Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
28 February 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*	1.5	5.3	10.3	14.4	-	-	4.0
S&P/ASX 300 Accumulation Index	2.2	5.8	12.0	22.0	-	-	6.1
Value Added (Detracted)	**-0.7**	**-0.5**	**-1.7**	**-7.6**	**-**	**-**	**-2.1**
Net Performance	1.4	5.1	9.6	13.6	-	-	3.2

*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*:	AUD $49 million
Income distribution frequency:	Half yearly
Strategy FUM:	AUD $452 million
Team FUM:	AUD $7.1 billion
Trust redemption price:	$ 1.0107
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

- **The market rallied in February, with the S&P/ASX300 Accumulation Index (the Index) up 2.2%.**
- **Industrials advanced 3.3%, while resources declined 3.4%.**
- **Reporting season saw the market deliver positive earnings growth and record dividends.**

Trust characteristics

The objective of the Perennial Value Wealth Defender Australian Shares Trust (the Trust) is to be invested in a diversified portfolio of financially sound companies and carry a level of protection sufficient that aims to reduce the magnitude of significant negative returns during sharp equity market falls.

Trust performance

The Trust delivered a return of 1.5% for February, underperforming the Index by 0.7%.

Global markets were strong, with the S&P500 up 3.7%, FTSE100 up 2.3%, Shanghai Composite up 2.2% and Nikkei 225 up 0.3%. Commodity prices were generally firm with iron ore 10.0%, gold up 4.0%, thermal coal up 2.0%, copper and oil flat while coking coal declined 5.0%. The Reserve Bank of Australia left the cash rate steady at 1.5%, while the Australian Dollar finished the month up one cent at 77 US cents.

During February, the better performing sectors included consumer staples (up 6.0%), financials (up 4.1%), REITs (up 4.1%), healthcare (up 3.9%) and industrials (up 3.4%), while metals & mining (down 3.8%), materials (down 3.2%), telecommunications (down 3.1%) and energy (down 2.1%) lagged.

Reporting season was the highlight of the month. While the results were generally subdued there was improvement from previous periods, with overall market delivering positive earnings growth. This was largely driven by a strong recovery in resource stock earnings, on the back of sharply higher commodity prices combined with lower operating costs. While many companies have faced significant headwinds in recent years, there was evidence that some of these may be abating. In addition, we were pleased to see that many companies are actively improving their businesses and will be very well-positioned as conditions improve. Market dividends also set a new record level as companies continued to focus on returning cash to shareholders rather than investing in growth projects.

Trust holdings which performed strongly included Crown Resorts (up 11.1%), as the market welcomed the focus on cost reduction under the new Executive Chairman and the announcement of a large special dividend. We believe that the return to focusing on and maximising the returns from the Australian operations is a positive development, significantly de-risking the business. AGL Energy (up 8.7%) rallied after delivering a result which showed the early benefits of the rising electricity prices and Vocus (up 8.4%) continued to recover from its last year's sell-off, after maintaining full-year earnings guidance. Lendlease (up 8.1%) performed well after reporting a strong result which highlighted its extensive pipeline of development projects both in Australia and offshore and allayed concerns around apartment settlement risks. Woolworths (up 4.7%) rose after its result showed improved sales in its key supermarkets division. While margins declined and overall earnings fell, improving sales momentum is critical to turning the business around. The major banks also performed well (up an average of 5.1%), with CBA delivering a sound result showing good cost control within a benign credit quality environment.

The Trust also benefitted from not holding Brambles (down 10.6%) which fell after the new management team withdrew the company's long-term return targets.

Stocks which detracted from performance included Clydesdale Bank (down 10.2%) which has sold off on renewed Brexit concerns and resource stocks BHP (down 6.2%) and Rio Tinto (down 4.6%), which declined despite delivering strong results, as resources stocks generally eased following very strong performances over the past twelve months (sector up 48.9% over this period). These companies are all underpinned by strong balance sheets and we remain comfortable with the outlook for each.

In terms of the protection portfolio, the ongoing very low level of volatility meant that the cost of carrying protection over the month was low.

Trust Activity

During the month, we took profits and reduced our holdings in a number of stocks which had delivered strong gains, including Boral and Suncorp and exited our holdings in AGL Energy and Washington H. Soul Pattinson. Proceeds were predominantly used to add to our positions in a number of good value stocks including Gateway Lifestyle, Macquarie Group and Vocus. At month end, stock numbers were 55 and cash was 4.5%.

Outlook

While there is a high level of ongoing uncertainty, 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 portfolio will likely benefit from being overweight in the large-cap, 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 portfolio through its underweight position in the expensive defensive sectors such as healthcare and REITs and infrastructure.

Volatility remains low as the market continues to behave optimistically, looking forward to the possibility of fiscal stimulus coming in the US, and the better earnings and industrial production numbers being released globally. There is of course, much happening in the geopolitical landscape that we need to remain aware of. While we have a relatively high effective exposure with protection placed a little lower than normal at present, we retain protection for the Trust that will help mitigate losses in the event of a sharp and significant fall in equity markets.

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 %
National Australia Bank	6.0	5.5
Commonwealth Bank	6.0	9.2
BHP Billiton Limited	5.5	5.2
Westpac Banking Corporation	5.3	7.3
ANZ Banking Group Limited	4.5	5.9
Woolworths Limited	3.6	2.2
Wesfarmers Limited	3.4	3.1
Woodside Petroleum	3.2	1.5
Crown Resorts Limited	2.9	0.3
Telstra Corporation	2.6	3.7

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	5.3	4.2
Materials	16.1	16.2
Industrials	2.3	6.6
Consumer Discretionary	9.1	5.0
Consumer Staples	8.4	7.0
Health Care	2.3	6.7
Financials-x-Real Estate	35.2	37.8
Real Estate	7.8	8.4
Information Technology	1.5	1.3
Telecommunication Services	5.9	4.2
Utilities	0.9	2.6
Cash & Other	5.2	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment

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