# Perennial Value Wealth Defender Australian Shares Trust

**Monthly Report**
31 December 2014

| | Month | Quarter | FYTD | 1 year | 3 years | 5 years | Since Inception^ |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % p.a. | % p.a. | % p.a. |
| Perennial Value Wealth Defender Australian Shares Trust* | 2.3 | 1.6 | 2.4 | - | - | - | 0.8 |
| S&P/ASX 300 Accumulation Index | 2.0 | 2.9 | 2.4 | - | - | - | 0.9 |
| **Value Added (Detracted)** | **0.3** | **-1.3** | **0.0** | **-** | **-** | **-** | **-0.1** |
| Net Performance | 2.2 | 1.7 | 2.2 | - | - | - | 0.7 |

*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 31/12/14):
AUD18.1 million

Income distribution frequency:
Half yearly

Team FUM (as at 31/12/14):
AUD7.4 billion

Trust redemption price (as at 31/12/14):
$1.0051

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 Index in December by 0.3%.**
- **The derivatives portfolio increased in value partly due to an increase in volatility.**
- **The best contributing stock in the Trust was Fairfax (up 18.2%).**

The Perennial Value Wealth Defender Australian Shares Trust delivered 2.3% in December versus the S&P/ASX300 Accumulation Index (the Index) return of 2.0%, outperforming by 0.3%. Since inception in May 2014, the Trust is up 0.8% against the Index which is up 0.9%, only marginally below benchmark, all the while having had significant levels of protection in place. During this period there were two months in particular where the market fell meaningfully and during these months the Trust outperformed its benchmark.

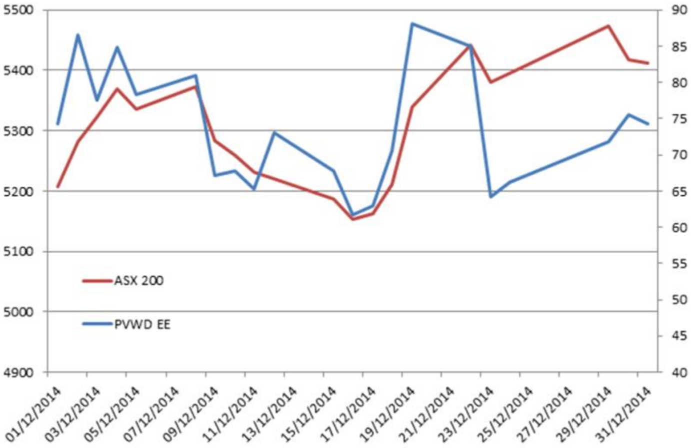
December brought further slides in commodity prices, including the price of oil, which has had a significant impact on the prices of energy stocks. For example, Santos, a Top-50 stock (which the portfolio does not hold) has fallen 46% from its peak. Global markets were softer, with the S&P500 (down 0.4%), FTSE (down 2.3%), Euro Stoxx 50 (down 3.2%) and Nikkei 225 (down 0.1%) all weaker. However, there was further evidence that global growth is improving. In particular, the data for the US was positive, with the revised Q3 GDP data showing the firmest rate of growth since 2003 and non-farm payrolls growing 321,000, well above expectations. In other regions, key German data improved, there were positive signs that Japan's economy is emerging from recession in the current quarter and China's data was consistent with growth at close to 7% in Q4, although a key manufacturing PMI dropped below 50. Global inflation continued to fall suggesting a prolonged period of low interest rates.

The level of volatility has increased and decreased a number of times in the last few months as shown in the chart below – represented by the blue line. This can actually work in favour of the Trust as we benefit from being 'long' options whose value increases as volatility does. This partly explains how the Trust outperformed in December despite the market having had a decent rally. In December we saw the Index up 3%, then down 4%, then up over 6% from there.


**Source:** Perennial

The speed of market moves impact the way the protection portfolio may behave. In faster falling markets generally the Trust will do better than in slow grinding markets. So if a market falls quickly we are likely to protect more capital than if it falls slowly. While we can see immediate effects from sharp and quick falls, it is possible that the protection may not add much value in a slow grind down.

The chart below shows the exposure of the Trust and how it has changed as the market has moved.  The effective exposure (EE) in the chart below is very dynamic. As the market falls, so too does our exposure. Conversely as the market rises the portfolio very rapidly participates in the rise, as the characteristics of the protection portfolio organically change. This is one of the reasons the portfolio utilises options as its main form of protection as they can provide an efficient hedge against market falls, but also allows the portfolio to participate in much of the bounce as and when markets rise.



