Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
30 November 2015

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-1.1	-3.3	-5.8	2.1	-	-	0.4
S&P/ASX 300 Accumulation Index	-0.7	0.7	-3.0	2.1	-	-	0.6
Value Added (Detracted)	-0.4	-4.0	-2.8	0.0	-	-	-0.2
Net Performance	-1.2	-3.2	-6.0	1.2	-	-	-0.2

*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 30/11/15):
AUD 66 million

Income distribution frequency:
Half yearly

Strategy FUM (as at 30/11/15):
AUD 729 million

Team FUM (as at 30/11/15):
AUD 6.6 billion

Trust redemption price (as at 30/11/15):
$ 0.9519

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.

- **Since inception the Trust has returned 0.4% which is largely in line with the Index return of 0.6%, all the while carrying significant protection and with an effective exposure in the range of 65.0% to 75.0% on average.**
- **The annualised investment in protection since inception is just over 1.0%.**
- **The volatility of the Trust stands at 11.5% which is 18.0% lower than the market of 14.0%.**

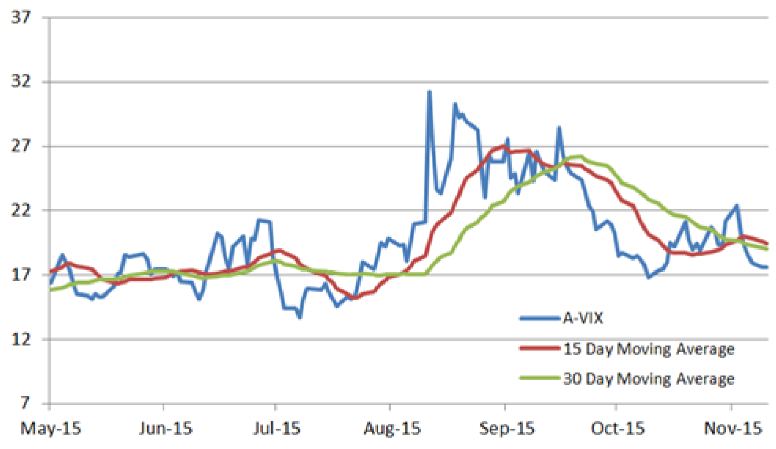
The market eased slightly in November, with the S&P/ASX300 Accumulation Index (the Index) finishing the month down 0.7%. The Perennial Value Wealth Defender Australian Shares Trust (the Trust) returned -1.1%, underperforming the market by 0.4%.

Markets were quiet globally with S&P500 up 0.1%, FTSE down 0.1%, Nikkei up 3.5% and Shanghai Composite up 1.9%. Globally, the clear highlight of the month was the release of a strong US employment report, with 271,000 jobs added in October, and the jobless rate slipping to 5.0%, strengthening expectations that the Federal Reserve (the Fed) will start raising rates in December.

In November, we saw volatility decrease given the relatively quieter month, as depicted in the A-Vix (measure of volatility) chart below. The incurred cost of protection for the month was basically zero. Whilst we still have to pay option premium, we were able to generate trading profits in the portfolio through active management of the positions. This not only paid for the cost of carrying that protection but also helped mitigate a falling implied volatility.

After a period of quite high volatility (August to October 2015), through which we always carried protection, it is important to note that implied volatility is still elevated by historical standards. This means the market is still keen to own protection.

A-VIX: Last Six Months



Source: Perennial, Bloomberg

In Australia, the October jobs report was also very strong, delivering an unexpected near 60,000 net gain in employment and a fall in the jobless rate back below 6.0%. The strong results were uniform across states and align with leading indicators of employment, which have been positive. There have also been healthy results for business conditions, which held at recent highs, and consumer confidence, which bounced, despite the banks' recent mortgage rate hikes. Retail sales data for September, however, was sluggish. Overall, this is consistent with our more positive outlook for the domestic economy as the transition to the non-resources sector takes place. The Reserve Bank of Australia (RBA) left the cash rate steady at 2.0% and the AUD drifted slightly higher over the month to close at 72.3 US cents, despite further falls in key commodity prices.

Sector performance was mixed, with healthcare (up 5.2%) the best performing sector, followed by information technology (up 4.5%), financials (up 2.5%), industrials (up 1.0%) and consumer discretionary (up 0.5%). Resources lagged, with metals and mining (down 16.5%) and energy (down 1.3%), while Real Estate Investment Trusts (REITs) (down 2.8%), utilities (down 1.4%), consumer staples (down 1.3%) and telecommunications (down 0.5%) all detracted.

Share portfolio news

The best performing stock in the portfolio was Metcash (up 24.4%) which rallied after delivering a H116 profit result which, while down on the prior period, showed some encouraging early signs that management's turnaround plans are having a positive effect. We first entered this stock in July at an average price of $1.15, with the stock closing the month at $1.48. This stock offers significant upside should the company be successful in working with its independent retailer customers to reinvigorate the network and restore sales momentum something we believe to be achievable under the new management team.

