

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Wealth Defender Australian Shares Trust*	0.8	-2.0	5.7	6.6	2.2	-	4.5
S&P/ASX300 Accumulation Index	1.2	1.1	9.7	10.0	6.1	-	7.0
<b>Value Added (Detracted)</b>	<b>-0.4</b>	<b>-3.1</b>	<b>-4.0</b>	<b>-3.4</b>	<b>-3.8</b>	<b>-</b>	<b>-2.5</b>
Net Performance	0.7	-2.2	4.9	5.5	1.4	-	3.7

\*Gross Performance. ^Since inception: May 2014. Past performance is not a reliable indicator of future performance.

## Overview

- Increased political uncertainty was a key feature of the month, with the market dealing with a number of concerns including the ongoing US-China trade dispute, tensions over Korea and Iran and then finally the sell-off triggered by the Italian political issues.
- Despite this, the Australian market finished the month up 1.2%, bringing the total return for the last 12 months to 10.0%.
- Offshore markets which were also generally stronger, with the S&P500 up 2.2%, FTSE100 up 2.2%, Shanghai Composite up 0.4% while the Nikkei 225 declined -1.2%.

## Perennial Value Wealth Defender Australian Shares Trust

The Trust aims to outperform the S&P/ASX300 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.

Portfolio Manager	Trust FUM
Dan Bosscher	AUD \$62 million
Distribution Frequency	Minimum Initial Investment
Half yearly	\$25,000
Trust Inception Date	Fees
May 2014	0.98% + Perf fee
APIR Code	Trust Redemption Price
IOF0228AU	\$1.0477

Portfolio Characteristics – FY19	Trust	Market
Price to Earnings (x)	13.7	15.3
Price to Free Cash Flow (x)	12.7	15.4
Gross Yield (%)	6.3	5.9
Price to NTA (x)	2.0	2.3

Source: Perennial Value Management. As at 31 May 2018.

The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

## Protection Portfolio Outcomes

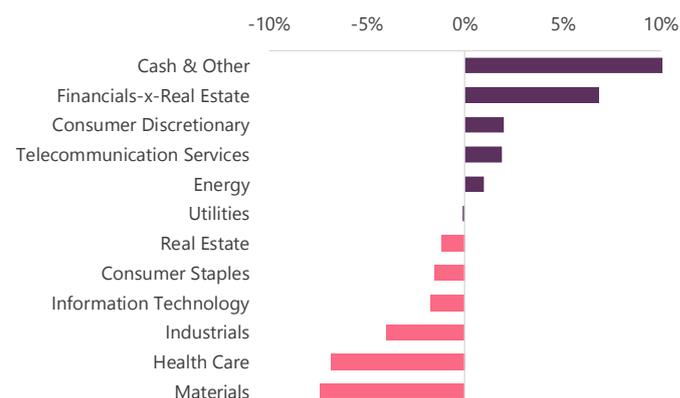
	Index Return (%)	Protection Return (%)	Proportion of Market Fall Saved
August 2015 China Market Turbulence	-7.7	2.7	35.0
January 2016 Continued China Fears	-5.5	1.6	30.0

- Very good month in the protection portfolio this month with a cost neutral outcome in a strong market.
- One year protection cost of 1.5% in a +10.0% market, implying 85.0% upside participation.

## Top 5 Over / Underweight Positions vs Index



## Sector Active Exposure vs Index



## Trust Review

Many of the Trust's small cap holdings performed very strongly over the month, including US-based fund manager Navigator Global Investments (+19.8%), which rallied strongly after providing details of a highly-complimentary acquisition which is expected to provide significant earnings growth over coming years. Other small cap holdings which delivered strong performances included Seven West Media (+47.7%) after re-confirming its earnings guidance, communications services company Codan (+19.0%), medical imaging operator Integral Diagnostics (+18.7%), lithium miner Galaxy Resources (+14.1%) and copper and gold miner Doray Minerals (+13.8%). Macquarie Group (+8.1%) performed strongly after delivering a solid FY18 profit result which saw earnings up 15.0% and dividends up 12.0%. In our view, this business has numerous growth drivers and is particularly well-placed to benefit from the global growth in renewable energy investment. BHP (+5.9%), rose on the back of the higher oil price and Nufarm (+4.1%) continued its strong performance over recent months. Other stocks which outperformed included Amcor (+2.4%) and Woolworth (+2.2%).

Stocks which detracted from performance included Telstra (-11.9%) which fell after indicating that it expects full-year profits to be at the lower end of its previous range and Graincorp (-10.1%) which declined on concerns over the current seasonal outlook. Fleetwood (-10.1%) and Gateway Lifestyle (-9.5%) were also sold off after lowering earning guidance.

The protection portfolio was flat for the month largely due to positions having taken much of their markdown in the two months previously. Volatility conditions remain benign with implied volatility at average levels. The market however is exhibiting very low levels of volatility. This means there is not a lot of value to be extracted from the option positions themselves, over and above the obvious benefit of the protection they will add in a sharp fall.

## Market Review – Australia (%)

S&P/ASX300 Accumulation Index	+1.2
Energy	+0.4
Materials	+2.0
Industrials	+1.2
Consumer Discretionary	+5.3
Health Care	+5.5
Financials-x-Real Estate	-0.1
Real Estate	+3.0
Information Technology	+2.0
Telecommunication Services	-10.1
Utilities	+1.0

**Invest Online Now**

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## Trust Activity

During the month we sold our holding in Westfield Corp ahead of the takeover completing. We also took profits and reduced our holding in BHP and exited our holding in AMP given the high level of uncertainty around the business. Proceeds were used to increase our holdings in QBE Insurance and the major banks. At month end, stock numbers were 47 and cash was 10.7%.

## Outlook

While the level of volatility in markets is likely to increase going forward, driven by factors such as ongoing trade policy uncertainty and the recent developments in Italy, the global economic backdrop continues to be positive, with all major regions delivering improved growth. While the domestic economy has been subdued, recent data is increasingly positive. 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 and REITs and infrastructure.

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.**

## Global, Currency & Commodities (%)

S&P500	+2.2
Nikkei225	-1.2
FTSE100	+2.2
Shanghai Composite	+0.4
RBA Cash Rate	1.50
AUD / USD	+0.2
Iron Ore	-2.3
Oil	+2.3
Gold	-1.3
Copper	-0.3