Perennial Value Wealth Defender Australian Shares Trust

Quarterly Report
30 June 2016

	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	-5.5	-5.5	-	-	0.5
S&P/ASX 300 Accumulation Index	4.0	0.9	0.9	-	-	2.4
Value Added (Detracted)	**-3.3**	**-6.4**	**-6.4**	**-**	**-**	**-1.9**
Net Performance	0.5	-6.1	-6.1	-	-	-0.2

*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 30/06/16):	AUD $47 million
Income distribution frequency:	Half yearly
Strategy FUM (as at 30/06/16):	AUD $395 million
Team FUM (as at 30/06/16):	AUD $9.1 billion
Trust redemption price (as at 30/06/16):	$ 0.9350
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.

- **Markets rallied over the June quarter, with the S&P/ASX300 Accumulation Index (the Index) up 4.0%.**
- **Resources, REITs and healthcare sectors outperformed while consumer staples and financials underperformed.**
- **The Trust was up 0.7%, underperforming the Index by 3.3%.**

Trust Characteristics

In line with the objective, the Perennial Value Wealth Defender 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

The 2016 financial year has been very difficult for true-to-label value investors such as Perennial Value. What is clear to us however, is that value as a style is a proven performer over the long term, as is our investment process. This is reflected in the long term outperformance of 2.9% per annum above the Index over 16 years of the Perennial Value Australian Shares Trust, which forms the substantial basis of the stock component of the Wealth Defender Trust. There have been periods where we have seen value perform poorly in the past, such as at the tail end of the pre-financial crisis boom and during the 2012 flight to safety. However, on each occasion, we have remained disciplined, stayed true to our process and the Perennial Value Australian Shares Trust has been rewarded by subsequent strong outperformance. We have no reason to believe that this will not be the case going forward as relative market valuations inevitably normalise.

Market activity

Whilst the market ended strongly for the quarter, there was significant volatility throughout. This was characterised by very strong months in April and May followed by the volatility in June, with the market not pricing in the events in the UK. On the day of the Brexit result, the protection portfolio performed very well, highlighting the benefits of having a permanent overlay in place to cushion the effects of unexpected events. As such, we believe this is a more reliable way of protecting the downside in the long run, rather than trying to time markets or predict decisions like Brexit. For the month, after a strong bounce post the Brexit outcome, the protection portfolio delivered a positive return of 0.7%.

Notwithstanding the good outcome in June, the overlay was a significant detractor for the quarter. This was essentially due to the very strong months of April and May. We continue to focus on the long term cost of protection as it can vary substantially from month to month. Since inception, the Trust has carried protection at all times, and to date has cost 1.8% on an annualised basis. This is within the estimated long term cost of running permanent protection. In this time, the Index has been up 2.4% per annum.

Market Activity

Globally markets were volatile, with fears for Chinese growth and the impact of the unexpected outcome of the Brexit referendum. The S&P500 finished the quarter up 1.9% and the FTSE100 up 5.3% while the Shanghai Composite closed down 2.8% and the Nikkei 225 was weak, down 9.6%. The Federal Reserve left rates unchanged. Iron ore finished up 3.0%, though 21.0% below April peaks, oil remained strong up 24.0% and the Australian Dollar (AUD) closed weaker down 2.7% at 74.5 US cents.

Sector performance was mixed. Defensives and rate sensitive sectors such as healthcare (up 10.2%), REIT's (up 9.2%) and utilities (up 9.0%) all performed strongly on the likely postponement of US interest rate rises and heightened economic uncertainty. The outperformance of supposedly 'earnings certain' stocks, in turn driven by the uncertain global macro environment, has been the overriding market theme over the past year and has been the key reason as to why this value portfolio has underperformed the broader market over the past quarter and twelve months. Key outperformers such as CSL (up 30.0% over the past twelve months), Transurban (up 29.0%) and Sydney Airports (up 39.0%) have simply not satisfied our value criteria over this period. Metals & mining (up 15.3%) and energy (up 4.9%) also outperformed on improving commodity prices.

The strongest Trust performers included Newcrest Mining (up 35.6%) which rallied on the stronger gold price, Aristocrat (up 35.0%) which delivered a very strong interim result and continues to take share from competition in a flat market and AWE (up 23.0%) on higher oil prices and a take-over proposition. Graincorp (up 15.5%) and Stockland (up 13.2%) also performed well.

Holdings which underperformed included Flight Centre (down 26.9%) following a profit warning and subdued outlook, Henderson Group (down 20.1%) reflecting concerns for UK-exposed stocks and AMP (down 10.9%) as a result of generally cautious sentiment towards global equity markets. We are comfortable in the outlook for each of these companies.

Trust activity

During the quarter, we exited Fairfax Media, and reduced our holdings in the banks, reflecting lesser confidence in the domestic economic outlook. Proceeds were reinvested in Resmed and Westfield Holdings, which performed comparatively well, notwithstanding its UK exposure. Prior to the Brexit announcement, our Trust exposure to UK financials, CYBG plc and Henderson Group, was substantially reduced by selling at an average price of $5.43 and $5.08 respectively. Following the announcement, the Trust repurchased both stocks at prices some 20.0% lower. The Trust has been increasing its holding in AGL Energy, where the outlook is solid and the NSW electricity wholesale price continues to strengthen. Gas prices have recently spiked in the cold weather which should help AGL given their investments in gas storage. The fund also increased its holding in Flight Centre at attractive prices.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG issues. Earlier in the year, we wrote to the Board of Ansell regarding their executive remuneration policy. Our strong preference was to adopt an approach which combined hurdles tailored to company and sector specific financial metrics, earnings per share targets, and return on capital targets, and to exclude the commonly adopted total shareholder return (TSR) metric. The key reason for this is that share prices may not reflect the underlying performance of the business in the short to medium term. Pleasingly, during the quarter, Ansell advised changes to its executive remuneration framework and adopted all of our recommended changes.

Outlook

In recent months, we have become more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks as well as the banking sector. Further, the close election result is unfavourable given the policy uncertainties this creates. The Trust remains mildly overweight in the large-cap, low-cost, financially-sound resources companies. We have very selectively increased our exposure in REITs and healthcare. Infrastructure remains heavily underweight given that sector's high leverage at a time of historically low interest rates. The Trust continues to exhibit Perennial Value's true to label value characteristics, with the portfolio 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.

Signatory of:

PRI Principles for Responsible Investment

Top 10 Holdings		
Stock name	**Trust weight %**	**Index weight %**
Westpac Banking Corp	7.1	9.1
Commonwealth Bank	6.0	7.0
National Australia Bank	5.9	4.8
Telstra Corporation	5.6	4.3
ANZ Banking Group Limited	5.5	5.0
BHP Billiton Limited	5.2	4.8
Woolworths Limited	3.5	1.9
Woodside Petroleum	3.3	3.2
Wesfarmers Limited	3.1	1.4
Macquarie Group Limited	2.9	1.7

Asset Allocation		
Sector	**Trust weight %**	**Index weight %**
Energy	5.5	4.1
Materials	12.9	14.1
Industrials	1.5	8.1
Consumer Discretionary	11.1	5.3
Consumer Staples	8.9	6.8
Health Care	3.8	7.2
Financials-x-Real Estate	36.2	35.4
Real Estate	8.9	9.6
Information Technology	0.7	1.2
Telecommunication Services	7.1	5.6
Utilities	1.6	2.7
Cash & Other	1.8	-

Rounding accounts for small +/- from 100%.