Other holdings which outperformed included Myer (up 15.6%) which rallied after delivering an annual general meeting (AGM) update which showed a significant improvement in comparable store sales growth and reaffirmed FY16 profit guidance. Amalgamated Holdings (up 7.6%) and recent portfolio addition, Navitas (up 6.7%) both outperformed. We see these stocks, with their exposure to domestic tourism and education of international students respectively, as offering an excellent way to capitalise on the expected long-term growth of these sectors, driven by the growth of the middle-classes in Asia. These stocks provide a way to benefit from regional growth in a "post-resources boom" environment. Brickworks (up 6.5%) and Boral (up 5.2%) both outperformed and we believe these stocks are well-placed to benefit from ongoing elevated levels of housing activity and the coming increase in infrastructure investment.

The major banks all outperformed, rising by an average of 3.3%. This is pleasing as we recently moved to an overweight in the banks, as post their sell-off, they are offering attractive valuations with a sector average FY16 P/E of 12.1x and a gross yield of 8.7%. The banks have all significantly increased their capital levels in recent times and, while we expect only modest earnings growth, dividends should be sustainable absent a material increase in bad debts. Given our benign outlook for the domestic economy, we do not expect this to occur.

Stocks which detracted from performance included Sims Metal (down 31.4%), which fell after downgrading earnings guidance due to the sharp fall in the scrap metal price. While this was disappointing, the company has moved swiftly to lower its cost base in the face of this pressure. Importantly, the balance sheet remains strong. As noted in the October commentary we have been reducing our holding in this stock at an average price of $10.19, compared to the month end price of $6.75.

Resource holdings also underperformed, with BHP (down 21.4%) due to weaker commodity prices and the tailings dam failure in Brazil. We are very disappointed by the issue at Samarco and will continue to monitor developments from an ESG perspective. Newcrest (down 11.4%) and Rio Tinto (down 9.4%) also underperformed.

The outperformance of the healthcare sector also weighed on our relative performance, as we remain underweight this sector which trades on an average FY16 P/E of 22.8x and, in our view, does not offer attractive valuation. This compares to our portfolio which is trading on a FY16 P/E of 14.5x. Investors should note that while healthcare stocks do have defensive characteristics on the demand side, they are subject to high levels of regulatory risk given that a significant proportion of their revenue is derived from government funding.

Portfolio activity

In terms of portfolio activity, we took profits in stocks, which have performed strongly in recent times, reducing our holdings in Aristocrat Leisure and CIMIC Group, which have returned 48.4% and 30.1% respectively over the past 12 months and have been significant positive contributors to portfolio performance. We exited our holding in BlueScope Steel following its strong performance, having outperformed the market by 43.0% so far this financial year. We also continued to selectively reduce exposure to the resources sector, exiting a number of holdings including Iluka Resources, Origin Energy, and South32. The portfolio remains mildly overweight to resources companies, with balance sheet strength a key criteria of the selected stocks held in this sector. Consistent with our positive view on the banks, the proceeds were used to increase weightings in CBA and Westpac as well as adding to positions in Suncorp and Navitas.

Outlook

Whilst implied volatility has decreased, meaning we should be able to carry protection at a lower cost than in the months through August to October, we are somewhat cautious leading into the holiday season, given the potentially very significant event of a Federal Open Market Committee rate rise in what appears to be increasingly illiquid markets globally. We have had quantitative easing for a very long time. In our view a 25 basis points increase in the benchmark rate is meaningless – but the direction is important and those with levered carry positions may feel differently. Adding to that, we are increasingly being told that globally the market positioning is very concentrated (i.e. everyone has the same position) along with USD being one of the most popular. In our experience, highly consensus positions can be dangerous when liquidity is less than people are used to.

Top 10 Holdings		
Stock name	Trust weight %	Index weight %
Commonwealth Bank	8.5	9.9
Westpac Banking Corp	8.4	7.8
National Aust. Bank	6.9	5.6
ANZ Banking Grp Ltd	6.3	5.7
Telstra Corporation	5.4	4.8
BHP Billiton Limited	4.7	4.2
Woolworths Limited	3.5	2.2
Macquarie Group Ltd	3.3	2.0
Woodside Petroleum	2.6	1.6
AGL Energy Limited	2.5	0.8

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	3.4	4.4
Materials	11.6	12.3
Industrials	2.4	8.2
Consumer Discretionary	11.8	4.8
Consumer Staples	8.1	6.8
Health Care	0.3	7.0
Financials-x-Real Estate	41.0	39.5
Real Estate	5.4	8.3
Information Technology	0.3	1.1
Telecommunication Services	6.1	5.3
Utilities	2.6	2.3
Cash & Other	7.0	

Rounding accounts for small +/- from 100%.