

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Microcap Opportunities Trust*	1.1	-1.7	-	-	-	-	-0.2
S&P/ASX Small Ordinaries Accum. Index	-2.1	0.3	-	-	-	-	1.6
Value Added (Detracted)	3.2	-2.0	-	-	-	-	-1.8

*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 \$1.9 million

Distribution frequency

Annually

Minimum initial investment

\$25,000

Trust inception date

February 2017

APIR code

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- ▶ **The Perennial Value Microcap Opportunities Trust (the Trust) was up 1.1% net of all fees despite poor market conditions during the month.**
- ▶ **The focus remains on companies with good balance sheets (61.0% of stocks in the Trust have no debt), good growth prospects and attractive valuations (EV/EBIT in FY19 is 6.1 times a 45.0% discount to the market.)**

Trust Performance

The Trust was up 1.1% net of all fees despite poor market conditions during the month.

There was a considerable number of earnings updates from small and microcap companies during May. The negative news was concentrated to those corporates with a domestic exposure (e.g. retail and automotive) as well as weather related disruptions in construction.

Positive news was more company specific and clearly in the minority (only 32.0% of updates were positive according to data from Canacord).

Pleasingly several stocks in the Trust defied the market gloom and provided positive updates.

- **Alliance Aviation** (up 31.9%) after announcing a significant wet leasing deal with Virgin covering regional routes in Queensland.
- **HUB 24** (up 19.2%) after announcing they had reached their \$5 billion Funds Under Management target.
- **EML Payments** (up 18.7%) provided a quarterly result showing continued growth across all divisions and strong cashflow.
- **Codan Limited** (up 9.6%) increased profit guidance by 25.0% as sales of gold detectors continued to be ahead of management expectations.

One stock we have been watching since its fall in February is **Appen Limited** which provides language technology solutions. They provided an upgrade during the month highlighting that earnings will be up 40% to 50% over the prior year. With this new information we moved quickly to build a position (with an 8.5% gain in the month from our average entry price).

The only company held in the Trust which downgraded during May was **Oroton Group** (down 26.2%) although this is a relatively small holding in the Trust.

Other stocks which drifted lower, despite the lack of negative news flow, were **Tinybeans** (down 17.8%), **Catapult** (down 21.8%) and **Veris** (down 14.3%).

Trust Activity

We participated in a placement from **Swick Mining** (down 14.0%) with the proceeds to be applied to new rigs (given they are at 100% utilisation) and buying out the minorities in Orexplore (on onsite mineral analysis technology) which could be a significant asset for Swick as the technology is commercialised.

We also participated in the raising by **Apollo Tourism** (up 9.2%) to fund their expansion into Canada.

We exited **Specialty Fashions** early in the month, given weak retail conditions and also sold out of **NZME** after the NZCC knocked backed the merger with Fairfax NZ.

Company Visit Highlights

We had some insightful company meetings during May (over 96 visits) which built our conviction in some key names as well as provided new investment ideas to explore.

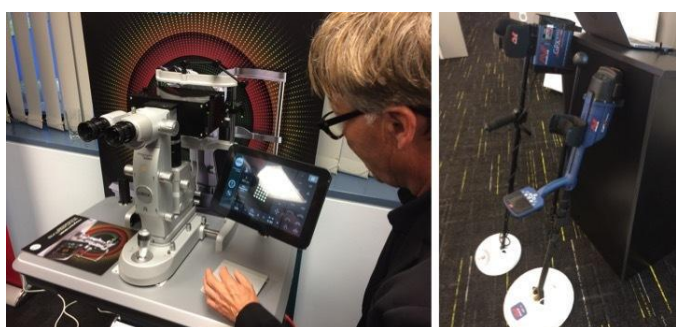
We visited **Eastern Goldfields** to assess progress of the plant commissioning and other site works. The stock was up 13.3% for the month as this project continues to de-risk.

We were impressed by the progress being made with the plant close to completion as shown below.



Source: Perennial Value – Eastern Goldfields

We also visited two of our holdings in Adelaide (**Ellex Medical** and **Codan Limited**) and came away impressed with the technology demonstrated by both companies. Some of the new innovations can be seen below.



Source: Perennial Value – Ellex Integreproscan – Codan metal detector

The Ellex Integreproscan laser (left photo) has in-built laser patterns making it more user friendly and efficient while the GPZ metal detector from Codan (right photo) has military grade encryption to reduce the amount of counterfeiting which has impacted previous models.

At month end the Trust held 48 stocks and cash of 2.8%.

Signatory of:



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Prospective FY19	Price to Earnings (times)	EV/EBIT (times)	3yr EPS growth (%p.a.)
Micro Cap Opportunities Trust**	11.5	6.1	33.1
Market Average Ex-100*	13.8	11.6	13.4
Premium/ (Discount) to Market	(17%)	(47%)	147%

Source: *Macquarie Securities, Goldman Sachs and UBS forecast as at 31 May 2017. **Perennial forecast as at 31 May 2017

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.6	5.8
Materials	17.3	16.3
Industrials	11.9	9.4
Consumer Discretionary	15.9	20.0
Consumer Staples	2.0	8.7
Health Care	5.6	6.6
Financials-x-Real Estate	11.3	8.6
Real Estate	1.4	15.3
Information Technology	24.7	6.4
Telecommunication Services	0.0	2.1
Utilities	1.6	0.7
Cash & Other	2.8	-

Rounding accounts for small +/- from 100%.