

	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Wealth Defender Australian Shares Trust*	-1.2	11.6	11.6	4.5	-	4.0
S&P/ASX 300 Accumulation Index	-1.6	13.8	13.8	6.6	-	6.0
Value Added (Detracted)	0.4	-2.2	-2.2	-2.1	-	-2.0
Net Performance	-1.4	10.6	10.6	3.8	-	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 sharply falling equity markets.

Trust manager

Dan Bosscher

Risk profile

High

Trust FUM[#]

AUD \$53 million

Income distribution frequency

Half yearly

Strategy FUM

AUD \$495 million

Team FUM

AUD \$6.9 billion

Trust redemption price

\$ 1.0199

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

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- ▶ The Trust has delivered a healthy total return of 11.6% for the 2017 financial year.
- ▶ The market eased over the June quarter, with the S&P/ASX300 Accumulation Index (the Index) down 1.6%.
- ▶ Both financials and resources declined over the quarter as banks were sold off and commodity priced fell to more sustainable levels.

Market Review

Global markets were mixed over the June quarter, with the S&P500 up 2.3% and the Nikkei 225 up 5.1%, while the FTSE100 (down 0.8%) and the Shanghai Composite (down 0.6%) eased. Commodity prices were generally softer, with oil down 9.0%, iron ore down 21.0%, thermal coal down 8.0% and coking coal down 1.0%, while copper and gold were both flat. The US Federal Reserve raised rates by 25 basis points, lifting the target range to between 1.00% and 1.25%, while the Reserve Bank of Australia, left the cash rate steady at 1.5% and the Australian Dollar rose one cent to 77 US cents.

The better performing sectors over the quarter were industrials (up 8.7%), healthcare (up 7.1%), information technology (up 5.7%), consumer discretionary (up 1.3%) and utilities (up 1.3%). Telecommunications (down 8.0%), energy (down 5.7%), consumer staples (down 5.3%), financials (down 4.4%) and REITs (down 2.5%) lagged.

Trust Review

The Perennial Value Wealth Defender Australia Shares Trust (the Trust) outperformed the Index for the quarter by 0.4%, delivering 11.6% for the financial year.

Stocks which contributed positively over the quarter included Janus Henderson Group (up 13.9%), which rallied after the completion of the merger and the transfer of its listing from the London to the New York Stock Exchange. Suncorp (up 12.2%) rose on expectations that it will benefit from rising insurance premium rates and Amcor (up 7.6%) lifted after hosting an investor tour of its US operations, highlighting the potential future consolidation opportunities in that market. Caltex (up 7.2%) rallied on the back of strong refining margins and Rio Tinto (up 4.6%) performed well, despite the falling iron ore price, as investors focussed on its very strong balance sheet and cash flow generation. The Trust also benefitted, in a relative sense, from its underweight positions in both the major banks, which declined by an average of 9.4%, and the REIT sector, which we consider to be poor value and sensitive to any rises in bond yields.

Stocks which detracted from performance included Vocus Group (down 22.0%), which downgraded earnings due to issues integrating recent acquisitions before being subject to a takeover bid from private equity firm, KKR. In our view, while the company's recent performance has been disappointing, the offer clearly demonstrates the latent value which the market is not currently recognising. Westfield (down 9.6%) fell as the retail environment became tougher and Newcrest (down 9.5%) and Woodside Petroleum (down 6.9%) declined on weaker gold and oil prices respectively.

The cost of carrying protection for the quarter was within our expectations. While volatility was low in April and May, in June, there was finally a little bit of intra-month volatility which provided trading opportunities for the overlay portfolio.

[#]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.

Trust Activity

During the quarter, we took profits and reduced our holdings in a number of stocks which had performed strongly over recent months, including Crown Resorts and Graincorp and exited our positions in Resmed and Event Hospitality & Entertainment. Proceeds were used to increase our positions in a number of stocks where we see very good medium-term value, including AMP, BHP, Caltex and Suncorp. At quarter end, stock numbers were 50 and cash was 5.5%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG matters. We were pleased to learn that Lendlease, as contractor on Adelaide's Northern Connector project, has significantly exceeded its targets in terms of providing employment opportunities on the project for local people with barriers to employment, displaced automotive workers and Aboriginal and Torres Strait Islanders. They are also providing significant training to qualify people in civil construction. This further reinforces our positive view of the company as a high quality business.

Outlook

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 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 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.

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	6.5	4.8
Commonwealth Bank.	6.3	9.3
National Australia Bank	5.7	5.1
Westpac Banking Corporation	5.0	6.6
ANZ Banking Group Limited	4.1	5.4
Suncorp Group Limited	3.6	1.2
AMP Limited	3.5	1.0
Woodside Petroleum	3.3	1.4
Telstra Corporation	3.2	3.3
Macquarie Group Limited	3.1	1.9

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.1	4.1
Materials	16.3	16.0
Industrials	2.7	7.4
Consumer Discretionary	8.9	5.2
Consumer Staples	6.2	7.1
Health Care	1.1	7.5
Financials-x-Real Estate	37.5	36.9
Real Estate	6.6	8.3
Information Technology	1.0	1.5
Telecommunication Services	6.2	3.8
Utilities	0.9	2.3
Cash & Other	6.6	-

Rounding accounts for small +/- from 100%.

Signatory of:



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