

	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Microcap Opportunities Trust*	7.0	-	-	-	-	7.9
S&P/ASX Small Ordinaries Accum. Index	-0.3	-	-	-	-	3.6
<b>Value Added (Detracted)</b>	<b>7.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.3</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 \$4.0 million

#### Distribution frequency

Annually

#### Minimum initial investment

\$25,000

#### Trust inception date

February 2017

#### APIR code

WPC3982AU

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- ▶ **The Perennial Value Microcap Opportunities Trust (the Trust) was up 7.0% net of all fees for the June quarter.**
- ▶ **The focus remains on companies with good balance sheets (52% of stocks in the Trust do not have any debt), good growth prospects and attractive valuations (Trust EV/EBIT in FY19 is 6.9 times a 41.0% discount to the market).**

### Trust Performance

The Trust was up 7.0% net of all fees for the June quarter. Performance since inception is 7.9% net of all fees.

The top performing stock in the quarter was **Kelly Partners Group** (up 41.5%) purchased via an IPO. Kelly Partners provides accounting and taxation services to private small and medium enterprises with plans to grow its network beyond the current 16 practices. After a thorough review of the prospectus and meeting management, we considered the listing price of \$1.00 per share as attractive. We maintain a positive view on the earnings growth of the company and it remains one of our top 10 holdings.

**Austin Engineering** (up 29.4%) continued to benefit from positive peer data points regarding the replacement cycle of mining fleet. Sector updates by industry major Caterpillar, suggest the sharp cuts to mining capex are reversing as fleet maintenance becomes increasingly unavoidable. We look forward to a positive update with the company financial report in August.



Source Bloomberg Caterpillar Inc – dealer stats show a clear uptick in fleet expenditure.

**Prime TV** (up 28.8%) reiterated underlying earnings guidance and also outlined the benefit from a reduction in license fees. While the reduction in license fees is a positive, we await progress on the government's attempts to remove cross media ownership restrictions, something that would further enhance the corporate value of Prime TV. Another positive is the likely weakness in competitor Channel 10 as they face funding issues.

**Pacific Current Group** (up 13.0%) was buoyed by positive monthly Funds Under Management figures for both April and May. Additionally the share price rallied post an equity raising to cover future obligations and provides a strong balance sheet going forward.

The main detractors from performance included **Swick Mining Services** (down 14.5%) as the market digested the recent capital raising. Funds were raised to increase rig count due to utilisation approaching 100% and to increase ownership of Orexlore, a mineral analysis tool we have a positive view on.

**Sino Gas & Energy** (down 8.5%) reported quarterly production in April which was at the lower end of its guidance range. The company did note however that production had picked up post quarter end. Chinese government agency, the NDRC, reiterated its target for 10.0% of power generation to come from gas by 2020, compared to 6.0% at present. This policy initiative should support domestic gas demand and prices in China for the foreseeable future.

**Oroton Group** was down 34.5%. We established a relatively small position (1.0%) in Oroton, given it is a company in turnaround, which announced an earnings downgrade during April largely due to the clearance of discontinued lines (apparel, footwear, lingerie) and a very poor performance from their non-core GAP agency. Perennial is actively engaging with the Board and we were pleased to see Board independence restored with one of the non-executive directors resigning. Additionally, the Board appointed Moelis & Company (an independent investment bank) to conduct a strategic review and we are pleased that towards the end of the quarter the Board announced several avenues it is open to pursuing, including putting the company up for sale.

### Trust Activity

Several stocks such as **Cogstate** and **Appen** were exited on valuation grounds. **Specialty Fashion Group** was sold due to weak retail conditions. Given the high degree of tax loss selling we used the weakness in June to add several new deeper value positions to the Trust.

### Company Visit Highlights

During the quarter 239 company visits took place across Melbourne, Perth, Sydney and New Zealand with several new research ideas generated as a result.

At month end the Trust held 50 stocks and cash of 7.0%.

### Outlook

The Trust continues to look for companies with attractive valuations and exciting growth prospects.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	3.2	5.6
Materials	18.8	16.3
Industrials	22.2	9.6
Consumer Discretionary	15.9	21.4
Consumer Staples	0.7	9.3
Health Care	6.3	6.8
Financials-x-Real Estate	7.2	7.5
Real Estate	0.0	14.4
Information Technology	18.6	6.5
Telecommunication Services	0.0	2.0
Utilities	0.0	0.6
Cash & Other	7.0	-

Rounding accounts for small +/- from 100%.

Signatory of:



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