

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Wealth Defender Australian Shares Trust	-1.0	0.8	0.0	30.4	9.9	8.6	6.1
S&P/ASX 300 Accumulation Index	0.1	0.8	1.9	28.6	12.3	11.0	8.4
Value Added	-1.1	0.0	-1.9	1.8	-2.4	-2.4	-2.3

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

Overview

Global markets were generally positive in October, led by the S&P500, which rallied +6.7%, on the back of a strong US earnings season. The US economy continues to recover well despite rising inflationary pressures and supply chain disruptions. Importantly, labour market conditions remain very robust.

The Australian market inched higher in October, with the ASX300 Accumulation finishing up +0.1%. The market was weighted down by the miners, which lagged as the iron ore price declined. In addition some of the more interest rate sensitive names suffered as bond yields rose sharply on the back of higher inflation readings.

The AGM season got underway during the month, with companies overall making positive comments regarding improving operating conditions as the NSW economy progressively reopened.

The ongoing reopening of the economy and borders is set to see activity recover strongly and we expect to see the domestic economy bounce back quickly, as it did following previous lockdowns, with low interest rates supporting growth and the labour market remaining very strong.

Fund Characteristics

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	Trust FUM
Dan Bosscher	AUD \$18 million
Distribution Frequency	Minimum Initial Investment
Half yearly	\$25,000
Trust Inception Date	Fees
May 2014	0.70% p.a.

APIR Code

IOF0228AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	13.9	17.1
Price to Free Cash Flow (x)	12.0	15.7
Gross Yield (%)	5.6	4.8
Price to NTA (x)	2.1	3.0

Source: Perennial Value Management. As at 31 October 2021

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.

Down Market Outcomes

	Index Return (%)	Protection Portfolio Return (%)	Proportion of Market Fall Saved (%)
Covid 19 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

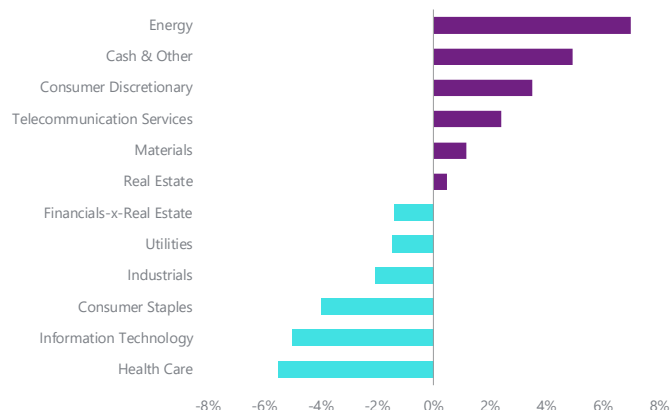
* Since inception, the overlay has cost 1.4% while the market is up 8.9%, in line with expectations.

The Trust currently carries moderate levels of protection.

Top 10 Positions (A -> Z)

Aristocrat Leisure
ANZ
BHP
Insurance Australia Group
Macquarie Group
NAB
Newcrest Mining
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

Resources were again a key area of interest in October, with the flat performance of the Metals & Mining sector (-0.1%) belying a marked divergence between the performances of stocks exposed to iron ore versus other metals. The slowing of the Chinese property sector, combined with other restrictions on steel-making capacity has seen demand for iron ore continue to fall, with the price down nearly 50% from its June peak. This saw the iron ore miners sold off, with BHP (-2.7%), Rio Tinto (-9.0%) and Fortescue Metals (-6.9%) all underperforming over the month. The Trust does own BHP but has no holding in RIO or Fortescue.

By contrast, base metal prices rallied strongly during the month, with rises in copper, nickel and zinc. This saw strong share price performances from our holding in copper stock Oz Minerals (+11.6%). During the month, South32 (+1.1%) announced the acquisition of a 45% stake in the Sierra Gorda copper mine in Chile, adding copper to its suite of base metal exposures. The long-term outlook for copper is positive, with demand expected to grow strongly on the back of the energy transition, while supply is likely to remain constrained. Continued strength in the price of lithium, a key component of batteries, saw Independence Group (+8.6%) also outperform. This company is very well exposed to the coming investment in electrification, producing a range of "new energy" metals including copper, lithium, cobalt and nickel.

During the month, Macquarie Group (+8.7%) reported a record first half profit of just over \$2.0bn. Macquarie is currently experiencing very favourable operating conditions, with buoyant markets supporting high levels of M&A activity and strong gains from the sale of assets – both within their managed funds and from their own balance sheet. The high levels of volatility in commodity prices, particularly in the energy sector is also benefitting their large commodities trading operation. On a longer-term view, Macquarie is very well placed to benefit from the energy transition as a result of its established position as a global leader in the financing and development of renewable energy assets and other infrastructure related to the energy sector.

Our holding in gold miner Newcrest Mining (+9.9%) rallied on the prospects of higher inflation, which is typically positive for the gold price and gold equities. Newcrest has high quality gold exposures and, while our overall view on the economic outlook is positive, we also like the protection that these stocks can give in times of elevated uncertainty.

Star entertainment (-18.1%) was the key detractor in the Trust over the period. The regulatory issues in the casino sector are well-known and the resulting reforms stemming from the multiple government reviews will likely materially improve compliance within the industry. There was strong reason to believe that Star would be a beneficiary of this process, including potentially merging with Crown. However, claims of similar issues at Star as had occurred at Crown, mean that the business will be effectively hamstrung for a period of time as these matters are investigated. This was very disappointing, as Star was widely considered to have been much better managed than Crown. As a result, we decided to exit the stock.

Trust Activity

During the month we exited our holding in Star and Scentre Group. These funds were used to participate in the raising for Aristocrat who are in the process of purchasing Playtech to help in its rollout into the real money gaming space.

Outlook

We continue to believe that 2021 may well mark a significant turning point for the global economy and markets, with the accelerating rollout of effective COVID vaccines underpinning the reopening of economies and a return to global growth. Importantly also, the change of leadership in the US should herald greater government spending to drive higher growth, which will flow through to corporate earnings.

Domestically, the end of the COVID lockdowns and reopening of borders is set to see activity pick up and we would expect the economy to bounce back strongly, just as it did following previous lockdowns. Importantly, key indicators around employment, business confidence and the property market are all surprising to the upside. While there are some concerns around supply chain issues and inflationary pressures, the economy is underpinned by historically low interest rates and meaningful fiscal stimulus. If this improvement continues, then corporate earnings and dividends are likely to continue to grow over the coming year.

We carry a moderate level of protection.


As always, we will continue to carry a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

Global, Currency & Commodities (%)

S&P 500	+6.7
Nikkei 225	-1.9
FTSE 100	+2.1
Shanghai Composite	-0.6
RBA Cash Rate	0.10
AUD / USD	75.1c
Iron Ore	-8.3
Oil	+3.3
Gold	-2.4
Copper	+2.7

Invest Online Now

Contact us

 Level 27, 88 Phillip Street
Sydney NSW 2000

 1300 730 032

 invest@perennial.net.au

 www.perennial.net.au

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