Perennial Value Wealth Defender Australian Shares Trust

Quarterly Report
30 September 2016

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

*Gross Performance. ^Since inception: 30 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:	30 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 September quarter, with the S&P/ASX300 Accumulation Index (the Index) up 5.2%.**
- **Resources performed strongly up 12.9%, while defensive sectors underperformed.**
- **The Trust returned 4.3%, underperforming the Index by 0.9%.**

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

The Trust delivered a return of 4.3% for the September quarter, underperforming the Index by 0.9%.

Globally markets were positive, with the S&P500 finishing the quarter up 3.3%, FTSE100 up 6.1%, Nikkei 225 up 5.6% and the Shanghai Composite up 2.6%. Metal prices rose over the quarter, iron ore up 7.0%, nickel up 12.0%, copper up 0.4% and aluminium up 1.5%, while the oil price closed down 0.2% and gold fell down 0.5%. The Federal Reserve left rates unchanged, while the Reserve Bank of Australia (RBA) reduced the cash rate by 25 basis points in August to 1.5% and the Australian Dollar (AUD) rose two cents to 77 US cents.

The September quarter saw a sector rotation, with the more cyclical parts of the market outperforming, led by metals and mining (up 17.1%), materials (up 13.9%) and financials (up 5.2%). By contrast, the "expensive defensives" such as telecommunications (down 6.4%), utilities (down 2.3%) and REITs (down 1.9%) underperformed. This marks a reversal of the trends which we have seen over the past twelve months, which saw strong outperformance by these "bond proxy" sectors on the back of declining interest rates and investor risk aversion.

This rotation was particularly marked in August, where the reporting season saw many of the "expensive defensive" parts of the market underperforming, having failed to meet the market's very high expectations. Notable examples of stocks which we have not held on the basis of overvaluation and their share price performance over reporting season include Blackmores (down 21.5%), REA Group (down 9.5%), Transurban (down 8.8%), Brambles (down 8.4%) and CSL (down 8.4%). Interestingly, despite the share price falls, these stocks are still trading on demanding valuations, with FY17 price to earnings (P/E) ratios of 20 to 30 times, suggesting further downside risk.

By contrast, we were pleased to see strong performances from some of the out of favour stocks we hold which we believe offer very good value. Holdings which performed particularly strongly over the quarter included Downer EDI (up 45.0%) which delivered a solid result in challenging conditions and guided for FY17 profits significantly higher than market forecasts. Ansell (up 28.2%) rallied hard after delivering a result which showed improved organic growth and announcing the potential sale of their consumer products business. Flight Centre (up 18.1%) performed well despite reporting slightly lower earnings as a result of discounting by airlines. Harvey Norman (up 12.8%) outperformed after delivering a very strong result, with profit up 20.0% and the dividend increased by

50.0%. All of these businesses have strong market positions, good management and are trading at attractive valuations. Further, they are underpinned by strong balance sheets which allowed them to maintain or increase their dividends.

Resource and commodity-related holdings also performed strongly over the quarter, with BHP (up 21.0%), Rio Tinto (up 14.7%) and Woodside Petroleum (up 8.3%). Other strong performers included Newscorp (up 19.5%), Macquarie Group (up 18.9%), Sims Metal (up 18.9%), Aristocrat Leisure (up 14.6%), Lendlease (up 13.8%) and Woolworths (up 13.0%).

Holdings which underperformed included Gateway Lifestyle Group (down 25.4%), Graincorp (down 9.0%), QBE Insurance (down 8.9%), Westfield Corporation (down 7.1%) and Soul Pattinson (down 5.2%). We are comfortable in the outlook for each of these companies.

A very strong quarter in the equity market created a difficult environment for the protection portfolio. Whilst we expect the protection portfolio to be a drag on performance in such a strong market, the relief rally from the Brexit vote, and the corresponding fall in volatility saw an above-average cost to the Trust. We did see a short drop in the market around the 12th of September following some unexpectedly hawkish commentary from one of the Federal Reserve members. This was quickly reversed as markets rallied almost immediately thereafter.

Trust Activity

During the quarter, we took profits and reduced our holdings in a number of stocks which had performed very strongly over the last twelve months including Boral (up 32.4%), Downer (up 68.6%), Harvey Norman (up 40.2%) and Navitas (up 36.1%). We also reduced our holdings in the banks where we see near term headwinds and Telstra, where competition is increasing.

Proceeds were used to establish a position in Caltex which has reduced its refining exposure and thereby reduced the volatility of earnings while maintaining its position as Australia's leading fuel distributor. The company has a strong balance sheet which gives optionality around acquisitions or capital management. We also increased our holdings in Clydesdale Bank and Macquarie Group, taking advantage of opportunities driven by post Brexit weakness, as well as Amcor which continues to deliver good organic and acquisitive growth. We also increased our resources exposure, increasing our holdings in BHP and Rio Tinto.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG matters. During the quarter, Trust holding Stockland was announced as the most sustainable real estate company globally by the Dow Jones Sustainability Index for the second year running. Further, in the course of reporting season we met with many companies and discussed a range of ESG issues including customer relationships with CBA and environmental management with Telstra, Wesfarmers and Woodside Petroleum.

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. The Trust remains mildly 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.

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%.