**Source:** Perennial

This dynamic, organic, exposure change is also reflected in the underlying volatility of returns of the Trust relative to the market. The manner in which the Trust's protection works also goes somewhat to dampen the Trust's own volatility. So far since inception, the volatility in the returns of the Trust as measured by standard deviation is 9.9%, versus the market at 12.9%*. We believe that this is also a good result for our investors who are looking for capital preservation.

In the seven months since inception the protection portfolio has incurred a total cost of 30 basis points.  During that time we have had a significant portion of the downside in the share portfolio covered such that had there been a material fall, the portfolio average overnight move would have been -7.5% if the market fell 15%, i.e. half as much.  This is a very small amount to pay to remain invested in the markets and not to have to worry too much about your exposure in an increasingly volatile environment, as seen over this past six months.

In Australia, GDP growth was unexpectedly weak in the September quarter, with real disposable income falling again, however, the partial data for the fourth quarter pointed to improvement. Retail sales for October were soft, albeit better than expected and home building approvals boomed, as did employment for November. The jobless rate, however, rose to a new 12-year high of 6.3%, and business and consumer sentiment fell, with the mid-year economic update revealing further deterioration in the budget deficit, largely due to lower commodity prices. The RBA left interest rates unchanged at 2.5% and the AUD continued to fall, reaching a four-year low of 81 US cents. Defensive sectors outperformed during the month, with Healthcare (up 5.6%), Telcos and REITs (both up 4.5%). Collectively, this represented the portfolio's biggest headwind for the month. Industrials (up 5.8%) also outperformed. The worst performing sectors were Metals and Mining (down 3.0%), followed by Consumer Discretionary (down 2.2%) and Energy (down 1.7%).

The best contributing stock in the portfolio for the month was Fairfax (up 18.2%) which announced the merger of its radio business with Macquarie Radio Network and the sale of its Perth station to APN. The transaction sees Fairfax gain a majority stake in the merged entity as well as receiving $96m cash, which will further strengthen its already debt-free balance sheet.

Stocks with significant offshore earnings rallied on the lower AUD, such as Sims Metal (up 13.3%), Bluescope Steel (up 13.3%), Amcor (up 11.7%), Resmed (up 11.0%) and Ansell (up 8.0%). Other stocks which performed well included Downer (up 9.8%) after announcing a major new mining services contract win, Orora (up 8.6%), Boral (up 8.4%) after announcing the sale of their landfill business to TPI, Orica (up 7.2%) and Lend Lease (up 7.0%). Woodside (up 6.3%) rallied after announcing the acquisition of a number of assets from Apache and Telstra (up 4.9%) rose after signing the revised NBN deal.

Stocks which detracted from performance tended to be resource related names, with Iluka Resources (down 13.1%), BHP (down 5.0%), Origin Energy (down 4.7%) and Rio Tinto (down 1.9%). Crown Resorts (down 11.8%) also underperformed on weakness in the Macau gaming market.

Currently the portfolio is structured to mitigate a 15% overnight fall in equity markets by an estimated 50%.

*Source: Perennial. Volatility measured as the standard deviation of monthly returns (annualised).

| Top 10 Holdings | | |
|---|---|---|
| **Stock name** | Trust weight % | Index weight % |
| Westpac Banking Corp | 8.4 | 7.5 |
| National Aust. Bank | 7.7 | 5.9 |
| BHP Billiton Limited | 7.4 | 6.9 |
| Commonwealth Bank | 5.7 | 10.1 |
| Telstra Corporation. | 5.5 | 5.3 |
| ANZ Banking Grp Ltd | 5.2 | 6.4 |
| Woodside Petroleum | 3.2 | 2.0 |
| ResMed Inc | 2.8 | 0.4 |
| Rio Tinto Limited | 2.7 | 1.8 |
| QBE Insurance Group | 2.7 | 1.1 |

| Asset Allocation | | |
|---|---|---|
| **Sector** | Trust weight % | Index weight % |
| Energy | 5.4 | 5.1 |
| Materials | 19.6 | 15.0 |
| Industrials | 4.6 | 7.4 |
| Consumer Discretionary | 8.2 | 4.1 |
| Consumer Staples | 2.5 | 7.4 |
| Health Care | 5.0 | 5.9 |
| Financials-x-Real Estate | 35.3 | 38.6 |
| Real Estate | 5.3 | 7.7 |
| Information Technology | 0.2 | 1.0 |
| Telecommunication Services | 5.6 | 5.8 |
| Utilities | 1.6 | 1.9 |
| Other | 6.6 | - |

Rounding accounts for small +/- from 100%.

*Signatory of:*

PRI Principles for Responsible Investment