Wealth Defender Equities

Wealth Defender Equities Limited
ACN 602 517 528

INVESTMENT PORTFOLIO UPDATE & NTA REPORT

FEBRUARY 2016

WEALTH DEFENDER EQUITIES AS AT 29 FEBRUARY 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 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 29 February 2016
$0.80
Loyalty Options
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	$0.8521
NTA after tax	$0.9014

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 29 February 2016. The after tax numbers relate to the provision for deferred tax on the unrealised gains and losses in the Company's investment portfolio.

- February reporting season was solid with 44.0% of results ahead of consensus and 32.0% in line.
- The transition to an east coast recovery is continuing.
- The protection overlay contributed 84 basis points to the total return in February while the S&P/ASX300 Accumulation Index declined 1.7%.

PERFORMANCE AS AT 29 FEBRUARY 2016	1 MONTH %	3 MONTHS %	6 MONTHS %	SINCE INCEPTION^ %
S&P/ASX 300 Accumulation Index	-1.72	-4.55	-3.83	-9.77
WDE*	-2.21	-3.46	-6.57	-10.43
Stock Portfolio#	-3.05	-5.75	-6.74	-12.46
Protection Portfolio#	0.84	2.29	0.17	2.03

^ Inception date 21 May 2015 #Contribution to Return

* Performance before fees and tax

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 market falls.

The S&P/ASX300 Accumulation Index (the Index) finished the month down 1.7%. The Portfolio was down 2.2%, underperforming the Index by 0.5%.

What worked against the Portfolio during the month was the strong performance of a range of non-held stocks, the large majority of which we cannot justify owning on valuation grounds. The Portfolio fared well through the reporting season and a number of holdings delivered good gains for the month.

MARKET UPDATE

Globally, markets struggled in the early part of the month on concerns around global economic growth before recovering somewhat. The S&P500 was down 0.4%, the Shanghai Composite was down 1.8% the Nikkei225 fell 8.5% while the FTSE100 was up 0.2% over the month. The Brent oil price ended the month 4.0% higher and the iron ore price rose 18.0%. In Australia, the employment report was soft after a number of strong months and the unemployment rate increased from 5.8% to 6.0%. However, forward looking job advertisements data remained solid and auction clearance rates in Sydney and Melbourne had a strong start to the New Year. The Reserve Bank of Australia (RBA) cash rate remained at 2.0% and the Australian Dollar (AUD) closed the month up slightly at 71.4 US cents.

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INVESTMENT PORTFOLIO UPDATE & NTA REPORT

FEBRUARY 2016

Better performing sectors over the month included resources (up 11.2%), industrials (up 5.8%) and REITs (up 2.8%). The weaker sectors included financials (down 7.0%), telecommunications (down 5.5%) and consumer staples (down 4.8%).

PORTFOLIO UPDATE

A large number of companies reported during the month and, on the whole, reporting season was solid with 44.0% of Earnings per Share (EPS) results ahead of expectations and 32.0% in line with expectations. While resources companies reported weaker results given falls in commodity prices, the results were largely in line with expectations. Portfolio holdings Newcrest Mining (up 35.9%), Downer (up 10.9%) and Rio Tinto (up 6.8%) performed well. The profit results of a number of industrial holdings confirmed that the transition to an improving east coast economy is occurring. These included Harvey Norman (up 7.7%), Boral (up 6.3%) and Flight Centre (up 5.9%), with Myer (up 11.6%) also benefitting from this theme.

Stocks which detracted from performance included News Corporation (down 12.8%) which delivered a weak result and Woodside Petroleum (down 7.2%) which fell despite delivering a result in line with expectations and a higher oil price. Our overweight position in the major banks also detracted. CBA delivered a solid result during reporting season and the other banks provided reassuring updates as well.

February was another volatile month, with the index down 4.7% at its lowest point. Similarly to January, the Index rallied in the final two weeks eventually finishing down 1.7%. In this smaller drop, the overlay still added 84 basis points, which is a pleasing result.

Since inception the protection overlay has contributed 203 basis points.. In that time the market has declined 9.8%. So, given the capital protection does not focus on the first 5.0% decline, this contribution is in line with expectations. We have also seen the airbag activate in sharp market falls. It is in these swift moves that the Portfolio strategy most effectively protects capital. The Portfolio also exhibits lower annualised volatility than the market – a key benefit of having permanent protection in place.

In terms of Portfolio activity, we have sold out of CIMIC (formerly Leightons) and sold down Fairfax, both largely on valuation grounds. The former had performed very well over the holding period, having delivered a return of some 20.0% since purchase in mid-2015.

