Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
31 July 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	0.7	-0.5	0.7	8.1	3.5	-	4.1
S&P/ASX 300 Accumulation Index	0.0	-2.5	0.0	7.0	5.1	-	5.8
Value Added (Detracted)	**0.7**	**2.0**	**0.7**	**1.1**	**-1.6**	**-**	**-1.7**
Net Performance	0.6	-0.8	0.6	7.2	2.7	-	3.3

*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 sharply falling equity markets.

Trust manager
Dan Bosscher

Risk profile
High

Trust FUM
AUD $55 million

Distribution frequency
Half yearly

Strategy FUM
AUD $505 million

Team FUM
AUD $6.7 billion

Trust redemption price
$1.0199

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

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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.

- **Rising commodity prices lifted resource stocks in July, while the overall market finished flat.**
- **Companies with significant offshore earnings lagged during the month, as the Australian Dollar (AUD) rallied strongly.**
- **At all times, the Perennial Value Wealth Defender Australian Shares Trust (the Trust) has been well protected in the event of a major market downturn.**

Market Review

Global markets were generally stronger in July, with the S&P500 up 1.9%, FTSE100 up 0.8% and Shanghai Composite up 2.5%, while the Nikkei 225 declined 0.5%. Commodity prices rallied strongly, with iron ore up 13%, thermal and coking coal both up 20.0%, copper up 7.0%, oil up 10.0% and gold up 2.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the AUD finished the month up three cents at 80 US cents.

The ASX300 Accumulation Index (the Index) was flat over the month, with strong gains in resources offsetting a decline in industrials. The better performing sectors included metals and mining (up 6.4%), materials (up 3.5%), financials (up 1.2%), consumer staples (up 1.0%) and energy (up 0.6%). The defensive sectors tended to underperform, with healthcare (down 7.5%) the worst performing sector, while utilities (down 5.3%) and telecommunications (down 4.2%) also lagged.

Trust Review

The Trust delivered a return of 0.7% for July, compared to the flat return from the Index.

The better performing stocks in the Trust included BHP (up 11.0%) and Rio Tinto (up 4.0%), which benefitted from the rise in iron ore and other commodity prices. This aside, in our view, both of these stocks offer compelling medium term value as a result of their expected strong cash flow generation as capital expenditure is reduced and the existing suites of assets are worked harder. Further, this will drive an ongoing improvement in their already strong balance sheets, providing opportunities for significant returns of capital to investors. In this respect, we have high hopes for the performance of BHP under the guidance of incoming Chairman, Ken MacKenzie, who demonstrated strong capital discipline in his former role as CEO of Amcor. Ironically, it was poor capital allocation at Rio Tinto, which gave Amcor the opportunity to make the transformative acquisition of the Alcan packaging business at a bottom-of-the-cycle price in 2010.

Other strong performers included small caps, Reject Shop (up 17.5%), Fleetwood (up 12.3%), RPM Global (up 11.9%) and recent IPO, Bingo Industries (up 9.2%). At the larger end, Woolworths (up 4.5%), AMP (up 3.9%), Crown Resorts (up 3.6%) and Vocus Group (up 3.6%), which received a second indicative takeover offer, all outperformed. The Trust also benefitted, in a relative sense, from the sell-off in healthcare and utilities, both sectors in which we hold underweight positions on the basis of valuation.

The major banks outperformed modestly, rising an average of 2.4%, after Australian Prudential Regulation Authority's long-awaited changes to their capital requirements turned out to be more benign than expected. The Trust holds an underweight position in the banks on the basis that, while they are offering attractive dividend yields, they are fully-valued, with a challenged earnings growth outlook and potential downside risks. As a result, we see better value opportunities elsewhere in the market.
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Stocks which detracted from performance included Graincorp (down 7.8%), which declined as seasonal conditions deteriorated due to a lack of rainfall. While this business is subject to seasonal variability, the company is well-run, with highly-strategic assets in a consolidating. Other holdings which underperformed included offshore earners Clydesdale Bank (down 7.6%), Amcor (down 5.4%) and Janus Henderson Group (down 4.3%), which were sold off on the back of the higher AUD.

In terms of the protection overlay, while the overall market has been flat, volatility conditions have been favourable, allowing us to actively trade the derivatives portfolio and essentially offset the cost of carrying protection.

Trust Activity

During the month, we established a position in Harvey Norman, which we believe has been oversold on Amazon fears. While the entry of Amazon will no doubt have an impact, this will likely take time to manifest, and much of Harvey Norman's product range, such as furniture, is unlikely to be affected. We are particularly attracted to the dividend yield and surplus franking credit position, with the stock offering a forecast financial year 2018 gross yield of 10.7%. At month end, stock numbers were 51 and cash was 5.0%.

Outlook

The global growth outlook appears to be incrementally improving and markets continue to respond positively to the prospect of more pro-growth fiscal policies as opposed to ongoing monetary easing. Should this eventuate, the Trust will likely benefit from being overweight in the large-capitalisation, low-cost, financially-sound resources companies as well as in a range of quality industrial and financial companies where we see attractive valuations. This would also see continued upwards pressure on interest rates which would benefit the Trust through its underweight position in the expensive defensive sectors such as healthcare and REITs and infrastructure.

The Trust 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 cash flow, 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, 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 %
BHP Billiton Limited	7.1	5.4
Commonwealth Bank	6.3	9.3
National Aust. Bank	5.7	5.2
Westpac Banking Corporation	5.1	7.0
ANZ Banking Group Limited	4.1	5.6
AMP Limited	3.5	1.0
Suncorp Group Limited	3.4	1.2
Woodside Petroleum	3.2	1.4
Telstra Corporation	3.1	3.1
Woolworths Limited	3.0	2.2

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.9	4.1
Materials	16.5	16.6
Industrials	2.1	7.2
Consumer Discretionary	10.3	5.2
Consumer Staples	6.6	7.1
Health Care	1.3	6.9
Financials-x-Real Estate	37.0	37.4
Real Estate	6.5	8.3
Information Technology	1.1	1.5
Telecommunication Services	5.8	3.6
Utilities	0.8	2.2
Cash & Other	6.2	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment