Perennial Value Wealth Defender Australian Shares Trust

MONTHLY REPORT MARCH 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Wealth Defender Australian Shares Trust (Net)	-17.1	-19.7	-17.2	-9.9	-1.8	-1.0	1.0
S&P/ASX300 Accumulation Index	-20.8	-23.4	-20.9	-14.5	-0.6	1.4	3.1
Value Added	**3.7**	**3.7**	**3.7**	**4.6**	**-1.2**	**-2.4**	**-2.1**

Since inception: May 2014. Past performance is not a reliable indicator of future performance.

Overview

The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%, bringing the market's total decline since its February high to -28.6%.

The standout performer this month was the Overlay which contributed 662bps to performance. This represents a saving of 32% of the markets fall for the month (or 37% including our cash holding). From the peak of the market on February 20 to the trough on 23 March, the overlay had contributed 1440bps, a saving of 40%. This is a great result not only saving capital but hopefully reducing the behavioural bias that sells out at market lows.

In what was a very tough month for Value style investing globally, the stock portfolio delivered a return of -23.7%, underperforming the market. Many of our holdings were sold down sharply to very low levels, despite continuing to have strong medium-term prospects.

We have a high degree of confidence in the stocks we hold and expect positive alpha contribution going forward.

Down Market Outcomes

	Index Return (%)	Protection Portfolio Return (%)	Proportion of Market Fall Saved (%)
Corona 2020 – peak to trough*	-36.2	14.4	40
October 2018 Trade war sell-off	-6.2	2.4	39
August 2015 China Market Turbulence	-7.7	3.0	39

- For the rolling 1 year the overlay has made 8% while the market is down 14.5%, or a 55% saving.
- The Trust currently carries moderate levels of protection.

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 Trust through market cycles, thereby reducing the magnitude of significant negative returns in sharply falling equity markets.

Portfolio Manager
Dan Bosscher

Trust FUM
AUD $30 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2014

Fees
0.98% p.a. + Performance fee

APIR Code
IOF0228AU

Trust Redemption Price
$1.0902

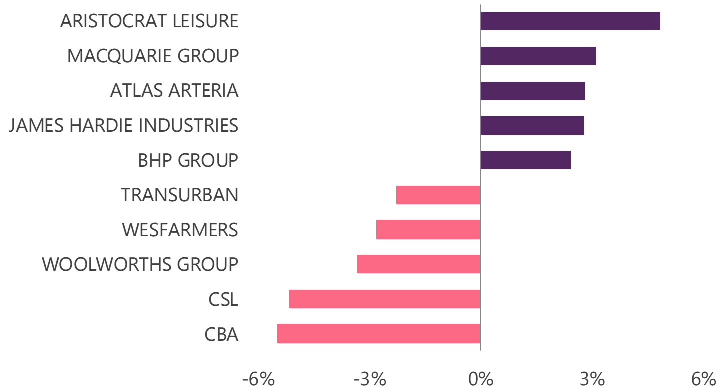
Portfolio Characteristics – FY20	Trust	Index
Price to Earnings (x)	12.4	14.3
Price to Free Cash Flow (x)	11.8	13.3
Gross Yield (%)	6.4	6.2
Price to NTA (x)	1.5	1.9

Source: Perennial Value Management. As at 31 March 2020

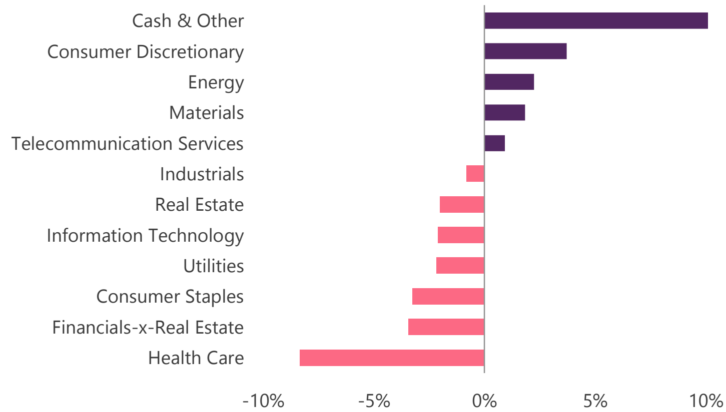
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

*Peak to trough 20/02/20 – 23/03/20

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

The escalating coronavirus crisis saw markets fall sharply in March, with the ASX300 Accumulation Index declining -20.8%, as investors factored in the impact of a very sharp, but potentially short, disruption to the global economy.

