MONTHLY INVESTMENT PORTFOLIO UPDATE & NTA REPORT

DECEMBER 2015

Wealth Defender Equities

Wealth Defender Equities Limited
ACN 602 517 528

WEALTH DEFENDER EQUITIES AS AT 31 DECEMBER 2015
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 cushioning the magnitude of negative returns when equity markets fall significantly.
ASX Codes:
WDE WDEO (Loyalty options)
Listing Date:
21 May 2015
Shares on Issue
125.7 million
Share Price 31 December
$0.82
Loyalty Options
Vesting date: 23 November 2015 Expiry date: 23 November 2016
Dividend Frequency
Half Yearly
Number of Stocks
35 to 100
Cash Limits
0 to 50%
Suggested Investment Timeframe
5+ years

INVESTMENT OVERVIEW & PERFORMANCE

NET TANGIBLE ASSETS (NTA)	AMOUNT
NTA before tax	$0.9140
NTA after tax	$0.9419

The NTA does not include or adjust for Loyalty Options.

Vested Loyalty Options were issued on the 26 November 2015. Loyalty Options (WDEO) commenced trading on 2 December 2015.

The NTA per share is at 31 December 2015. The after tax numbers relate to the provision for deferred tax on the unrealised gains and losses in the Company's investment portfolio.

- In December, the Portfolio delivered a return of 3.3%, outperforming the index by 0.6%
- Since inception in May 2015, the Portfolio has delivered a return of -4.2%, relative to the index return of -2.9% while carrying significant downside protection.
- The protection portfolio performed relatively well in a quite volatile month.

PERFORMANCE AS AT 31 DECEMBER 2015	MONTH %	QUARTER %	SINCE INCEPTION^ % P.A.
WDE*	3.28	3.82	-4.18
S&P/ASX 300 Accumulation Index	2.73	6.54	-2.89

^ Inception date 21 May 2015.

* Performance before fees and tax.

Portolio Characteristics

In line with the objective, the Wealth Defender Equities portfolio (the Portfolio) is invested in a diversified portfolio of financially sound companies and carries a level of protection sufficient to reduce the magnitude of significant negative returns during sharp equity markets falls.

Portolio Performance

Following a mid-month sell-off, the market rallied into the end of December, with the S&P/ASX300 Accumulation Index (the Index) finishing the month up 2.7%. The Portfolio delivered a return of 3.3%, outperforming the market by 0.6%.

MARKET UPDATE

Globally, markets were dominated by the US Federal Reserve's decision to finally lift interest rates by 0.25%. Markets were generally softer with the S&P 500 down 1.8%, FTSE 100 down 1.8% and Nikkei 225 down 3.6%, while the Shanghai Composite rose 2.7%. In Australia, strong job growth continued, with 71,000 jobs created in November and the unemployment rate falling to 5.8%. This provides further evidence of the economy successfully transitioning post the resources boom. The Reserve Bank of Australia (RBA) left the cash rate steady at 2% and the Australian Dollar (AUD) drifted slightly higher over the month to close at 72.9 US cents.

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Better performing sectors over the month included consumer staples (up 7.1%), consumer discretionary (up 6.3%), telecommunications (up 4.3%), REITs (up 4.0%) and financials (up 3.6%), while energy (down 7.5%), industrials (down 0.5%), healthcare (up 0.6%) and metals and mining (up 0.9%) lagged.

Stocks which contributed positively to performance included Newcrest (up 18.9%) which rallied as investors warmed to its falling cash costs, rising production and declining capex profile, Lend Lease (up 11.8%) after announcing the sale of a stake in Tower 1 at Barangaroo to a major international investor, Metcash (up 9.1%) continuing its strong performance of late and Crown Resorts (up 7.4%) amid speculation that James Packer may attempt to privatise the company. The major banks also outperformed, up an average of 4.4%.

The Portfolio also benefited from not holding stocks such as Aurizon (down 21.4%) which fell after issuing a surprise profit warning, as well as Primary Healthcare (down 27.1%) and Sonic Healthcare (down 12.1%) which both fell after the government unexpectedly cut the bulk-billing rebate. We have previously highlighted the funding risks associated with this sector and the current Medicare review suggests that this may be an ongoing theme.

Stocks which detracted from performance included oil stocks AWE (down 23.1%) and Woodside Petroleum (down 4.6%) on the back of lower oil prices and Suncorp (down 9.3%) after downgrading earnings expectations due to rising claims costs as a result of higher than usual level of weather events in 2015 as well as the lower AUD. While this is disappointing, on the positive, the premium pricing environment appears to be stabilising and the company remains strongly capitalised, supporting an attractive level of dividends.

In December the market was quite volatile, initially falling, then rallying aggressively into the end of the month. This high level of volatility can often be good for the protection portfolio as it allows us to be active in re-hedging to our advantage.

PORTFOLIO UPDATE

In terms of Portfolio activity, we locked in profits and sold out of our holdings in a number of stocks which have delivered strong returns since the Portfolio invested in them, including Aristocrat Leisure (up 31.1%), Metcash (up 35.7%) and Henderson Group (up 15.5%). Proceeds were used to add to a number of existing holdings where we see attractive value including Wesfarmers, Newcrest, Flight Centre and Telstra.

OUTLOOK

We continue to hold a cautiously optimistic view on the outlook, expecting ongoing moderate growth in the major economies overall and a continuing transition towards the non-mining sectors of the Australian economy. The Portfolio is positioned to capture these themes with exposure to a recovering east coast economy through overweight positions in retail, building and infrastructure/construction-related stocks. We also hold modest overweight positions in the major banks where we see attractive dividend yields and in the large-cap, low-cost, financially-sound resources companies where we see long-term value emerging. On the contrary, we remain underweight the “expensive defensive” sectors of the market such as healthcare, infrastructure and REITs, where valuations have become stretched as a result of historically low interest rates.

In addition to using protection strategies to manage downside risk, our focus, as always, will continue to be on investing in quality companies which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

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WDE Portfolio Profile

ASSET ALLOCATION		
Sector	*Portfolio Weight %*	*Index Weight %*
Energy	3.1	4.0
Materials	12.9	12.1
Industrials	1.7	7.9
Consumer Discretionary	11.3	5.0
Consumer Staples	10.0	7.2
Health Care	0.4	6.8
Financials-x-Real Estate	38.1	39.9
Real Estate	5.7	8.3
Information Technology	0.3	1.2
Telecommunication Services	6.1	5.4
Utilities	2.3	2.3
Cash & Other	8.1	-

Source: Perennial Value Management
Rounding accounts for small +/- from 100

WDE Key Investments

TOP 20 HOLDINGS		
Stock name	Portfolio Weight %	Index Weight %
Commonwealth Bank	9.1	10.3
Westpac Banking Corp.	8.7	7.9
National Aust. Bank	6.9	5.6
ANZ Banking Grp Ltd.	6.5	5.8
Telstra Corporation	5.8	4.9
Wesfarmers Limited	4.8	3.3
BHP Billiton Limited	4.7	4.1
Woolworths Limited	3.5	2.2
AMP Limited	2.6	1.2
Woodside Petroleum	2.4	1.4
QBE Insurance Group	2.3	1.2
AGL Energy Limited	2.2	0.9
Rio Tinto Limited	2.2	1.3
Lendlease Group	1.9	0.5
News Corp.	1.5	0.1
Stockland	1.5	0.7
Suncorp Group Ltd.	1.5	1.1
Newcrest Mining	1.5	0.7
GrainCorp Limited	1.5	0.1
Event Hospitality	1.4	0.0

Source: Perennial Value Management