

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-3.9	0.7	0.7	-	-	-	-0.7
S&P/ASX 300 Accumulation Index	-5.4	-0.6	-0.6	-	-	-	-2.0
Value Added (Detracted)	1.5	1.3	1.3	-	-	-	1.2
Net Performance	-4.1	0.5	0.5	-	-	-	-0.9

*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 30/09/14):

AUD12.4 million

Income distribution frequency:

Half yearly

Team FUM (as at 30/09/14):

AUD7.6 billion

Trust redemption price (as at 30/09/14 2014):

\$0.9887

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 Trust outperformed the benchmark S&P/ASX300 Accumulation Index return by 1.5%.**
- ▶ **The Trust's performance was cushioned by its protection strategies as the market fell.**
- ▶ **Positions which performed well during the month included iSelect (16.9%), Nufarm (14.4%), Aristocrat (5.6%), and Lend Lease (3.7%).**

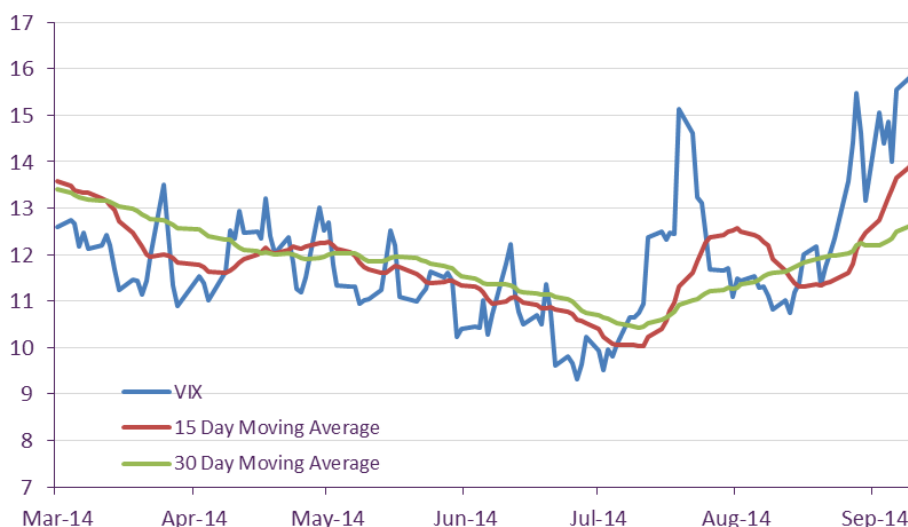
During September, the Australian equities market gave back the returns from July and August with the benchmark returning -5.4% for the month. The Perennial Value Wealth Defender Australian Shares Trust (the Trust) mitigated some of this loss returning -3.9%, outperforming the benchmark S&P/ASX300 Accumulation Index (the Index) by 1.5%.

Since inception the Trust has outperformed the Index by 1.2% delivering a -0.7% return versus a market return of -2.0%.

While more concerned with material falls in the market, we would still expect the Trust to do well in this environment. The protection strategies started to have an effect as the market moved lower. In addition to the option protection, we were also able to generate some relative outperformance with our underweight bank exposure.

Volatility levels increased and are now high relative to history (as illustrated in chart 1).

Chart 1



Source: Perennial

Unlike August when the market fell and rebounded, September saw a controlled decline. This is relevant to the Trust in that sharp falls have a bigger impact on the option protection than slow and steady falls. We expect a much bigger return from our downside protection in a rapid sell-off than a slow sell-off. This is important to note going forward.

At the beginning of the month, the Trust held October and December index put options. As the market fell during the month we began to increase the duration of our protection. We also took profits in some of the December protection by rolling put positions down to lower strikes. We finish the month long December put spreads with some upside cover in the form of index call options which should help mitigate losses in the protection portfolio if the market bounces. With an S&P/ASX 300 Accumulation Index benchmark, we are as concerned with managing upside market risk, as downside.

As at month end we currently have a structure in place to mitigate a 15% overnight fall in equity markets by an estimated 50%*.

Equities overview

Part of the reason the Australian market underperformed global markets with the S&P500 and FTSE down 1.6% and 2.9% respectively during September was due to the weakening Australian dollar (AUD) relative to the US dollar (USD). The AUD/USD ending the month at 87.5c, down 5.5c on the 93c close from August.

Both globally and domestically, macro data was mixed. In the US, second quarter GDP growth was revised upwards to 4.6% on an annualised basis but other data, including employment growth data, was underwhelming. In China, the latest round of data indicates that growth is falling short of the official target, which prompted the announcement of additional bank liquidity measures to help stimulate growth. In Europe, the European Central bank (ECB) also announced additional stimulus measures as growth remains barely positive. Domestically there was a huge gain in employment in August (the largest ever reported) which caused the unemployment rate to fall back to 6.1%. Housing data was strong, however, retail sales growth, business and consumer confidence numbers were a little weak. The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% but hinted that it may consider counter-cyclical credit controls to cool the extremely strong housing market.

The best performing sectors during the month were healthcare (down 0.1%), utilities (down 2.5%) and consumer staples (down 3.4%). Metals and mining (down 5.0%) was the worst performing sector as the iron ore price declined by 11.8% over the month, followed by financials (down 6.4%), and energy (down 5.7%).

The Trust benefitted from being underweight banks during September. However, our forecast FY15 sector gross yield of 8.4% is such that we don't believe it prudent to adopt an overly aggressive underweight to this sector. Our negative view on the sector has been driven by a number of factors, including ongoing regulatory intervention to increase capital levels and relatively less attractive yield relative to rising bond yields. Most recently, the sector appears to have borne the brunt of offshore selling as the AUD weakened.

Being underweight the healthcare sector on valuation grounds detracted from performance.

Stocks which performed well during September included Aristocrat (up 5.6%), Lend Lease (up 3.7%), Harvey Norman (up 2.3%), Brambles (up 1.6%), Amcor (up 1.3%), QBE (up 1.2%) and Orora (up 1.2%), each of which delivered a positive total return despite the market's 5.4% decline.

Detractors included Crown (down 11.5%), Fairfax (down 10.4%), Downer (down 9.4%) and Henderson Group (down 8.7%).

Within the small companies component of the Trust, the best performing stock during September was insurance, utility and financial products comparator company iSelect (up 16.9%) which conducted its annual result's investor road show early in the month. Also crop protection company Nufarm (up 14.4%) reported their FY14 result during the month reflecting a significant improvement in their working capital leading to much improved cash flow and a stronger balance sheet.

* This is expected outcome in an overnight move based on risk modelling. Whilst we expect this to be accurate it relies on a number of assumptions and is used as a guide only.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
BHP Billiton Limited	8.9	8.1
Westpac Banking Corp	7.5	7.4
National Aust. Bank	6.5	5.7
ANZ Banking Grp Ltd	5.6	6.3
Commonwealth Bank.	4.7	9.1
Telstra Corporation.	4.7	4.9
Woodside Petroleum	3.4	2.1
Rio Tinto Limited	3.2	1.9
QBE Insurance Group	2.8	1.2
Asciano Limited	2.8	0.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.8	6.4
Materials	21.9	16.4
Industrials	7.0	7.1
Consumer Discretionary	7.4	4.2
Consumer Staples	2.0	7.9
Health Care	4.3	5.1
Financials-x-Real Estate	33.5	37.4
Real Estate	7.2	7.2
Information Technology	0.2	1.0
Telecommunication Services	4.8	5.4
Utilities	1.9	1.8
Other	4.0	-

Rounding accounts for small +/- from 100%.

Signatory of:



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