

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	0.4	4.3	4.3	5.0	-	-	2.3
S&P/ASX 300 Accumulation Index	0.5	5.2	5.2	13.5	-	-	4.4
<b>Value Added (Detracted)</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-8.5</b>	-	-	<b>-2.1</b>
<b>Net Performance</b>	<b>0.3</b>	<b>4.2</b>	<b>4.2</b>	<b>4.4</b>	-	-	<b>1.6</b>

\*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 30/09/16):

AUD \$49 million

### Income distribution frequency:

Half yearly

### Strategy FUM (as at 30/09/16):

AUD \$368 million

### Team FUM (as at 30/09/16):

AUD \$8.7 billion

### Trust redemption price (as at 30/09/16):

\$ 0.9603

### 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 market rose slightly in September, with the S&P/ASX300 Accumulation Index (the Index) up 0.5%.
- ▶ Resources performed strongly up 5.8%, while defensive sectors underperformed.
- ▶ The Trust returned 0.4%, underperforming the Index by 0.1%.

## 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 market falls.

## Trust performance

The Trust delivered a return of 0.4% for September, underperforming the Index by 0.1%.

The international markets were mixed with the S&P500 down 0.1%, Nikkei 225 down 2.6% and Shanghai Composite down 2.6%, while the FTSE 100 rallied up 1.7%. Metal prices rallied, with nickel up 8.3%, copper up 5.4% and aluminium up 3.7%, while iron ore declined 1.0% over the month. The oil price closed up 7.9% and gold increased up 0.5%. The Federal Reserve left rates unchanged, as did the Reserve Bank of Australia (RBA), with the cash rate remaining steady at 1.5%, while the Australian Dollar (AUD) finished the month up one cent at 77 US cents.

During September, the better performing sectors included metals and mining (up 8.1%), materials (up 5.7%) and consumer staples (up 1.6%), while REITs (down 4.3%), telecommunications (down 4.0%) and utilities (down 3.2%) underperformed.

Stocks which performed strongly included miners BHP (up 10.5%) and Rio Tinto (up 8.4%) as well as Downer (up 10.0%) with its mining services exposure and Wesfarmers (up 3.9%) which stands to benefit from the strong recovery in coal prices. We have been increasing our resources exposure in recent times, seeing good medium-term value in the large-cap end of the resources market, with their strong balance sheets, tier one assets and management focus on cost and capex reduction. Should the current strength in commodity prices continue, the sector is likely to see significant upgrades to consensus earnings forecasts. Other strong performers over the month included Crown Resorts (up 2.9%), with some signs of an improvement in Macau and AGL Energy (up 2.7%), which outperformed after announcing a buy-back, increasing the dividend payout ratio and providing positive FY17 earnings guidance at their AGM.

Stocks which detracted from performance tended to have offshore exposures which have been weighed down by the persistently high Australian dollar, including Henderson Group (down 8.2%), QBE Insurance (down 6.4%), CYBG (down 5.8%), Resmed (down 5.5%) and Westfield Corporation (down 4.8%). We remain comfortable with the outlook for each of these stocks.

On the protection side, we saw volatility levels remain low, although there was a brief spike around the 12th of September following some unexpectedly hawkish commentary from one of the Federal Reserve members. For the month the protection portfolio was down a small amount mostly due to the lack of movement in the market and the continuing fall in volatility. As always our focus will remain on managing the long run cost of protection and, most importantly, making sure the portfolio is well protected against significant, sharp drawdowns.

## Trust Activity

During the month, we took profits in companies which had performed strongly in recent times including Harvey Norman, Sims Metal, Flight Centre, Ansell, Newcorp and Downer. We also reduced our position in Telstra, where we see increasing competitive pressure building. Proceeds were used to increase our holdings in a number of stocks including AGL Energy, Navitas, Macquarie Group, Woolworths and CYBG (Clydesdale Bank).

## Outlook

In recent months, we have become slightly more cautious about domestic economic conditions and have reduced our overweight positions in the building and construction-related stocks and the banking sector. The Trust remains overweight in the large-cap, low-cost, financially-sound resources companies. 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 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.

The probability of a rate rise in the US continues to be pushed out but not removed. There is currently a 60.0% chance the Federal Reserve will move this calendar year. Whilst volatility remains low, the commentary in the markets seems to be less and less confident that monetary policy globally is working as desired. Last month we said low volatility can store up volatility for the future, and we believe this to still be the case. We currently have a normal level of protection in place and this is still costing significantly less than it has over the past year.

**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 %
Commonwealth Bank	6.4	8.5
BHP Billiton Limited	6.0	4.9
Westpac Banking Corporation	4.9	6.7
ANZ Banking Group Limited	4.8	5.5
National Australia Bank	4.4	5.0
Macquarie Group Limited	3.9	1.9
Telstra Corporation	3.6	4.3
Woolworths Limited	3.4	2.0
Wesfarmers Limited	3.2	3.4
Woodside Petroleum	2.8	1.4

## Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.8	4.0
Materials	13.9	15.6
Industrials	1.7	7.3
Consumer Discretionary	10.5	5.5
Consumer Staples	8.4	7.2
Health Care	3.4	7.1
Financials-x-Real Estate	34.1	35.4
Real Estate	9.2	9.1
Information Technology	0.7	1.5
Telecommunication Services	4.2	4.9
Utilities	2.4	2.5
Cash & Other	4.6	-

Rounding accounts for small +/- from 100%.

Signatory of:



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