Perennial Value Microcap Opportunities Trust

Monthly Report December 2022

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Microcap Opportunities Trust (Net)	0.7	3.7	-3.8	-39.5	-19.7	-4.2	3.8	9.8
S&P/ASX Small Ordinaries Accumulation Index	-3.7	7.5	7.0	-18.4	-2.3	1.4	2.9	6.1
Value Added	**4.4**	**-3.8**	**-10.8**	**-21.1**	**-17.4**	**-5.6**	**0.9**	**3.7**

^Since inception: February 2017. Past performance is not a reliable indicator of future performance.

Overview

For the month of December, the Trust was up 0.7% (net of all fees) outperforming a very weak market with the Index down 3.7%.

The performance of the index reflected macro issues as it has for much of the year. Despite this, it was pleasing to see fundamentals at a stock level rewarded, enabling the Trust to outperform. This trend is pleasing to see given we focus on picking stocks on company fundamentals, something which has been out of favour all year.

The early shift in what is driving share price performance likely reflects the absence of the liquidity forced selling which was impacting Microcaps for much of the year, but also the emergence of some risk appetite. This emerging risk appetite meant investors began adding new positions for the first time this year. The initial focus seems to be on stocks with a strong earnings outlook in a tough economic environment (where our portfolio is also focused).

This positioning is best reflected in our large overweight position in Information Technology, where valuations have improved significantly, high margins can withstand inflation and revenues are still growing. This contrarian position began to work with several tech names up more than 20% for the month – for example Limeade, DUG Technology and MedAdivsor.

The average PE ratio of the portfolio is 12.2x, a sizeable discount to the Index which is 12.8x for FY24 given the superior growth on offer.

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 and Sam Berridge

Trust FUM
AUD $167 million

Distribution Frequency
Annual

Minimum Initial Investment
$25,000

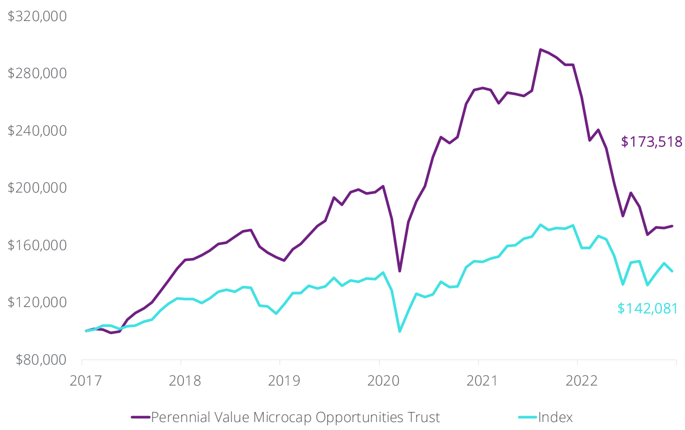
Trust Inception Date
February 2017

Fees
1.20% p.a. + Performance fee

APIR Code
WPC3982AU

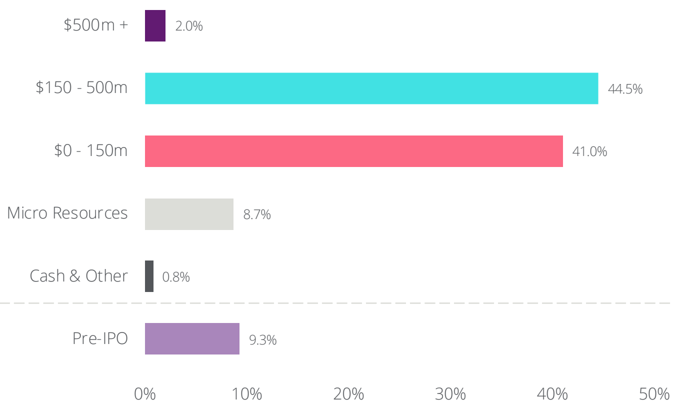
Top 5 Positions	Trust (%)	Index (%)
GOOD DRINKS AUSTRALIA LTD	6.1	0.0
LARK DISTILLING CO. LTD	4.6	0.0
NAVIGATOR GLOBAL INVESTMENTS LTD	4.6	0.0
ENVIROSUITE LTD	4.3	0.0
SUPERLOOP LTD	4.1	0.0