Proceeds were predominantly reinvested into Henderson and Macquarie Groups while Ansell was re-introduced into the Portfolio. In the case of both Henderson and Macquarie, we had taken significant profits in the December/January period. Both stocks were subsequently sold off by some 20% and this lead us to again increase our holdings in these stocks during the month. We remain confident in the medium term prospects of both companies and current valuations are attractive, with both companies trading on forecast FY17 Price to Earnings (P/E's) of 11.8 times and 10.7 times respectively. The Portfolio sold out of Ansell in July 2015 at an average price of $25.00. Again, the share price subsequently experienced a sharp sell-off of some 30.0%. This partly reflected an adverse reaction to its reported profit result. Having met with senior management post-result, we like the company's medium term prospects and bought back into this company during February at an average price of $17.20. Based on a forecast FY17 P/E of 11.3 times, this represents an attractive valuation.

OUTLOOK

As noted, reporting season has confirmed the ongoing transition to a recovering east coast economy and the Portfolio continues to be exposed to this theme through overweight positions in retail, building and infrastructure/construction-related stocks. The Portfolio remains overweight both in the major banks as noted, and in the large-cap, low-cost, financially-sound resources companies, where the recent very substantial sell-off has opened up medium-term value. We remain underweight the "expensive defensive" sectors of the market such as healthcare, infrastructure and REITs. This group has become a crowded trade and valuations have become increasingly stretched as a result of historically low interest rates. Transurban is a stark example of this 'flight to earnings' certainty with the stock currently trading on a FY17 gross dividend yield of 4.4%. The compares poorly to the Portfolio's forecast FY17 gross yield of 7.7%.

Overall the Portfolio continues to exhibit the manager's true to label value characteristics, with the Portfolio offering better value than the overall market on each of their four valuation characteristics; price to earnings, price to free cashflow, gross dividend yield and price to net tangible assets.

HALF YEAR RESULT DECEMBER 2015

Wealth Defender Equities Limited (WDE) reported an after tax profit of $1,012,801 for the period. As at the 31 December 2015, the pre-tax net tangible asset backing (NTA) of WDE was $0.914 (per share) before tax and $0.942 (per share) after tax.

INAUGURAL DIVIDEND DECLARED & DIVIDEND REINVESTMENT PLAN LAUNCHED (DRP)

In conjunction with the half year result WDE declared a fully-franked inaugural interim dividend of 1.0 cents per share, to be paid on 29 April 2016. Option holders who elect to exercise all or part of their options by the close of business on 1 April 2016 will also be entitled to receive the fully-franked final dividend.

The board has announced the commencement of Wealth Defender Equities Dividend Reinvestment Plan (DRP) which will operate in conjunction with the payment of the inaugural dividend. The Board has determined that in relation to the 2016 interim dividend the DRP allocation price at which new shares will be issued will include a 2.5 per cent discount. In order to elect to participate in the DRP shareholders should visit the Registry's website at linkmarketservices.com.au.

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A copy of the DRP Participation notice will be posted to all shareholders. In order to successfully participate in the DRP completed Participation Notices must be received by WDE's share Registry, Link Market Services, by no later than 5pm, AEST, on 11 April 2016.

DIVIDEND SCHEDULE	DATE
Declaration of Dividend	18 February 2016
Ex-dividend Date	7 April 2016
Record Date	8 April 2016
DRP Record/ Election Date	11 April 2016
DRP Calculation Date	11 to 15 April 2016
Payment Date	29 April 2016

WDE Portfolio Profile

TOP 20 HOLDINGS		
Stock name	Portfolio weight %	Index weight %
Commonwealth Bank	10.9	9.2
Westpac Banking Corp	7.0	7.4
National Australia Bank	5.9	4.9
Telstra Corporation	5.9	4.9
ANZ Banking Grp Limited	5.5	5.0
Wesfarmers Limited	5.2	3.4
BHP Billiton Limited	4.4	3.8
Woolworths Limited	3.5	2.2
AMP Limited	2.9	1.2
Suncorp Group Ltd	2.9	1.1
AGL Energy Limited.	2.9	0.9
Woodside Petroleum	2.3	1.4
Scentre Group	2.2	1.8
Rio Tinto Limited	2.1	1.3
QBE Insurance Group	2.0	1.1
Lendlease Group	1.8	0.5
Stockland	1.7	0.8
Crown Resorts Ltd	1.7	0.3
GrainCorp Limited	1.6	0.1
News Corporation	1.4	0.0

Source: Perennial Value Management

ASSET ALLOCATION		
Sector	Portfolio Weight %	Index Weight %
Energy	2.9	4.0
Materials	11.1	12.9
Industrials	1.8	8.6
Consumer Discretionary	11.1	5.1
Consumer Staples	10.6	7.3
Health Care	0.3	7.3
Financials-x-Real Estate	39.2	36.3
Real Estate	6.9	9.2
Information Technology	0.3	1.2
Telecommunication Services	6.2	5.6
Utilities	3.0	2.5
Cash & Other	6.7	-

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