Perennial Value Microcap Opportunities Trust

Monthly Report
31 August 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Microcap Opportunities Trust*	2.8	16.0	7.2	-	-	-	15.8
S&P/ASX Small Ordinaries Accum. Index	2.7	5.1	3.1	-	-	-	6.8
Value Added (Detracted)	**0.1**	**10.9**	**4.1**	**-**	**-**	**-**	**9.0**

*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 $7.1 million

Distribution frequency
Annually

Minimum initial investment
$25,000

Trust inception date
February 2017

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WPC3982AU

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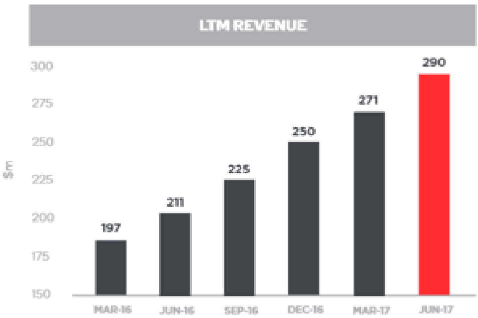
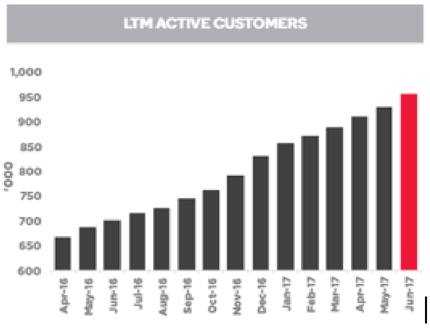
- **The Perennial Value Microcap Opportunities Trust (the Trust) was up 2.8% net of all fees for August.**
- **In the seven months since inception (1 February 2017) the Trust is up 15.8% net of all fees.**
- **The focus remains on companies with good balance sheets (50.0% of stocks have no debt), good growth prospects (average Earnings Per Share (EPS) growth of 43.0% in financial year 2019 (FY19)) and attractive valuations (EV/EBIT* in FY19 is 7.1 times a 41.0% discount to the market).**

Trust Performance

The Trust was up 2.8% net of all fees for August.

Kogan.com Ltd (up 38.7%) was again the best performing stock in the Trust after delivering 37.0% revenue growth in financial year 2017 (FY17) and earnings before interest, tax, depreciation and amortisation more than doubling. Post the result and after more detailed discussions with management we added further to the position at $3.00 (month end $3.50). The strong revenue trends shown below are a clear sign that Kogan.com is gaining traction with its growing customer base (also shown below).





Source: Kogan.com FY17 Investor Presentation

We began building a position in **Engenco** last month (with stock up 31.9% this month) and moved quickly to add to this position post the release of their FY17 result which showed a very strong second half 2017 (2H17) earnings recovery and an improvement in the balance sheet to a net cash position. There are currently no brokers covering Engenco but given the very cheap multiple and clear signs of an earnings recovery we expect it to start coming to the attention of other investors.

Several other high conviction positions in the Trust delivered during the August reporting season, namely:

- **Imdex** (up 23.3%) with a strong FY17 result as well as data showing tools on hire up 42.0% in June 2017 – a good leading indicator;
- **Veris** is (up 20.0%) with a 30.0% lift in the core survey division in 2H17;
- **RPM Global** (up 18.0%) as strong software licence sales in the fourth quarter 2017 provided a lead indicator for maintenance and consulting revenues in financial year 2018;
- **PWR Holdings** (up 14.7%) with a result ahead of consensus driven by stronger 2H17 margins despite the drag from the foreign exchange movement

*EV/EBIT is Enterprise Value (Market Capitalisation plus Net Debt) dividend by Earnings Before Interest and Tax. This measure is an effective way of capturing the strength (or weakness) of the balance sheet in the valuation measure.

Other strong performers were **Finders Resources** (up 19.5%), **Fleetwood** (up 18.9%), **Pacific Current** (up 15.4%) and **EML Payments** (up 13.6%).

Amongst the larger positions the main detractor was **Integrated Diagnostics** (down 5.2%) giving back some of the previous months gains with an inline FY17 result. Smaller positions which detracted included **Mint Wireless** (down 30.0%), **Eastern Goldfields** (down 17.5%) and **The Reject Shop** (down 12.7%).

Trust Activity

We monitored each position during reporting season for any items which didn't meet our expectations or which caused us to question our conviction in a stock. Our conviction in two names were reduced post poor cash flow which we picked up in quarterly disclosures from **Catapult** and **MSL Solutions.**

While the low cash flow had a sensible explanation, in each case we prefer to err on the side of caution and we moved quickly to reduce our holdings to a more suitable smaller position size reflecting our lower conviction. This helped reduce the impact on the Trust as both stocks traded down over the month - **Catapult** (down 15.8%) and **MSL Solutions** (down 19.4%).

We also exited our small position in **GBST** after they disclosed that a significant multi-year investment was required in their products. The decision to exit was taken after factoring in the lower cash flow and given it remains unclear whether this investment was required to just stay competitive with other products rather than providing them with a leading solution. Our average exit price was $2.23, down 32.0% from the prior month but ahead of the month end price of $1.92.

Company Visit Highlights

Outside of a hectic reporting season, the main highlight of August was our visit to **Diggers and Dealers** in Kalgoorlie. It was our visit last year that gave us the confidence to significantly increase our investment in mining services. This year we were impressed by the breadth of the recovery in activity across the mining sector. More specifically; the lift in exploration activity which started in the gold sector has spread to base metals and iron ore. Anecdotes of increased wages for specific mining professions has spread to across-the-board pay increases (in a lot of cases for the first time in four to five years). Lastly, it seems there will be a reasonably orderly transition of construction staff from the end of the LNG projects to the start of roughly $8 billion of iron ore capital expenditure over the next three years. That said, margins in the mining contracting space remain tight as competition for work is high. Overall, there's little doubt the sector has passed the bottom and is heading towards a more normalised level of activity.

At month end the Trust held 52 stocks and cash of 5.9%.

Asset Allocation

Sector	Trust weight %	Index weight %
Energy	4.9	6.1
Materials	9.7	16.9
Industrials	23.6	9.3
Consumer Discretionary	18.0	20.6
Consumer Staples	2.3	10.2
Health Care	11.2	5.9
Financials-x-Real Estate	5.2	7.8
Real Estate	0.5	14.4
Information Technology	18.7	6.2
Telecommunication Services	0.0	1.9
Utilities	0.0	0.6
Cash & Other	5.9	-

Rounding accounts for small +/- from 100%.