Perennial Value Wealth Defender Australian Shares Trust

PERENNIAL VALUE MANAGEMENT

Monthly Report
31 March 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*	3.1	-3.5	-6.2	-10.4	-	-	0.1
S&P/ASX 300 Accumulation Index	4.8	-2.6	-3.0	-9.3	-	-	0.5
Value Added (Detracted)	**-1.7**	**-0.9**	**-3.2**	**-1.1**	**-**	-	**-0.4**
Net Performance	3.1	-3.7	-6.5	-11.1	-	-	-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 31/03/16):
AUD $47 million

Income distribution frequency:
Half yearly

Strategy FUM (as at 31/03/16):
AUD $553 million

Team FUM (as at 31/03/16):
AUD $6.3 billion

Trust redemption price (as at 31/03/16):
$ 0.9303

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.

- **Markets rallied in March, with the S&P/ASX300 Accumulation Index up 4.8%, led by banks and resources, while the defensive sectors lagged.**
- **The Trust returned 3.1%, underperforming the index by 1.7%.**
- **The stock portfolio outperformed the market by 1.0%, while the protection overlay detracted 2.7% in the sharply rising market.**

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) rallied strongly, finishing the month up 4.8%. The Perennial Value Australian Shares Trust (the Trust) returned 3.1%, underperforming the market by 1.7%.

Globally, markets were strong over the month, with the S&P500 up 6.6%, the FTSE100 up 1.3%, the Nikkei 225 up 4.6% and the Shanghai Composite up 11.8%. Commodity prices firmed, with Brent oil ending the month 9.0% higher and the iron ore price rising 8.0%. In Australia, the February unemployment rate fell from 6.0% to 5.8%, with most of the jobs being created in the Eastern states, demonstrating that the transition from the mining to non-mining sectors of the economy is on track. The Reserve Bank of Australia (RBA) left the cash rate at 2.0% and the Australian Dollar (AUD) rallied on the back of US Dollar (USD) weakness to finish the month at 76.6 US cents.

Cyclical sectors performed better over the month, with metals and mining (up 6.9%), financials (up 6.7%), energy (up 6.2%), materials (up 6.0%) and consumer discretionary (up 5.1%). Defensive sectors underperformed, with healthcare (up 0.4%), utilities (up 1.3%) and REITs (up 2.5%).

Trust holdings which outperformed included our resource-related stocks, with AWE (up 39.2%), Sims Metal (up 30.1%), Downer (up 15.3%), BHP (up 9.7%) and Rio Tinto (up 6.0%). Other strong performers included AMP (up 11.5%), Crown Resorts (up 10.1%) and Navitas (up 8.3%) after reporting strong student enrolment growth. Brickworks (up 8.1%) rallied after delivering a record H116 result, with Earnings per Share (EPS) up 19%, driven by broad-based strength in its building products division. Importantly, their outlook statement was very positive, highlighting the long pipeline of future building work to be completed. This suggests that the current high levels of construction activity will be sustained for some time, providing support to the broader economy. The major banks also outperformed, up an average of 6.4% over the month, despite the emergence of a small number of non-performing loans. Importantly, we see these as isolated company-specific issues, rather than as evidence of any broad-based deterioration in credit quality, with corporate Australia overall in strong financial shape.

Stocks which detracted from performance included Newcrest (down 3.1%) and Event Hospitality and Entertainment (down 1.9%), both of which eased after strong recent performances, Graincorp (down 3.9%) and Woolworths (down 1.6%).

Somewhat like October last year, the overlay contribution was negative, as one would expect in a sharp rally in the market. In fact, March saw one of the most aggressive bounces off a low seen in markets in many years. As always, the focus in the overlay protection is to manage the long term rolling costs of having significant protection in place on a permanent basis.

Since inception, the Trust has carried protection at all times, and to date after 22 months, has cost 1.4% on an annualised basis. This is within the estimated long term cost of running permanent protection. In this time, the index has been relatively flat.

Interestingly, with the market rally we saw in March, we have seen the cost of volatility come down considerably. As such we are well positioned to protect the Trust against any major market fall in the month ahead.

Trust Activity

In terms of Trust activity, we added Washington H Soul Pattinson & Company. This company is essentially a diversified conglomerate, which was first listed in 1903 and has a long-term track record of value creation. Its major interests include a 44.0% stake in Brickworks, a 25.0% stake in TPG Telecom and a substantial portfolio of property assets including commercial property development assets in the growing Western Sydney region – all investments in which we are keen to have an exposure. Further, the company is financially very strong, with a debt-free balance sheet and significant surplus franking credits. At our entry price of $15.60, the stock was offering attractive value, trading at discount of 20.0% to Net Tangible Assets (NTA). We also increased our holdings in a number of stocks offering good value, including Woodside Petroleum, BHP, QBE Insurance and Aristocrat Leisure.

These purchases were funded by taking profits and reducing our holdings in number of stocks which have performed strongly in recent times, selling down in AGL Energy and Harvey Norman and exiting Orica and Metcash.

Outlook

Economic data confirms the ongoing transition to a recovering Australian east coast economy. The Trust continues to be exposed to this theme through overweight positions in retail, building and infrastructure/construction-related stocks. The Trust remains overweight both in the major banks 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. These sectors have 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 4.6%. This compares poorly to the Trusts forecast FY17 gross yield of 7.4%. Similarly, CSL is trading on a FY17 Price to Earnings (P/E) of 21.7 times, compared to the Trust’s forecast FY17 P/E of 12.8 times. The overall portfolio continues to exhibit Perennial Value’s true to label value characteristics, with the Trust 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.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver consistent 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 %
Westpac Banking Corp	7.4	7.4
Commonwealth Bank	7.2	9.4
National Australia Bank	5.7	5.1
Telstra Corporation	5.6	4.8
ANZ Banking Group Limited	5.0	5.0
BHP Billiton Limited	5.0	4.0
Woolworths Limited	3.1	2.1
Woodside Petroleum	2.9	1.4
Wesfarmers Limited	2.6	3.4
Macquarie Group Limited	2.5	1.7

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.1	4.1
Materials	10.9	13.0
Industrials	1.3	8.4
Consumer Discretionary	11.5	5.3
Consumer Staples	7.3	7.2
Health Care	2.5	6.8
Financials-x-Real Estate	37.1	36.9
Real Estate	6.2	9.1
Information Technology	0.5	1.2
Telecommunication Services	6.6	5.5
Utilities	0.9	2.5
Cash & Other	10.2	-

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