

	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	0.4	7.3	4.4	-	3.7
S&P/ASX 300 Accumulation Index	0.8	0.8	9.0	7.1	-	5.7
Value Added (Detracted)	-0.4	-0.4	-1.7	-2.7	-	-2.0
Net Performance	0.1	0.1	6.3	3.7	-	3.0

*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 \$57 million

Distribution frequency

Half yearly

Strategy FUM

AUD \$479 million

Team FUM

AUD \$5.2 billion

Trust redemption price

\$1.0187

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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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 S&P/ASX300 Accumulation Index (the Index) rose over the September quarter by 0.8%, to deliver a total return of 9.0% over the last twelve months.
- ▶ Resources rallied strongly on the back of higher commodity prices, while industrials eased as defensive sectors underperformed.
- ▶ The highlight of the quarter was the August reporting season, which saw overall market earnings and dividend growth.

Market Review

Global markets were stronger over the September quarter, with the S&P500 up 4.1%, Nikkei 225 up 0.7%, FTSE100 up 0.3% and the Shanghai Composite up 5.0%. Commodity prices were generally stronger, with oil up 20.0%, thermal coal up 23.0%, coking coal up 27.0%, copper up 9.0% and gold up 4.0%. Iron ore was the exception, declining down3%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar rose 2 cents to 79 US cents.

The better performing sectors over the quarter were metals & mining (up 8.9%), energy (up 5.7%), materials (up 5.3%) and consumer staples (up 3.2%). Telecommunications (down 16.5%) was the worst performing sector, with utilities (down 7.7%), healthcare (down 7.5%), consumer discretionary (down 4.2%), industrials (down 1.5%), financials (down 1.2%), REITs (down 1.0%) and information technology (down 0.4%) also lagging.

Trust Review

The Perennial Value Wealth Defender Australian Shares Trust (the Trust) delivered a total return of 0.4% for the September quarter, underperforming the Index by 0.4%. For the twelve months to September, the Trust has delivered a total return of 7.3%, while being well protected in the event of a sharp market fall.

The highlight of the quarter was the August reporting season. 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 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, Healthscope and James Hardie. These stocks have not been held in the portfolio 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.

Stocks which contributed positively over the quarter included Lendlease (up 9.8%), as investors came to appreciate the value on offer in the stock, which is trading at a significant discount to the market. In our view, the market has placed far too much emphasis on its Australian apartment developments, relative to its investment management, global urban regeneration and infrastructure businesses. Clydesdale Bank (up 9.1%) rallied after delivering a strong trading update and on the prospect of interest rate increases in the UK which would lift its margins. Resource stocks outperformed on stronger commodity prices, with BHP (up 13.8%), Rio Tinto (up 8.3%) and Newcrest Mining (up 4.8%) all rising. Other strong performers included Star Entertainment (up 6.2%), Caltex (up 4.3%) and Macquarie Group (up 2.7%).

Stocks which detracted from performance included Vocus Group (down 29.1%), which fell as the two private equity bidders withdrew. This has been a frustrating investment, however, there is significant latent value in the network assets of this business and patience will be required to see this realised. Telstra (down 13.8%), also declined after lowering its future dividend payout policy as it reinvests to compete in the market. Agricultural stock Graincorp (down 13.8%) declined on weaker seasonal conditions and financials, Suncorp (down 8.1%) and AMP (down 3.2%) also underperformed.

Protection costs for July and August were very low as implied volatility remained fairly stable, before rising in September. Overall, the cost of protection is relatively low, with the rolling 12 month cost tracking down towards our long-term target after being elevated in financial year 2017.

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 Janus Henderson and Macquarie Group and exited positions in Amcor and Iluka Resources. Proceeds were used to establish positions in a number of companies including Star Entertainment and Tabcorp, both stocks which we see as being relatively defensive but also having company-specific upside drivers. We also increased our holdings in Commonwealth Bank, Rio Tinto and Woodside Petroleum. At quarter end, stock numbers were 50 and cash was 6.9%.

Environmental, Social and Corporate Governance (ESG)

Perennial Value remains alert and active in ESG matters. During the quarter, it became a signatory to the United Nations Principles for Responsible Investment's statement welcoming an inquiry into establishing a Modern Slavery Act in Australia. The Act would improve transparency on how companies operating in Australia are managing modern slavery risks in their operations and supply chains.

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 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 real estate investment trusts and infrastructure.

Top 10 Holdings

Stock name	Trust weight %	Index weight %
Commonwealth Bank	7.6	8.5
BHP Billiton Limited	6.5	5.4
National Australia Bank	5.8	5.5
Westpac Banking Corporation	4.6	7.0
Suncorp Group Limited	3.7	1.1
Woodside Petroleum	3.6	1.4
AMP Limited	3.6	0.9
ANZ Banking Group Limited	3.5	5.6
Telstra Corporation	3.1	2.7
Caltex Australia	3.0	0.5

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	6.8	4.4
Materials	11.8	16.9
Industrials	1.0	7.5
Consumer Discretionary	10.8	5.0
Consumer Staples	7.2	7.2
Health Care	2.3	7.0
Financials-x-Real Estate	36.0	36.7
Real Estate	8.2	8.4
Information Technology	2.2	1.6
Telecommunication Services	5.6	3.1
Utilities	0.7	2.1
Cash & Other	7.3	-

Rounding accounts for small +/- from 100%.

The portfolio continues to exhibit Perennial Value's true to label value characteristics, with the portfolio 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..

Signatory of:



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