

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Microcap Opportunities Trust*	1.4	-	-	-	-	-	1.4
S&P/ASX Small Ordinaries Accum. Index	1.3	-	-	-	-	-	1.3
<b>Value Added (Detracted)</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>

\*Net performance (including performance fee). <sup>^</sup>Since inception: February 2017. Past performance is not a reliable indicator of future performance.

## Perennial Value Microcap Opportunities Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in a portfolio of Australian companies, that are either listed or unlisted companies found outside the S&P/ASX Top 100 Index, and to provide a total return (after fees) that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured on a rolling three-year basis.

### Portfolio managers:

Andrew Smith, Sam Berridge,  
Damian Cottier

### Risk profile:

High

### Trust FUM:

AUD \$1.4 million

### Income distribution frequency:

Annually

### Minimum initial investment:

\$25,000

### Trust inception date:

February 2017

### APIR code:

WPC3982AU

- ▶ February marked the first month of investing for the Perennial Value Microcap Opportunities Trust (the Trust) with reporting season throwing up several long term investments and opportunities for profitable trades.
- ▶ Looking to FY18 the Trust looks good value with an average P/E (price to earnings) of 12.0 times (13.0% discount to the market) with average forecast EPS (earnings per share) growth of 58.0% into FY19.

## Trust Performance

The Small Ordinaries Accumulation Index (the Index) increased by 1.3% during the month as investors reacted to a reporting season where, on average, expectations were met. The Trust ended up 1.4%, net of all fees, thereby outperforming by 0.1% despite carrying a high cash balance for most of the month.

## Reporting Season

Reporting season provided a good opportunity to invest in companies that we have researched for many years and where we had high conviction of those companies delivering solid results.

Some examples of quality results from these companies during the month were:

- NZME (up 21.8% on our average investment) with the market rewarding them for both lower revenue declines and higher cost savings than expected.
- Infomedia (up 15.2% on our average investment) after they signed a new contract with Nissan demonstrating their recent investment in sales and marketing is paying off.
- Capral (up 11.0% on our average investment) after declaring their first dividend for several years.
- Melbourne IT (up 9.3% on our average investment) as they demonstrated a return to growth in their legacy SMB division as well as strong growth in Enterprise Services.

We also invested in several names where we believe the market is yet to fully reward the company for their strong results – such as RPM Global a software provider to mines globally (up 2.7% on our average investment), Austin Engineering (flat) and EML Payments (down 0.9% on our average investment).

## Trust activity

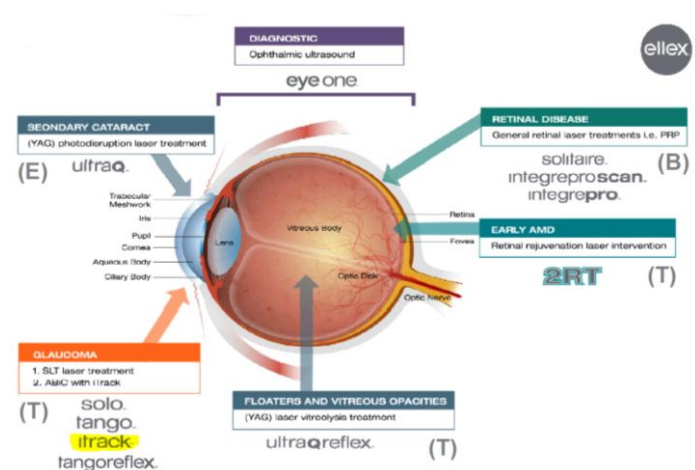
The Trust aims to invest across a broad range of sectors with the focus on companies demonstrating strong growth at a reasonable valuation.

Sectors of interest currently include information technology, agriculture, healthcare, payments, energy, mining and mining Services.

In information technology, we made an investment in 9 Spokes (up 7.0% on our average investment). 9 Spokes enables SMEs to connect their software to one dynamic interface thereby giving them a clear overview of their business. It went live in the week prior to Christmas via their largest channel partners Barclays in the UK and Suncorp in Australia. Despite limited promotional activity over this holiday period, 9 Spokes has reached 1000 active users within seven weeks which is very encouraging. While we expect further channel partners in various countries to be announced over the course of CY17, the company also recently launched its direct platform in each of the UK and US to further drive this scalable platform.

A recent example from the healthcare sector is Ellex Medical (up 17.7% on our average investment). This was a stock we have been closely watching for several months with our research including a site trip in November to their Adelaide head office and manufacturing facility. It became apparent that the move to a larger manufacturing facility could cause some short term disruption to earnings. This occurred early in February with 1H17 guidance that disappointed the market, providing us with a cheap entry point given the over-reaction by the market.

Ellex has a strong core business in laser eye equipment with other products also focused on eye health (excuse the pun). The selection of existing products is shown below with the most prospective product of this range being itrack (highlighted below) for the treatment of Glaucoma.



Source: Ellex 1HFY17 Result Presentation

We also deployed capital in the mining and energy sector during the month. We added Australis Oil and Gas (ATS) via a placement at \$0.23 versus a month end price of \$0.29. ATS owns a growing position in the Tuscaloosa Marine Shale in the US and has a strong net cash balance sheet which will enable them to grow out the acreage independent of the oil price. Also in the energy space we acquired Cooper Energy (up 8.1% on our average investment) given their exposure to the east coast gas shortage.

In Copper we added Avanco Resources (AVB up 8.0% on our average investment) as it continued to gain traction in the market with improving cash generation from its Antas mine in Brazil. The company also released an upgraded resource for its Centro Gold project. Mineralisation at Centro Gold is quite close to surface and suggests appealing economics. AVB is seeking to secure mining approvals for the Centro Gold deposit prior to divestment as a means of funding construction of its larger Pedra Branca copper deposit.

We also participated in the raising for Dacian Gold at \$2.00 as well as the Gascoyne raising at \$0.50 with the stock closing up 8% to \$0.54.

While we are not positive on the iron price medium term, we were able to identify a low risk trade to take advantage of the currently high prices. At the beginning of the month we bought a position in Mount Gibson Iron at \$0.375 which was below cash backing and were able to exit at \$0.50 to lock in a 33.0% return.

In the broader industrial market there is also a large range of special situations and trading opportunities which we will continue to evaluate. To this end we profitably traded Service Stream during the month.

Detracting from performance was our position in Mint Wireless acquired via a placement at 7.9 cents (last traded 6.6 cents) - this placement also came with free options which are now held by the Trust and may add value if Mint can successfully expand into new regions in Asia.

Doray Minerals (down 17.0% on average investment) also detracted from performance with the market, in our view, overly concerned about the balance sheet given the likelihood of inventory sales near term.

The market cap range of the Trust is currently \$41 million for the smallest stock with the largest stock held, Metals X which has moved above our \$500 million cut-off given the strong performance during the month. The average market cap was \$214 million at the end of the month.

At month end the Trust held 39 stocks and cash of 7.2%.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	7.1	5.0
Materials	19.1	20.5
Industrials	8.5	10.3
Consumer Discretionary	24.0	21.2
Consumer Staples	2.3	6.4
Health Care	6.2	6.4
Financials-x-Real Estate	9.9	8.8
Real Estate	0.0	13.4
Information Technology	15.2	5.6
Telecommunication Services	0.0	1.5
Utilities	0.5	0.8
Cash & Other	7.2	-

Rounding accounts for small +/- from 100%.

For all other enquiries please contact us on 1300 730 032 or visit [www.perennial.net.au](http://www.perennial.net.au).

Signatory of:



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