Perennial Value Wealth Defender Australian Shares Trust

Monthly Report
31 May 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*	-1.9	0.5	10.9	7.9	3.8	-	3.8
S&P/ASX 300 Accumulation Index	-2.7	1.4	13.6	10.8	6.0	-	6.0
Value Added (Detracted)	**0.8**	**-0.9**	**-2.7**	**-2.9**	**-2.2**	**-**	**-2.2**
Net Performance	-2.0	0.3	9.9	6.9	3.1	-	3.1

*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 sharply falling equity markets.

Trust manager	Dan Bosscher
Risk profile	High
Trust FUM*	AUD $51 million
Distribution frequency	Half yearly
Strategy FUM	AUD $462 million
Team FUM	AUD $6.8 billion
Trust redemption price	$1.0137
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 declined in May, with the S&P/ASX300 Accumulation Index (the Index) down 2.7%.**
- **Bank stocks sold off, while resources rose in spite of falling commodity prices.**
- **The Perennial Value Wealth Defender Australian Shares Trust (the Trust) remains well protected in the event of a major market downturn.**

Market Review

Global markets were generally stronger in May, with the S&P500 (up 1.2%), Nikkei 225 (up 2.4%) and FTSE100 (up 4.4%) rising, while the Shanghai Composite (down 1.2%) declined. Commodity prices were softer, moving back to more sustainable levels as generally expected, with oil down 3.0%, iron ore (down 17%), coking coal (down 39.0%) as cyclone supply disruptions reversed, thermal coal down 12.0% and copper down 1.0%, while gold was flat. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month down one cent at 74 US cents.

The Index fell 2.7% over the month, with the better performing sectors including industrials (up 4.7%), telecommunications (up 3.4%), energy (up 1.5%), utilities (up 1.0%) and metals & mining (up 0.9%). Financials (down 7.7%) was the worst performing sector as the bank shares were sold off, with healthcare (down 2.4%), REITs (down 1.0%), consumer staples (down 0.4%) and consumer discretionary (down 0.3%) also lagging.

Trust Review

The best performing stock in the portfolio was Melbourne IT (up 19.0%), after announcing the acquisition of WME Group, which is expected to lift earnings per share (EPS) by between 12.0% to 18.0%. EML Payments (up 18.7%), rose following a detailed quarterly update that confirmed strong growth across all divisions and continued strong cash flow. Graincorp (up 15.7%) rallied after delivering a strong H117 result on the back of last season's record east coast grain crop. The result was ahead of market expectations and the large amount of grain still in the system bodes well for the second half of the year and potentially sets them up for a strong FY18 as well. Boral (up 11.2%) rallied after hosting an investor tour of its recently acquired US operation. The combined business now generates around 40.0% of its earnings from the US, providing a good exposure to generally improving US growth. Caltex (up 10.7%) rallied after reporting another month of strong refiner margins, as well as receiving ACCC approval to complete the acquisition of a chain of service stations in Victoria.

Other strong performers included Iluka Resources (up 8.7%) after announcing price increases for its mineral sands products, Orica (up 7.5%) after reporting a positive H117 result which showed that the explosives market has stabilised. Telstra (up 4.5%), Rio Tinto (up 3.9%), NewsCorp (up 3.7%), Crown Resorts (up 3.6%) and Henderson Group (up 2.7%) also gained.

The Trust also benefited in a relative sense from its underweight position in the major banks, which declined an average of 10.0%. During the month, the banks reported lacklustre H117 results which highlighted that, while credit conditions remain benign, the revenue growth environment is becoming increasingly challenged as housing credit growth slows, regulation tightens, and measures such as the Bank Levy are imposed. We have been progressively increasing our underweight position to the banks in recent months as we have become concerned around their earnings growth outlook.

Stocks which detracted from performance included Vocus Group (down 16.3%) which continues to wrestle with the integration of recent acquisitions, Westfield (down 6.6%) with negative sentiment to the retail sector and AMP (down 5.8%).

The overlay contribution represented the cost of maintaining insurance in a market that has provided little in the way of trading opportunities and therefore slightly detracted from the portfolio during the month.

Trust Activity

During the month, we took profits and sold out of our holding in AGL Energy. This stock has been a very strong performer, delivering a total return of 45.9% over the past 12 months, with its valuation now becoming full. We also exited our holdings in Event Hospitality, and Flight Centre. Proceeds were used to add to our positions in a number of good value opportunities including BHP, Caltex, Crown Resorts, Henderson Group and Suncorp. At month end, stock numbers were 49 and cash was 5.8%.

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 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 portfolio 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.

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 %
BHP Billiton Limited	6.4	5.0
Commonwealth Bank	6.1	8.9
National Australia Bank	5.8	5.2
Westpac Banking Corporation	5.0	6.6
ANZ Banking Group Limited	4.0	5.3
Woodside Petroleum	3.6	1.5
Crown Resorts Limited	3.5	0.3
AMP Limited	3.4	1.0
Suncorp Group Limited	3.4	1.2
Telstra Corporation	3.4	3.4

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.5	4.4
Materials	16.1	16.0
Industrials	2.5	7.5
Consumer Discretionary	8.3	5.2
Consumer Staples	6.7	7.2
Health Care	0.4	7.1
Financials-x-Real Estate	37.6	36.2
Real Estate	6.8	8.8
Information Technology	1.1	1.4
Telecommunication Services	6.1	3.8
Utilities	0.9	2.4
Cash & Other	7.1	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment