.5	-2.5	-7.2	-4.4	-	-	-0.5
S&P/ASX 300 Accumulation Index	-5.4	-3.5	-5.8	-5.8	-	-	-1.2
Value Added (Detracted)	**0.9**	**1.0**	**-1.4**	**1.4**	**-**	-	**0.7**
Net Performance	-4.6	-2.8	-7.5	-5.2	-	-	-1.1

*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 31/01/16):	AUD 65 million
Income distribution frequency:	Half yearly
Strategy FUM (as at 31/01/16):	AUD 669 million
Team FUM (as at 31/01/16):	AUD 6.3 billion
Trust redemption price (as at 31/01/16):	$ 0.9210
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.

- **In January, the Trust delivered a return of -4.5%, outperforming the index by 0.9%.**
- **The protection overlay delivered a positive return of 1.4% during the month.**
- **Since inception, the Trust has delivered a return of -0.5% per annum, ahead of the index return of -1.2% per annum while carrying significant downside protection.**

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

January was a difficult month for markets, with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 5.4%. The Trust fell 4.5%, outperforming the market by 0.9%.

Globally, markets were dominated by concerns around growth, particularly the slowing Chinese economy and the falling oil price. This led to a broad based sell-off, with the S&P500 down 5.1%, FTSE100 down 2.5%, Nikkei225 down 8.0% and the Shanghai Composite also down 22.6%. In Australia, there was another decent job number for December 2015, with the unemployment rate steady at 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The cash rate remained at 2% (the Reserve Bank of Australia (RBA) does not meet in January) and the Australian Dollar (AUD) fell 2 cents to close at 70.9 US cents.

Better performing sectors over the month tended to be the defensives, with REITs (up 0.9%), utilities (up 0.7%), telecommunications (up 0.7%), consumer staples (down 0.2%) and healthcare (down 2.6%). Cyclicals underperformed, with metals and mining (down 10.2%), materials (down 9.1%) and energy (down 6.5%). Financials (down 8.9%) also underperformed.

Two of the better performing stocks in the Trust were Metcash (up 8.4%) and Harvey Norman (up 6.2%). Both these stocks stand to benefit from improving industry dynamics, with Metcash's Mitre 10 business to benefit from Woolworths' announced exit from the hardware business and Harvey Norman to benefit from the demise of Dick Smith. Other strong performers included AWE (up 3.0%) following the sale of its US shale operations for a very good price, AGL Energy (up 2.9%) and Wesfarmers (up 1.3%).

Stocks which detracted from performance included resource holdings which fell on the back of lower commodity prices, with BHP (down 14.1%), and Rio Tinto (down 12.5%). Financials also detracted with the major banks down an average of 9.5% on negative macro sentiment towards the Australian economy – a view we do not agree with. At current prices, the sector is offering very good value, trading on an average FY16 P/E (Price to Earnings) of 11.3x and gross yield of 9.6%.

January was a very volatile month and similar in its behaviour to the August 2015 sharp market fall. In this volatile environment we again saw the Wealth Defender protection strategy come into force and provide a relative positive return compared to the Index for the month. At its lowest point in January the Index was down 8.1% and at the same time the protection strategy was up 2.9% which is a mitigation of 36% of the fall at that point.

Again, like August, the Index bounced leaving the protection strategy to add 1.4% to the portfolio to what ended up being a 5.4% market fall by month end. Given we run an active protection strategy we can be very nimble in moving our positions to take advantage of these very fast moving markets and at the same time mitigate those short sharp falls we have been experiencing.

Since inception the protection portfolio has an annualised cost of 27 basis points. In that time the market is down 1.9%. This level of protection spend in what has now been a very volatile market for some time is well below our targeted range of 1% to 2% per annum over time. The protection portfolio also has provided a lower annualised volatility of returns in the Trust. The annualised volatility is 11.7% versus the market of 14.1%, 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 continued to take profits and reduce our holdings in a number of stocks which had performed strongly in recent times including Orora (up 90.6% since listing in December 2013), Henderson Group, Aristocrat Leisure and AGL Energy (all up between 20% and 50% over the past 12 months). Proceeds were used to increase our holdings in BHP and Rio Tinto. Following the recent sell-off, we see long-term value emerging in the large-cap, low-cost, financially sound miners who will ultimately benefit as weaker competitors fail and high-cost capacity is removed. We also added to our position in Lend Lease, with its exposure to increasing infrastructure investment.

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	8.6	10.0
Westpac Banking Corp.	8.3	7.7
National Aust. Bank	6.3	5.5
Telstra Corporation	5.8	5.2
ANZ Banking Grp Ltd.	5.7	5.3
BHP Billiton Limited	4.9	3.7
Woolworths Limited	3.5	2.3
Wesfarmers Limited	3.1	3.5
Woodside Petroleum	2.6	1.5
AGL Energy Limited	2.5	0.9

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	3.2	3.9
Materials	12.9	11.6
Industrials	2.2	8.1
Consumer Discretionary	12.6	5.1
Consumer Staples	8.8	7.6
Health Care	0.5	7.0
Financials-x-Real Estate	37.8	38.5
Real Estate	6.0	8.8
Information Technology	0.3	1.2
Telecommunication Services	6.9	5.8
Utilities	2.6	2.5
Cash & Other	6.2	-

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