

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-3.5	-6.2	-10.4	-	-	0.1
S&P/ASX 300 Accumulation Index	-2.6	-3.0	-9.3	-	-	0.5
Value Added (Detracted)	-0.9	-3.2	-1.1	-	-	-0.4
Net Performance	-3.7	-6.5	-11.1	-	-	-0.5

*Gross Performance. ^Since inception: 31 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:

31 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.

- ▶ During the quarter, the Trust fell 3.5%, underperforming the Index by 0.9%.
- ▶ Since inception, the Trust has delivered a return of 0.1%, just under the index return of 0.5% while carrying significant downside protection.
- ▶ Hard landing fears for China faded, yielding a partial recovery in markets and commodity prices.
- ▶ The theme of a recovering East coast economy is confirmed, with the portfolio benefitting as a result.

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

During the March quarter, the S&P/ASX300 Accumulation Index (the Index) fell 2.6%. The Trust also fell 3.5%, underperforming the market by 0.9%.

Global markets were sold off heavily into the New Year, unwinding prior strong December gains to plumb to new two to three year lows by mid-January. The main driver was fear for growth, particularly the slowing Chinese economy and falling commodity prices. This led to a broad-based sell-off. Thereafter, concerns of a hard landing in China faded which spurred commodities prices and global markets higher. Moves for the quarter comprised the S&P500 up 0.8%, FTSE down 1.1%, Nikkei down 12% and the Shanghai Composite down 16.3%. The Brent oil price fell 26.0% to 12 year lows before recovering to finish the quarter up 6.0%. The iron ore price fell to 11 year lows in early January then rebounded to close the quarter up 24.0%.

In Australia, the February unemployment rate fell from 6.0% to 5.8%, with the majority of job creation occurring in the Eastern states, testimony that the transition from the mining/energy to non-mining sectors of the economy is on track. The cash rate remains at 2.0% and the Australian Dollar (AUD) rallied on the back of US Dollar (USD) weakness and iron ore prices to finish at 76.6 US cents (up 5%), up 11.8% from mid-January lows.

Better performing sectors over the quarter included REITS (up 6.4%), materials (up 5.2%) and utilities (up 3.3%). Financials-ex-REITS (down 9.7%), information technology (down 5.0%) and healthcare (down 1.6%) lagged. Our overweight position in the banks worked against the Trust over the quarter, in part due to the emergence of a small number of non-performing loans. Importantly, we see these as isolated company-specific issues, rather than evidence of any broad-based deterioration in credit quality, with corporate Australia overall in strong financial shape.

Stocks which contributed positively to performance over the quarter included AWE Ltd (up 35.0%) which rallied with the oil price and after announcing asset sales at prices which exceeded market expectations. Newcrest (up 30.8%) rallied with stronger gold price (up 16.4%) and on a positive interim result and outlook for the Lihir gold mine.

Sims Metal (up 20.7%) rallied on announcement of tariffs by the United States (US) Government to halt dumping of cheap steel into the US. Other stocks to deliver double digit returns included Harvey Norman (up 12.4%), Vocus (up 11.8%) and Navitas (up 10.8%).

In addition to the banks, stocks which detracted from performance included Henderson Group (down 22.6%) which saw earnings downgrades on higher cost growth and higher guided tax rates, Macquarie Group (down 20.2%) and Woolworths (down 8.0%). More significantly, a number of large companies which are not held for fundamental valuation reasons continued to outperform. Transurban (up 8.4%), a Top 20 stock, is a case in point. Transurban currently trades on a FY17 gross dividend yield of 4.6%, which compares poorly to the portfolio's forecast FY17 gross yield of 7.4%.

Whilst the market ended down a small amount in the quarter, there was significant volatility throughout the period. At its low the market had fallen nearly 10.0% over six weeks. At that low point the protection portfolio had added significant protection (about 3.8%). The market rallied significantly from there to finish down 2.6%. One of the objectives in the Trust is to provide a reason to not sell out of equity markets when things look difficult. By having an inbuilt buffer in the form of the protection portfolio we feel our investors are more able to stay the course and avoid selling out at the worst possible time.

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.

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 sold out of CIMIC (formerly Leightons) on valuation grounds, having delivered a return of some 20.0% since purchase in mid-2015. We also exited our holdings in Orica, Metcash and Orora, which had returned 107.0% since listing in December 2013. We continued to take profits in a number of other stocks which had performed strongly including AGL Energy and Newcrest.

Funds were reinvested into Henderson and Macquarie Groups, after both stocks had fallen some 20.0% since we took significant profits in the December/January period. We also increased our holdings in a number of stocks offering good value, including Woodside Petroleum, BHP and Rio Tinto. Following the recent resources 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.

Ansell was reintroduced after a sharp sell-off of some 30.0% and Washington H Soul Pattinson & Co. was also introduced into the portfolio. 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.

Environmental, Social and Corporate Governance (ESG)

Perennial remains alert to ESG issues in the portfolio. During the quarter, BHP's Samarco JV and the Brazilian Government came to an agreement regarding civil claims, subject to court approval, for rehabilitation and rebuild after last year's tailings dam collapse. The cap on liabilities was lower than initial market expectations. Expectations are that Samarco may resume mining operations earlier than expected, perhaps later this year, a good outcome for a community needing a return to economic activity.

Outlook

The February reporting season confirmed the ongoing transition to a recovering East coast economy and the Trust continues to be exposed to this theme through overweight positions in retail, building and infrastructure/construction-related stocks. The portfolio 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. This group has become a crowded trade and valuations have become increasingly 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 %
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%.

Signatory of:



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