

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	0.4	1.8	1.1	8.5	3.3	0.0	4.1
S&P/ASX 300 Accumulation Index	0.7	1.0	0.8	9.5	5.2	0.0	5.9
Value Added (Detracted)	-0.3	0.8	0.3	-1.0	-1.9	0.0	-1.8
Net Performance	0.3	1.5	0.9	7.5	2.5	0.0	3.3

*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 \$56 million

Distribution frequency

Half yearly

Strategy FUM

AUD \$501 million

Team FUM

AUD \$6.7 billion

Trust redemption price

\$1.0

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

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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 ASX300 Accumulation Index (the Index) rose 0.7% in August, with resources stocks up strongly.
- ▶ Reporting season was solid, with many companies flagging increased capital investment.
- ▶ The Perennial Value Wealth Defender Australian Shares Trust (the Trust) has delivered a solid total return of 8.5% over the past twelve months, while at all times, being well protected in the event of a major market downturn.

Market Review

Global markets were mixed in August, with the S&P500 up 0.1%, FTSE100 up 0.8% and Shanghai Composite up 2.7%, while the Nikkei 225 declined 1.4%. Commodity price strength continued, with iron ore up 7.0%, thermal coal 2.0%, coking coal 16.0%, gold 4.0% and copper 7.0%, while oil declined slightly by 1.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month flat at 80 US cents.

The Index was up 0.7% for the month, led by resources, with metals & mining (up 5.5%) and energy (up 5.2%) the best performers. Other positive sectors included consumer staples (5.2%), industrials (up 4.6%), materials (up 4.5%) and utilities (up 3.2%). Telecommunications (down 7.2%) was the worst performing sector, as Telstra cut its dividend, followed by financials (down 2.1%), with the major banks weaker and consumer discretionary (down 1.5%).

Trust Review

The Trust delivered a return of 0.4% for August, resulting in a solid return of 8.5% for the last twelve months, while at all times being well protected in the event of a major market downturn.

The highlight of the month was the reporting season, which saw companies report their results for the 2017 financial year. Overall the results were sound, with a key feature being very strong profit growth from the resources sector on the back of higher commodity prices and good cost control. The CBA result, as well as trading updates from the other major banks, showed modest growth, with their low bad debt charges highlighting the ongoing benign economic environment. The performance of the industrials was mixed, with many strong results but also some notable disappointments, in particular from some of the more growth-oriented companies such as Domino's Pizza (down 18.2%), Healthscope (down 16.3%), James Hardie (down 7.7%) and Ramsay Healthcare (down 3.2%). These stocks have not been held in the Trust on the basis of overvaluation.

While the outlook statements continued to be generally subdued, we were pleased to note that overall, there was a rise in capital expenditure (CAPEX) intentions, with many companies planning to lift the amount they reinvest into their businesses. In recent years, companies have returned an increasing proportion of earnings to shareholders in the form of higher dividends or buybacks. While dividends are very important, we believe that it is equally important for companies to continue to undertake measured investment to drive growth and defend their market positions. Further, increased CAPEX by business has a positive benefit across the broader economy.

The better performing stocks in the Trust included resource holdings BHP (up 5.9%) and Rio Tinto (up 5.2%), which both delivered dramatically higher profits, allowing them to increase their dividends by 177% and 144% respectively. Their strong cash flow generation is seeing these companies rapidly de-gear their balance sheets and this is

expected to lead to increasing returns to shareholders in the coming periods. Newcrest Mining (up 13.1%) rallied on the higher gold price as well as delivering a solid result.

The month also saw some very strong performances from our small cap holdings, with Kogan (up 38.7%), Imdex (up 23.3%), Fleetwood (up 18.9%), Smartgroup (up 18.8%), RPM Global (up 18.0%) and PWR Holdings (up 14.7%). Gateway Lifestyle (up 8.0%) rallied after delivering a result in line with recent guidance and highlighting its long-term development pipeline and growing annuity revenue streams. At the larger end, Clydesdale Bank (up 8.0%), rallied after delivering a positive third quarter trading update, showing its operational turnaround is progressing well. Caltex (up 7.2%) delivered a solid result, with a further cost-out program announced. Importantly, they have largely filled the expected earnings hole from the loss of the Woolworths contract. Longer-term, this company has a significant opportunity to grow earnings by developing the convenience retail offering at their extensive network of service stations. Other strong performers included Iluka Resources (up 5.7%), Amcor (up 5.0%), Janus Henderson (up 4.9%) and Star Entertainment Group (up 4.9%).

However, in what has proved to be a very frustrating month for the Trust, some of our largest overweight holdings have been unduly harshly treated on the back of what were solid profit results. For example, Crown Resorts (down 8.8%) was sold off on the back of the slowdown in the high-roller market and some softness in their Perth casino due to the weak Western Australian economy. Both of these issues were well known to the market and will likely prove transient. Suncorp (down 6.0%) and AMP (down 2.7%) also delivered a reasonable results, with earnings per share for both at 5.0%. However, both were sold off after flagging higher investment into their businesses. As discussed above, we do not view this as a negative. The Trust was also impacted by our holding in Vocus Group (down 33.8%), which fell after it ended discussions with private equity firms. We think there is considerable value in this business, however patience will be required.

The protection overlay incurred a small cost for the month, in line with expectations, and continues to provide significant protection in the event of a market fall at a reasonable cost.

Trust Activity

During the month we increased our holding Newcrest, Rio Tinto, Woodside Petroleum and Star Entertainment Group. At month end, stock numbers were 51 and cash was 3.7%.

Outlook

While growth in the domestic economy remains subdued and there remains a high level of political uncertainty, the global growth outlook appears to be incrementally improving. Should this continue, 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 which are trading on attractive valuations. This scenario 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, 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	7.4	5.7
Commonwealth Bank	7.1	8.5
National Australia Bank	5.7	5.2
Westpac Banking Corporation	4.1	6.9
ANZ Banking Group Limited	4.1	5.6
AMP Limited	3.8	1.0
Suncorp Group Limited	3.8	1.1
Woodside Petroleum	3.6	1.3
Woolworths Limited	2.9	2.2
Telstra Corporation	2.7	2.8

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.5	4.3
Materials	18.1	17.3
Industrials	1.9	7.5
Consumer Discretionary	10.0	5.1
Consumer Staples	7.0	7.4
Health Care	2.0	6.9
Financials-x-Real Estate	35.4	36.3
Real Estate	6.7	8.3
Information Technology	1.8	1.5
Telecommunication Services	5.0	3.2
Utilities	0.8	2.2
Cash & Other	4.8	-

Rounding accounts for small +/- from 100%.

Signatory of:



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