

INVESTMENT PORTFOLIO UPDATE & NTA REPORT

December 2016

**WEALTH DEFENDER EQUITIES
AS AT 31 DECEMBER 2016**
Investment Objective

The Company aims to outperform the S&P/ASX 300 Accumulation Index by investing in a diversified portfolio of predominantly Australian shares while using protection strategies including derivatives and cash to dynamically protect the portfolio through market cycles, thereby reducing the magnitude of negative returns when equity markets fall significantly.

ASX Code:

WDE

Net Tangible Assets (NTA) 31 December 2016

NTA before tax: \$0.9127[ⓑ]
 NTA after tax: \$0.9447[ⓑ]

Listing Date:

21 May 2015

Shares on Issue

126.3 million

Share Price 31 December 2016

\$0.80

Dividend Frequency

Half Yearly

Number of Stocks

35 to 100

Cash Limits

0 to 50%

Suggested Investment Timeframe

5+ years

[ⓑ] The NTA per share is at 31 December 2016. The after tax numbers relate to the provision for deferred tax on the unrealised gains and losses in the Company's investment portfolio.

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INVESTMENT OVERVIEW & PERFORMANCE

| NTA PERFORMANCE AS AT 31 DECEMBER 2016 | 1 MONTH % | 3 MONTHS % | FYTD % | 1 YEAR % | SINCE INCEPTION [^] % P.A |
|--|-----------|------------|--------|----------|------------------------------------|
| S&P/ASX 300 Accumulation Index | 4.34 | 4.93 | 10.43 | 11.79 | 5.21 |
| Wealth Defender Equities* | 3.95 | 4.20 | 8.41 | 3.28 | -1.39 |

* Returns shown for the Company have been calculated on the growth of Net Tangible Assets (NTA) after taking into account of all operating expenses (including management fees) and assuming reinvestment of dividends. [^] Inception date 21 May 2015. Performance is annualised.

- The market rallied in December, with the S&P/ASX300 Accumulation Index (The Index) up 4.3%.
- Industrials led the market, rising 4.5%, while resources rose 3.7%.
- Wealth Defender Equities (WDE) returned 4.0%, underperforming the Index by 0.3%.

In line with the objective, the portfolio aims to invest in a diversified portfolio of financially sound companies and to carry a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

| CONTRIBUTION TO RETURN AS AT 31 DECEMBER 2016 | 1 MONTH % | 3 MONTHS % | FYTD % | 1 YEAR % | SINCE INCEPTION [^] % P.A |
|---|-----------|------------|--------|----------|------------------------------------|
| Portfolio Gross Return (WDE) [ⓐ] | 4.13 | 4.72 | 9.35 | 5.08 | -0.43 |
| Stock Portfolio [#] | 4.21 | 5.54 | 12.10 | 9.15 | 2.78 |
| Protection Portfolio [#] | -0.08 | -0.82 | -2.75 | -4.07 | -2.35 |

[ⓐ] Gross Investment Portfolio performance before fees and tax.

[#] Contribution to Return.

MARKET ACTIVITY

Global markets remained in a buoyant mood, with the S&P500 up 1.8%, Nikkei 225 up 4.4% and FTSE 100 up 5.3%, while the Shanghai Composite declined 4.5%. Commodity prices were generally stronger with oil up 10.0%, iron ore up 10.0% and thermal coal up 14.0%, while coking coal (down 25.0%), copper (down 4.0%) and gold (down 2.0%) declined. As widely expected, the Federal Reserve lifted rates for the first time since the Global Financial Crisis (GFC), raising the Federal Funds Rate by 25 basis points to 0.75%. The Reserve Bank of Australia (RBA) left the cash rate remaining steady at 1.5%, while the Australian Dollar (AUD) finished the month down two cents at 72 US cents.

During December, the better performing sectors included utilities (up 8.7%), REITs (up 6.8%), energy (up 6.1%) and financials (up 5.5%), while telecommunications (up 0.5%), healthcare (up 0.9%) and consumer staples (up 1.7%) lagged.

