

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Perennial Value Wealth Defender Australian Shares Trust	3.7	3.1	-0.5	9.5	9.2	7.1	5.7
S&P/ASX 300 Accumulation Index	2.1	-2.0	-0.7	10.2	8.7	8.6	7.7
Value Added	1.6	5.1	0.2	-0.7	0.5	-1.5	-2.0

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

Overview

Just when you thought it was safe to go back into the water... Having largely recovered from the impacts of COVID and seemingly digested the prospects of the end of "free money" as the rate cycle turns, the market is now confronted with the Russian invasion of Ukraine. While geopolitical tensions generally have been escalating over recent years, the focus has principally been around China/Taiwan, with a medium-term time frame. By contrast, the implications of the sudden and largely unexpected outbreak of a major war in Europe, involving a nuclear power, are not something that the market has given much thought to, until now.

The immediate effect of the month's events was to see global markets weaker, with the S&P500 -3.1%, the NASDAQ -3.4% and the Nikkei 225 -1.8%. However, a strong rally in commodities saw the Australian market rally, with the ASX300 Accumulation Index +2.1%.

On the positive, the economic backdrop in most major economies is good as they reopen post-COVID, with strong economic growth and very healthy employment conditions. However, economies now face the challenge of high inflation and the associated turn in the interest rate cycle. This is being driven by lingering COVID-related global supply chain issues and exacerbated by the current conflict. Both COVID and conflict have highlighted the need for more resilient supply chains and greater self-sufficiency. In other words, we are likely to see a slowing or reversal of the long-term trend of increased integration in certain parts of the global economy. Add to this, factors such as the likelihood of increased government spending, plus the massive investments required to decarbonise, and we can see significant new factors at play in the global economy. We certainly live in interesting times.

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)	12.8	15.3
Price to Free Cash Flow (x)	10.0	13.3
Gross Yield (%)	6.9	5.6
Price to NTA (x)	2.4	2.8

Source: Perennial Value Management. As at 28 February 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 7.7%, in line with expectations.

The Trust currently carries moderate levels of protection.

Top 10 Positions (A → Z)

Aristocrat Leisure

ANZ

BHP

Charter Hall

CSL

Insurance Australia Group

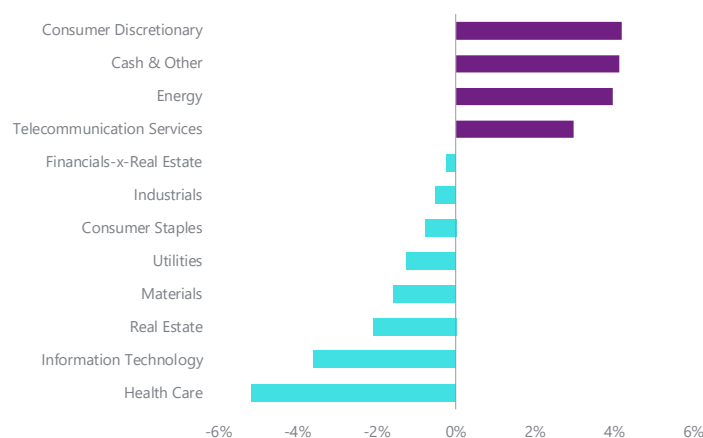
Macquarie Group

Telstra

Westpac

Woodside Petroleum

Sector Active Exposure vs Index



Trust Review

The Trust performed well during the month, returning +3.7% after-fees, outperforming the Index by +1.6%. This demonstrates the Trust's leverage to the value rotation which has been taking place as global growth has improved and interest rates have begun to rise from their historically low levels.

While the current uncertainties may cause a short-term pause, we expect that this rotation will continue and still has a long way to run, given the macro backdrop and the high level of valuation dispersion which exists in the market. As such we continue to position the portfolio to benefit from this trend.

While overshadowed by other events, the February reporting season was generally well-received. The positive economic backdrop was overall supportive of corporate earnings and strong balance sheets saw generous dividends and capital returns. Resources stocks delivered particularly strong results on the back of strong commodity prices. While many companies were still being impacted by COVID-related disruptions, these are abating, and earnings are likely to recover strongly.

In terms of sector performance, Resources were the clear winner in February, with Energy +8.4% and Metals & Mining +6.0%. Commodity markets were already tight as demand recovered post-COVID in the face of limited supply growth. The invasion of Ukraine and sanctions on Russia have made this worse, with Russia being a major producer of oil and supplying around 40% of the EU's gas requirements. They are also major producers of aluminium and nickel amongst other commodities.

This saw very strong performances from Woodside Petroleum (+19.7%), which rallied after delivering a very strong result as well as from the surge in the oil price, which is now over US\$100 per barrel. Woodside has significant leverage to higher prices, with around 25% of its production able to be sold into the spot market.

South32 (+24.9%) rallied on the back of its aluminium exposure and also after delivering a very strong result. This has been a great performer for the Trust over the last 12 months and is well positioned with its suite of base metal assets and net cash balance sheet position.

Trust Activity

During the month, we sold our holding in Ampol due to its outperformance. Proceeds were used to add James Hardie. At month end, stock numbers were 35 and cash was 2.4%.

Outlook

On balance, we view the outlook as positive, with economies recovering strongly as COVID recedes. Economic data continues to be strong in most regions, with very low unemployment rates. The Australian economy is performing particularly strongly and will continue to be a key beneficiary of the strength in commodity markets. However, there are a number of potentially significant changes in the global economic and political backdrop, from the return of inflation and the change in the interest rate cycle, to rising geopolitical tensions. As a result, the level of uncertainty is elevated, and a degree of caution is warranted.

This view is expressed in the portfolio through holding a combination of stocks with cyclical leverage, as well as stocks with solid defensive characteristics. Importantly, the portfolio is positively leveraged to improving growth, higher inflation, and rising interest rates. Within the cyclical part of the portfolio, this is achieved through overweight positions in the Resources, Energy and Consumer Discretionary sectors. In the defensive part of the portfolio, this is achieved through holdings in the sectors such as Telcos, Healthcare and Insurance as well as a modest overweight in gold.

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	-3.1
Nikkei 225	-1.8
FTSE 100	-0.1
Shanghai Composite	+3.0
RBA Cash Rate	0.1
AUD / USD	72.5c
Iron Ore	-1.8
Oil	+10.7
Gold	+6.2
Copper	+3.0

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