Perennial Value Wealth Defender Australian Shares Trust

Monthly Report December 2021

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Wealth Defender Australian Shares Trust	2.6	-1.9	-1.0	15.0	11.6	7.2	5.8
S&P/ASX 300 Accumulation Index	2.7	2.2	4.0	17.5	14.0	9.9	8.5
Value Added	**-0.1**	**-4.1**	**-5.0**	**-2.5**	**-2.4**	**-2.7**	**-2.7**

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

Overview

Markets rallied in December, with most major global indices rising strongly. This was despite the rapid spread of the Omicron COVID variant, as early indications are that vaccination provides effective protection against serious disease, suggesting that the economic recovery is unlikely to be derailed.

The Australian market was also strong in December, with the ASX300 Accumulation Index finishing the month +2.7%. This brought the total return for the 12 months to a healthy +17.5%, with all sectors delivering positive returns.

The resources sector was the standout over the month, on the back of broad-based commodity price strength. Importantly, the iron ore price has begun to recover and there are signs that the Chinese are beginning to take steps to support their property market.

Rising inflation expectations and increasingly hawkish commentary from the US Federal Reserve saw bond yields rise. This was positive for financials, with the banks performing well, while presenting a headwind for the more expensive parts of the market such as the Tech sector. This may well be a feature of the year ahead.

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
Dan Bosscher

Trust FUM
AUD $17 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
May 2014

Fees
0.70% p.a.

APIR Code
IOF0228AU

Portfolio Characteristics – FY22	Trust	Market
Price to Earnings (x)	12.6	17.0
Price to Free Cash Flow (x)	10.0	15.5
Gross Yield (%)	6.0	4.8
Price to NTA (x)	2.3	3.0

Source: Perennial Value Management. As at 31 December 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

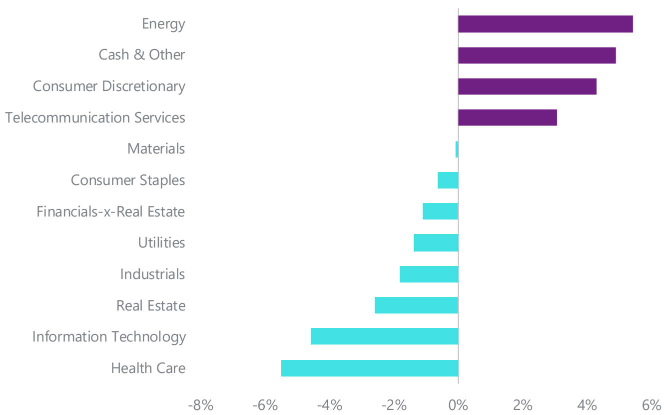
	Index Return (%)	Protection Portfolio Return (%)	Proportion of Market Fall Saved (%)
Covid 19 2020 – peak to trough*	-36.2	14.4	40
October 2018 Trade war sell-off	-6.2	2.4	39
August 2015 China Market Turbulence	-7.7	3.0	39

* Since inception, the overlay has cost 1.4% while the market is up 8.3%, in line with expectations.

The Trust currently carries moderate levels of protection.

Top 10 Positions (A → Z)
Aristocrat Leisure
ANZ
BHP
Bluescope Steel
Macquarie Group
Metcash
Newcrest Mining
Telstra
Westpac
Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Resources sector was again the standout in December, with broad-based commodity price strength driving rallies across the sector. Having fallen sharply over the past 6 months, the iron ore price has now begun to recover, with the Chinese beginning to take steps to support their property market. This saw the prices of the iron ore miners rally, with our preferred exposure, BHP (+5.4%) outperforming over the month.

We see significant upside in BHP, which is currently delivering strong operational performance and is leveraged to an expected upturn in the iron ore price. The company is trading on a very attractive valuation and has a de-geared balance sheet. Further, the demerger of its energy assets into Woodside Petroleum, is likely to be a positive catalyst as it significantly decarbonises the company's asset portfolio and allows it to focus on future-facing commodities to participate in the energy transition. Finally, the collapsing of the DLC structure is also likely to be a positive for the stock.

Medical diagnostics company, Healius (+9.3%), outperformed, driven by the enormous volumes of COVID tests they are currently performing. While this will (hopefully) be a short-lived benefit, the cash they are generating can be used to fund acquisitions. For example, during the month, the company announced the acquisition of a niche pathology business, specialising in performing tests for clinical trials. This is a high growth, high margin business and is complementary to their core pathology operations.

Also in the materials space, Bluescope Steel (+5.7%), outperformed over the month. While subject to a high degree of cyclicality, operating conditions remain very favourable and the stock is trading on an extremely cheap valuation, with a debt-free balance sheet. Not only do we believe that that the current demand outlook for commodities is positive, but historically, commodities have performed strongly in more inflationary periods, such as we are currently experiencing. Similarly, gold can be expected to outperform in such an environment, with Newcrest (+3.6%) also outperforming over the month.

Metcash (+13.1%) rallied after delivering a strong first half result, with particularly pleasing growth from their Hardware operations. This stock, which was added to the portfolio last month, is well placed to benefit from increased at home eating and local shopping as a result of the recent COVID resurgence.

Finally, the Trust benefitted from not holding a number of expensive growth stocks which underperformed over the month including Afterpay (-23.7%).

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Trust Activity

During the month we added to our positions in Tabcorp and Bluescope. In the case of Tabcorp, we see significant value to be realised post the demerger of the lotteries and wagering divisions, while Bluescope represents compelling value, trading at less than 3x forecast current year EBITDA. At month end, stock numbers were 35 and cash was 4.0%.

Outlook

Looking ahead to 2022, assuming that vaccines prove to be effective against the Omicron COVID variant, we see the outlook as positive, with ongoing economic recovery, underpinned by relatively low interest rates and continuing stimulus measures. Further, we look forward to the return to a more "normal" economic environment, as tapering and rate rises start to see the distortions caused by extremely low interest rates and unconventional monetary policy abate.

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. Key economic indicators continue to be strong and while there are some concerns around supply chain issues and inflationary pressures, both corporates and consumers are in good shape. 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	+4.4
Nikkei 225	+3.5
FTSE 100	+4.6
Shanghai Composite	+2.1
RBA Cash Rate	0.10
AUD / USD	72.7c
Iron Ore	+13.9
Oil	+8.2
Gold	+1.2
Copper	+2.3

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