

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Wealth Defender Australian Shares Trust	-3.1	-4.0	-4.0	10.4	10.0	6.6	5.3
S&P/ASX 300 Accumulation Index	-6.5	-4.5	-2.7	9.6	10.1	8.6	7.5
Value Added	3.4	0.5	-1.3	0.8	-0.1	-2.0	-2.2

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

Overview

Global markets were weaker in January, as the comments by the US Federal Reserve were interpreted as suggesting that monetary tightening may be earlier and more aggressive than had previously been expected.

The looming end of “free money” and the “Fed put”, saw a sell-off in the more expensive parts of the market. The Tech sector was hit particularly hard, with the NASDAQ down some -9% for the month.

The Australian market was also down in January, with the ASX300 Accumulation finishing the month down -6.5%. The Index was cushioned to some extent by very strong performances from the Resources and Energy sectors, driven by rallies in the iron ore and oil prices.

The Trust outperformed the market by +3.4%, as the prospect of rising interest rates saw a strong rotation into the better value parts of the market where we typically invest.

Given the historically low level of current interest rates and the extreme levels of valuation dispersion in the market, this rotation may have a long way to run.

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 \$16.5 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)	12.1	15.9
Price to Free Cash Flow (x)	9.6	14.6
Gross Yield (%)	6.3	5.1
Price to NTA (x)	2.2	2.8

Source: Perennial Value Management. As at 31 January 2022

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 1.3% while the market is up 7.5%, in line with expectations.

The Trust currently carries moderate levels of protection.

Top 10 Positions (A → Z)

Aristocrat Leisure

ANZ

BHP

Charter Hall

Insurance Australia Group

Macquarie Group

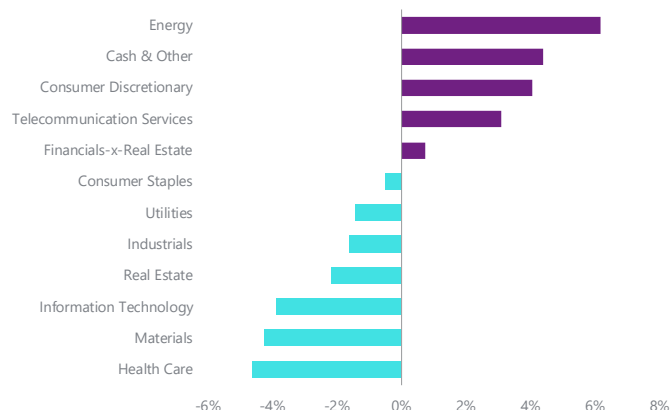
NAB

Telstra

Westpac

Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The strong run global markets had been experiencing came to an abrupt end in January, as investors began to factor in the prospect of interest rate hikes and the end of bond buying by the Fed. This had been expected for some time, given the strength of the post-COVID economy and the high level of inflation, however, the tone of commentary from the Fed was more hawkish than some had hoped. The result was a sharp sell-off in those parts of the market most lacking in valuation support. In particular, expensive growth and loss-making tech stocks were hit very hard. By contrast, the better value parts of the market tended to outperform.

Within the Australian market, commodities were again the standout in January, with the Energy (+7.5%) and Metals and Mining (+1.6%) sectors outperforming strongly. While over the long-term, the demand for oil and gas will decline as it is replaced by renewables, in the short-term, it is indispensable. The rebound in demand post-COVID, combined with a period of underinvestment has seen prices rising very strongly, with Brent crude finishing the month at over US\$90 per barrel – the highest level since 2014. Gas prices have been similarly strong, exacerbated by the tensions in Ukraine. This saw a very strong performances from Woodside Petroleum (+14.3%).

Moves by the Chinese government to stimulate their economy and support their property market have seen a strong rally in the iron ore price, which finished the month at over US\$140 per tonne. At these levels, the iron ore miners are generating huge amounts of cash. Given their already de-gearred balance sheets, this can be returned to shareholders or used to fund growth projects. This saw good outperformance by the bulks miners, with BHP (+11.7%) very strong. During the month, BHP also completed the collapse of its dual listing structure, converting all of its shares into one class. This resulted in its index weighting in Australia increasing by around 60%, making it the largest stock on the ASX.

Insurance stocks IAG (-0.5%) also outperformed, with continuing strength in premium rates, combined with the benefits they will receive from higher interest rates on earnings from their investment portfolios. We believe that the insurance sector is trading on an attractive valuation and offers significant upside at present.

The Trust also benefited from not holding a number of expensive stocks which de-rated sharply over the month including, Xero (-20.2%), Wisetech Global (-22.7%) and Altium (-21.0%). Given the still elevated valuations of many of these types of stocks, we believe they still have considerable downside risks.

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Trust Activity

Portfolio activity was limited in the month as we feel the value rotation has more to go and therefore wish to stay with our current portfolio of stocks.

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.

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	-5.3
Nikkei 225	-6.2
FTSE 100	+1.1
Shanghai Composite	-7.6
RBA Cash Rate	0.1
AUD / USD	70.5c
Iron Ore	+15.9
Oil	+17.3
Gold	-1.8
Copper	-3.1

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Signatory of:

 PRI Principles for Responsible Investment

 Significant Investor Visa (SIV) Compliant

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