All other sectors delivered negative returns, with many large companies experiencing share price falls of up to -50% in what appeared, in many cases, to be panic selling.

This panic selling was felt across the portfolio, as many of our key holdings were sold down sharply to very low levels, despite continuing to have very strong medium-term prospects. As a result, the share component of the Trust delivered a disappointing return offsetting the substantial saving delivered by the overlay.

Examples of stocks caught up in this selling included Macquarie Group (-36.4%) and Aristocrat Leisure (-35.5%). While near-term earnings will be impacted, both of these companies will emerge from this disruption in even stronger positions. Macquarie has shown an unwavering ability to seize the opportunities presented in a crisis and will no doubt use this to acquire assets and businesses at prices which will deliver outstanding profits for years to come. Similarly, Aristocrat has been gaining market share from competitors by investing heavily in new product development. This advantage will only grow stronger as Aristocrat has a very strong balance sheet and will easily weather the downturn; its key competitors are struggling under mountains of debt and this will curtail their ability to invest and compete going forward.

The Trust benefited from its overweight position in the Metals and Mining sector, which outperformed on the resilience of the iron ore price, with Rio Tinto (+0.9%) and BHP (-10.8%) both holding up well. The iron ore miners are well-placed going forward, with their strong balance sheets and the expectation of Chinese stimulus measures.

By contrast, the Energy sector (-37.9%) fell, as oil prices collapsed due to a decline in demand compounded by the Saudi-Russia price war. This impacted the Trust, which is overweight the sector, with holdings in Woodside Petroleum (-34.8%) and Origin Energy (-35.1%). Oil is currently trading at unsustainably low levels and will likely rise at some point over the coming months. In the meantime, we remain comfortable with our holdings on account of their strong balance sheets and low production costs. Engineering company Worley (-50.9%) was caught up in this selloff, despite the fact that only 20% of its earnings are related to upstream oil and gas. Importantly, the company has a highly flexible cost base and a very strong liquidity position. We see very significant upside from these levels in all of these stocks.

The Trust was also impacted by its valuation-driven underweight to the Healthcare sector, with CSL (+1.5%) outperforming and now having a market cap greater than CBA (albeit based on a sky-high multiple of 40x current year earnings).

Trust Activity

We have been very active in March.

Through the month we added Goodman Group and Charter Hall WALE REIT. We believe these companies are good additions to the portfolio in a world with persistently low interest rates. Goodman Group adds a REIT exposure with exposure to Industrial property which will continue to benefit from logistic facilities demand. Charter Hall WALE REIT adds long term lease income to shareholders.

We have taken the opportunity to add to our highest conviction calls. Purchases were made in Aristocrat, James Hardie and BHP Group. To fund this we increase our underweight in CBA and take profits in Telstra.

In the protection portfolio we were also very active. This involved rolling positions out to later months, and also monetising profits, whilst still maintaining some protection for the future.

Outlook

The fall in March brings the market's total decline since its February high to -28.6%, making it one of the sharpest selloffs on record. While the slowing of activity means that forecasting near term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored into share prices.

It was a very tough month for Value style investing globally. However there is precedent for Value outperforming after major sell-offs including the tech wreck of 2000 and the GFC where Value outperformed substantially after March 2009.

So, whilst we were disappointed with the stock component of the return we feel confident that our holdings will rebound very sharply and overall we will have a strong long run performance.

Importantly we were very happy with the protection portfolio.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. Australia's relatively low levels of infection and recent move to more stringent isolation measures sees us well-placed versus other parts of the world to weather this storm.

The Trust continued to exhibit Perennial Value's true to label value characteristics with the Trust offering better value than the overall market on three of our four valuation characteristics: price to earnings, price to free cash flow and gross yield.

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.

Invest Online Now

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PRI Principles for Responsible Investment