

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Microcap Opportunities Trust*	-0.4	-	-	-	-	-	1.0
S&P/ASX Small Ordinaries Accum. Index	2.7	-	-	-	-	-	4.0
Value Added (Detracted)	-3.1	-	-	-	-	-	-3.0

*Net performance (including performance fee). [^]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 \$1.6 million

Income distribution frequency:

Annually

Minimum initial investment:

\$25,000

Trust inception date:

February 2017

APIR code:

WPC3982AU

- ▶ **March was a busy period for the team with 85 company meetings in Sydney, Perth and Melbourne as well as a trip to China and Japan. These visits generated several new investment ideas and increased conviction in some of our larger holdings.**
- ▶ **Looking to FY19 the Trust looks good value with an average P/E (price to earnings) of 11.0 times (25.0% discount to the market) with average forecast EPS (earnings per share) growth of 55.0% into FY19.**

Trust Performance

The S&P/ASX Small Ordinaries Accumulation Index (the Index) increased by 2.7% during the month. The Perennial Value Microcap Opportunities Trust (the Trust) was down 0.4% net of all fees, underperforming by 3.1%.

While the relatively flat performance in a strong market was disappointing, most of the negative stock performance can be attributed to the temporary impact of numerous small cap redemptions seen across the market rather than any stock specific news which impacts the fundamental values of each business. We have strong conviction in our holdings and anticipate that company announcements in the months ahead will allow the market to focus on the solid fundamentals of each business.

Stocks that performed well during the month were NZME (up 19.7%) and National Veterinary (up 14.0%) offset by selling pressure in Specialty Fashion (down 15.2%) and PWR Holdings (down 14.1%).

Company Visit Highlights

The team travelled far and wide during March with 85 companies meetings as well as industry meetings in China and Japan. The feedback from customers in China and Japan painted a robust picture for industrial demand in the short term, supporting our positive view towards resources (in select commodities where supply is constrained) and the mining services sector.

Our key direct exposure to China is our holding in Sino Gas Energy (down 7.6%) which was impacted by large redemption selling in the market. While this price weakness is temporary (and provided us an opportunity to increase our holding) there were many positive developments for the business during the month which will drive value over time. Politically their Linxing PSC project was identified as a strategic new gas source in China's 13th Five Year Energy Plan. This is of particular importance as regulatory concerns remain a headwind for Sino Gas Energy's share price. In this regard the company was invited to Canberra during Premier Lee's recent visit. At a project level proven reserves were also increased by 7.0%.

Our company meetings included five Initial Public Offers, with only one, MSL Solutions, passing our investment criteria and entering the portfolio. MSL Solutions operates CRM and loyalty software in the sports and hospitality sector and was attractively priced on 10.5 times FY18 price to earnings. MSL Solutions is due to list on the 5 May 2017.

While in Perth we attended a small cap conference with over 45 companies presenting. It was pleasing to see impressive presentations from our existing holdings such as Imdex, Sino Gas and Energy, Swick Mining Services, Cooper Energy and Fleetwood.

The visit also enabled us to get a first-hand experience of the gyro product developed by VEEM for the Super Yacht market. Given there are only two currently in operation in Australia, we jumped at the chance to test it out.

As the photo below shows, the owners strictly enforced the no shoes policy and it was great to see the stabilising features of the gyro being put to test in the high swell near Rottneest Island.



Source: Perennial

The gyro clearly improved stability and as more live data is captured we expect market penetration to improve. This would add sales momentum to the already impressive news that their product has been specified into the future design of several original equipment manufacturers (OEM) Yacht manufacturers.

Trust Activity

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

Several of the higher growth micro caps have been sold off aggressively recently to the point where valuations on an FY20 basis are beginning to look attractive. We used this weakness to start building positions in higher growth names such as MedAdvisor and Catapult, funding the positions by exiting the more mature businesses of Thorn Group, Melbourne IT and Vita Group.

At month end the Trust held 36 stocks and cash of 2.8%.

**For all other enquiries please contact us on 1300 730 032
or visit www.perennial.net.au.**

Signatory of:



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Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	8.1	6.0
Materials	19.3	17.5
Industrials	6.7	8.7
Consumer Discretionary	17.2	20.8
Consumer Staples	2.1	8.5
Health Care	6.6	7.2
Financials-x-Real Estate	11.2	9.0
Real Estate	0.0	14.1
Information Technology	26.0	5.8
Telecommunication Services	0.0	1.7
Utilities	0.0	0.7
Cash & Other	2.8	-

Rounding accounts for small +/- from 100%.