PORTFOLIO UPDATE

Portfolio holdings which performed strongly included QBE Insurance (up 11.2%) with its leverage to rising US interest rates, Graincorp (up 10.4%) as the current east coast grain harvest shapes up to be a record and Suncorp (up 8.2%) on evidence of improving premium rates. Other strong performers included Stockland (up 8.7%), Brickworks (up 8.7%), Lend Lease (up 7.4%) and AMP (up 7.2%). The portfolio also benefited from being underweight healthcare and infrastructure stocks, which underperformed as bond yields rose.

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Stocks which detracted from performance included Vocus Communications (down 7.2%) which continued to fall after last month's disappointing FY17 earnings guidance, Flight Centre (down 6.3%) as heavy discounting continues in the airfare market as a result of new capacity additions and Crown Resorts (down 1.4%). These companies are all underpinned by strong balance sheets and we remain comfortable with the medium-term outlook for each.

In terms of the protection portfolio, although the market was very strong this month, there was almost no drag. This was due mainly to volatility being very low, leading to a small cost of carrying protection over the month. We also had some positive performance from options on single stocks. This was a good result for the portfolio given the strength in markets.

OUTLOOK

The overall portfolio continues to exhibit the manager's (Perennial Value Management Limited) true to label value characteristics, with the portfolio offering better value than the overall market on each of our four valuation characteristics; price to earnings, price to free cash flow, gross dividend yield and price to net tangible assets. With implied volatility so low (the cost of buying protection), we feel the overlay cost in the short term should be quite moderate.

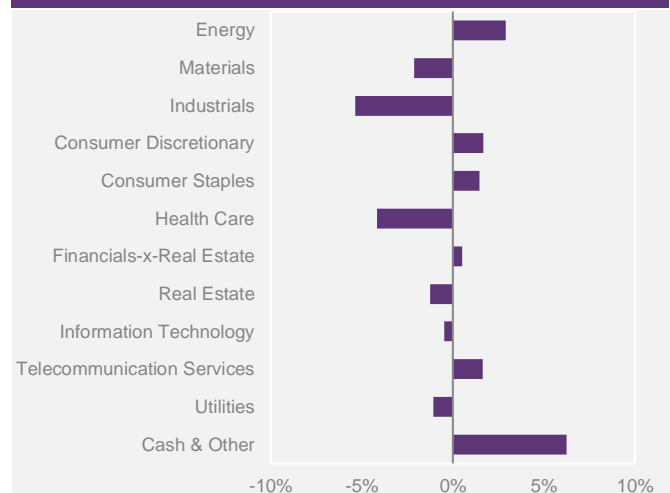
As always, our focus will continue to be on investing in quality companies which are offering attractive valuations, while carrying a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

TOP 20 HOLDINGS

| Stock name | Portfolio Weight % | Index Weight % |
|-----------------------------|--------------------|----------------|
| Commonwealth Bank | 6.9 | 9.3 |
| BHP Billiton Limited | 6.2 | 5.3 |
| Westpac Banking Corporation | 5.6 | 7.1 |
| National Australia Bank | 5.5 | 5.3 |
| ANZ Banking Group Limited | 4.8 | 5.8 |
| Telstra Corporation | 3.5 | 4.0 |
| Wesfarmers Limited | 3.2 | 3.1 |
| Woolworths Limited | 3.1 | 2.0 |
| Woodside Petroleum | 2.9 | 1.5 |
| AMP Limited | 2.6 | 1.0 |
| Crown Resorts Limited | 2.5 | 0.3 |
| Suncorp Group Limited | 2.2 | 1.1 |
| Boral Limited | 2.1 | 0.4 |
| Lendlease Group | 2.1 | 0.6 |
| Cybg PLC | 2.1 | 0.2 |
| ResMed Inc | 2.1 | 0.3 |
| Caltex Australia | 2.0 | 0.5 |
| GrainCorp Limited | 2.0 | 0.1 |
| Westfield Corporation | 1.9 | 1.2 |
| Amcor Limited | 1.9 | 1.1 |

Source: Perennial Value Management

SECTOR ACTIVE WEIGHTS



Source: Perennial Value Management