

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	4.0	2.2	4.0	-3.9	-	-	2.2
S&P/ASX 300 Accumulation Index	6.4	7.0	6.4	2.9	-	-	5.2
Value Added (Detracted)	-2.4	-4.8	-2.4	-6.8	-	-	-3.0
Net Performance	3.8	2.0	3.8	-4.6	-	-	1.6

*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 31/07/16):

AUD \$47 million

Income distribution frequency:

Half yearly

Strategy FUM (as at 31/07/16):

AUD \$397 million

Team FUM (as at 31/07/16):

AUD \$9.4 billion

Trust redemption price (as at 31/07/16):

\$ 0.9573

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 rebounded in July, with the S&P/ASX300 Accumulation Index (the Index) up 6.4%.
- ▶ Resources stocks slightly outperformed the strongly rebounding industrial stocks.
- ▶ The Trust returned 4.0%, underperforming the market by 2.4%.

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 Trust delivered a return of 4.0% in July, underperforming the Index by 2.4%. This was largely a result of the overlay which, as expected, dragged on performance in the sharply rising market, while the stock portfolio performed largely in line with the market.

This month was the second largest Index move upward since the Trust's inception. It was accompanied by one of the fastest moves downward in volatility on record, a challenging combination for a volatility overlay. Implied volatility has found a floor, so we do not see this repeating.

The markets recovered from June's post-Brexit sell-off, to finish July strongly, with the S&P500 3.6%, FTSE100 up 3.4%, Nikkei 225 up 6.4% and the Shanghai Composite up 5.3%. Metal prices remained firm with nickel up 13.0%, iron ore up 6.6% and gold up 2.5% on the month while oil fell 12.9% as gasoline inventories swelled and the US rig count increased. The Federal Reserve left rates unchanged as did the Reserve Bank of Australia (RBA) and the Australian Dollar (AUD) finished up 2.0% for the month at 0.76 US Cents.

The Australian market was strong across the board, with all sectors delivering positive returns for the month. Metals and mining (up 9.1%) was the best performing sector on the back of higher metal prices. Consumer discretionary (up 8.9%) was also strong, while consumer staples (up 8.5%) rallied, largely on Woolworth's restructuring plans. Materials (up 7.8%), industrials (up 7.2%), utilities and healthcare (both up 7.0%) also delivered strong results. The energy sector (up 0.2%) was the worst performer on weaker oil prices.

The better performing stocks in the Trust for the month included Myer (up 19.2%) after the David Jones result provided a positive read-through, Aristocrat (up 15.5%) on continuing strong product performance and survey data, News Corp (up 13.0%) and ResMed (up 10.8%) after delivering a solid FY16 result. Woolworths (up 12.1%) rallied following a restructuring announcement which showed management moving decisively to improve operating performance, in particular slimming down the head office function. As part of the operating model review, Woolworths announced that it would be introducing sales per square metre and return on funds employed as key long term performance indicators. It was encouraging to see this change as these metrics will be key drivers of future performance and we had encouraged the company to adopt these metrics for the long term incentive plan as part of our engagement with the company in recent times.

Financials, AMP (up 12.6%), Macquarie Group (up 8.0%) and Clydesdale Bank (up 7.0%) rebounded from their post Brexit sell-offs while Rio Tinto (up 8.9%) and Newcrest (up 8.7%) rallied on the back of higher iron ore and gold prices respectively.

Stocks which detracted from performance included Graincorp (down 1.7%) which was sold off after Archer Daniels Midland (ADM) unsuccessfully attempted to sell down their 19.9% shareholding (likely following the election result which reduced the probability of the Government allowing them to make a takeover offer for the company). Woodside (down 1.2%) fell on declining oil prices and lower quarterly revenues, while Gateway (flat), Westfield Holdings (up 0.3%) and Event Hospitality & Entertainment (up 1.5%) also underperformed. We remain comfortable with each of these holdings.

In the strongly rising market, the protection portfolio detracted from performance. Since inception, the Trust has carried protection at all times, and to date has cost 2.8% per annum. This is above the estimated long term cost of running permanent protection, as the last 12 months has been characterised by erratic levels of implied volatility and multiple falls followed by very aggressive recoveries. This has made the protection overlay somewhat more difficult. Over the period since inception of the Trust, the Index has been up 5.2% per annum.

Trust Activity

During the month we added Caltex to the portfolio. Caltex has restructured its business to reduce its refining exposure by converting the high cost Kurnell refinery into a receiving terminal and lowering costs at its smaller refinery at Lytton, Queensland. This move has reduced the volatility of earnings while maintaining its position as Australia's leading fuel distributor. The company has a strong balance sheet which gives optionality around acquisitions or capital management. We also increased our holdings in Clydesdale Bank and Macquarie Group, taking advantage of opportunities driven by post Brexit weakness, as well as Rio Tinto. This was funded by further trimming our holdings in the banks.

Outlook

In recent months, we have become more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. Further, the close election result is unfavourable given the policy uncertainties this creates. The portfolio remains overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight given that sector's high leverage at a time of historically low interest rates. The Trust continues to exhibit Perennial Value's true to label value characteristics, with the portfolio offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets.

We have recently seen volatility collapse as equity markets have rallied. When we see implied volatility fall to these lows, we

accumulate protection in our portfolios at a longer duration than normal (circa 1 year in duration), to take advantage of this change in price.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations, 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	6.4	8.9
Telstra Corporation	6.1	4.7
BHP Billiton Limited	5.9	4.2
Westpac Banking Corporation	5.4	6.9
ANZ Banking Group Limited	5.1	5.0
National Australia Bank	4.8	4.7
Woolworths Limited	3.5	2.0
Wesfarmers Limited	3.5	3.2
Macquarie Group Limited	3.1	1.7
AMP Limited	3.0	1.1

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.5	3.9
Materials	13.7	14.3
Industrials	1.7	8.1
Consumer Discretionary	11.9	5.4
Consumer Staples	9.1	6.9
Health Care	3.9	7.3
Financials-x-Real Estate	35.6	35.3
Real Estate	9.3	9.5
Information Technology	0.7	1.2
Telecommunication Services	7.2	5.5
Utilities	1.7	2.7
Cash & Other	-1.3	0.0

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:



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