

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-0.6	5.4	8.7	10.5	-	-	3.5
S&P/ASX 300 Accumulation Index	-0.8	6.4	9.6	17.3	-	-	5.4
Value Added (Detracted)	0.2	-1.0	-0.9	-6.8	-	-	-1.9
Net Performance	-0.7	5.2	8.1	9.7	-	-	2.8

*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 31/01/17):

AUD \$49 million

Income distribution frequency:

Half yearly

Strategy FUM (as at 31/01/17):

AUD \$431 million

Team FUM (as at 31/01/17):

AUD \$7.1 billion

Trust redemption price (as at 31/01/17):

\$ 0.9965

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 eased slightly in January, with the S&P/ASX300 Accumulation Index (the Index) down 0.8%.
- ▶ Resources continued their rally (up 5.2%), while Industrials declined (down 1.9%).
- ▶ The Trust outperformed by 0.2%.

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 to reduce the magnitude of significant negative returns during sharp equity market falls.

Trust performance

The Trust fell 0.6% in January, outperforming the Index by 0.2%.

Global markets were mixed following their strong recent advances, with the S&P500 and Shanghai Composite both up 1.8%, while the FTSE100 (down 0.6%) and Nikkei 225 (down 0.4%) declined. Commodity prices diverged, with stronger metal prices seeing iron ore (up 3.0%), copper (up 8.0%) and gold (up 5.0%) all rising, while oil (down 2.0%), thermal coal (down 13.0%) and coking coal (down 26.0%) declined. The Reserve Bank of Australia (RBA) left the cash rate steady at 1.5%, while the Australian Dollar (AUD) finished the month strongly, up four cents at 76 US cents.

During January, the better performing sectors included metals & mining (up 6.8%), materials (up 4.8%) and healthcare (up 4.6%), while REITs (down 4.7%), industrials (down 4.4%), consumer discretionary (down 4.3%) and information technology (down 4.2%) lagged.

Trust holdings which performed strongly included power generation project developer Pacific Energy (up 19.3%), which rose after announcing contract wins totalling 18 megawatts of additional power generation capacity from a mixture of new existing clients. Despite its utility like earnings stream, the stock continues to trade at a discount to the market. With its defensive earnings and positive growth outlook, we expect this discount to close over time.

Resource companies Rio Tinto (up 11.3%) and BHP (up 6.3%) rallied on continued iron ore price strength, while drilling technology provider, Imdex (up 18.3%) rose on expectations of the current higher commodity prices leading to an increase in exploration activity. Mining explosives provider Orica (up 6.1%) also outperformed.

Other strong performers included Event Hospitality & Entertainment (up 7.1%), as Australian box office takings continue to be strong and Newcrest (up 6.3%) on the back of the higher gold price and delivering a positive quarterly production report. Resmed (up 4.1%) rallied after its second quarter report showed improving sales momentum following new product launches. This company is the global leader in the treatment of sleep disorder breathing, which is a large and growing market. Further, they are investing heavily to extend their competitive advantage by using technology to embed themselves with clinicians, distributors and patients.

The Trust also benefited from being underweight REITs, which underperformed on expectations of continuing increases in bond yields as well as from not holding Brambles (down 16.0%), which fell sharply after delivering a profit warning during the month. We are pleased to have avoided many of the major earnings disappointments over recent times, including Aconex, Bellamy's, Estia and Sirtex, all of which have fallen dramatically.

Stocks which detracted from performance included Henderson Group (down 10.7%), Brickworks (down 6.8%), Westfield (down 6.3%) and Caltex (down 6.0%). 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 which had performed strongly recently including ANZ, CBA, Westpac and Graincorp. Proceeds were used to increase our holdings in BHP, Rio Tinto, Woolworths and Woodside Petroleum. At month end, stock numbers were 56 and cash was 2.8%.

Outlook

While there is a high level of global uncertainty, markets have responded positively to the US election results and the prospect of this leading to more pro-growth fiscal policies as opposed to ongoing monetary easing. Should this eventuate, the Trust 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 Trust through its underweight position in the expensive defensive sectors such as healthcare and REITs and infrastructure.

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. With implied volatility so low (the cost of buying protection), we feel the overlay cost in the short term should be quite moderate.

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:



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Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	6.4	9.3
BHP Billiton Limited	5.9	5.6
National Aust. Bank	5.7	5.3
Westpac Banking Corporation	5.1	7.0
ANZ Banking Group Limited	4.3	5.7
Woolworths Limited	3.9	2.1
Woodside Petroleum	3.2	1.5
Wesfarmers Limited	3.2	3.0
Telstra Corporation	2.7	3.9
Crown Resorts Limited	2.6	0.3

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.5	4.3
Materials	16.4	17.1
Industrials	2.7	6.5
Consumer Discretionary	8.0	5.0
Consumer Staples	8.8	6.8
Health Care	2.4	6.6
Financials-x-Real Estate	35.5	37.2
Real Estate	6.8	8.3
Information Technology	1.0	1.3
Telecommunication Services	5.5	4.4
Utilities	1.9	2.6
Cash & Other	4.5	-

Rounding accounts for small +/- from 100%.