Growth of $100,000 Since Inception



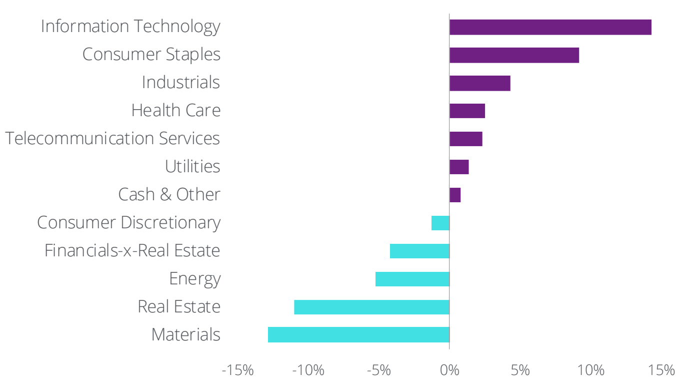
Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Market Capitalisation Exposure



Please note, the above table may add to more than 100% as Pre-IPO equity positions will be double counted

Sector Active Exposure vs Index



Trust Review

There were several companies that were rewarded during the month following positive updates, including:

- Limeade Inc. (+63.2%) announced several new material contracts returning the company to growth after several COVID impacted years and providing them confidence to maintain guidance of positive EBITDA in 2023. The contracts announced were 3yr contracts with Marsh McLennan for US$5.1m and Tyson Foods for US$5m. This followed on from a larger contract of US$10.5m with UPMC Health Plan, which was announced in November. Despite the bounce in the share price the market cap is still just under $A80m and close to 1x EV/Sales compared to the current listed range of 3-6x
- Synertec (+38.9%) after announcing their remote emission-free power solution had been fully integrated with Santos at the first field test site, and continues to progress towards commercial scale
- DUG Technology (+35.5%) provided an operational update with US$24m in new project work, materially up on the prior year with additional capacity installed to meet this demand. This was followed up by a contract with Monash University for computing power and storage with a large upfront cash payment
- SciDev (+29.3%) announced a build own operate water treatment plant with Cleanaway with an attractive minimum revenue value, but also includes upside participation for higher volumes. The plant will be focused on PFAS treatment, and it is significant that Cleanaway, one of Australia's largest waste companies, chose to use SciDev's PFAS technology rather than pursue their own development
- MedAdvisor (+23.8%%) reported revenue up 50-60% in the 1H23 and an increasing proportion of higher-margin digital programs in the US, along with increased penetration into community-based pharmacies

Our investment in the Micro Resources Trust held up well (-1.0%) relative to a weak resources index (-4.7%) with exposure to service companies and less speculative resource names leading to relative outperformance.

Positive newsflow which appeared to go unrewarded included:

- Aerometrex (+2.4%) after selling high resolution 3D cities already in their catalogue to Google. While one-off, they are high margin with the costs already sunk, and provide a strong endorsement of their quality
- Maggie Beer was flat for the month despite an encouraging trading update for November (positive growth on the very strong prior period) and 6.2% growth in retail. They also secured the services of Kinda Grange as the new CEO, having previously been the joint Managing Director of the much larger Goodman Fielder
- Viva Leisure (down 11.7%) achieved annualised revenue of $140.9m and the second strongest month of member additions in November. Pleasingly, they also disclosed solid YTD cashflows

Marley Spoon was weaker (down 21.2%) after completing a large rights issue. This often happens post a large raising but given the positive trading update and momentum we believe it should attract new investor interest in the coming months. Clearly the CEO agreed, buying $0.75 million worth of shares in the raising.

MoneyMe (down 30.0%) reached an agreement with their debt provider to reset existing debt covenants while scaling back the size of the facility. The focus for the business remains on statutory profit which will be supported if a lower funding cost model can be secured.

At month end, the Trust finished with 49 positions and cash of 0.8%.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-3.7
Energy	-5.6
Materials	-5.6
Industrials	-9.2
Consumer Discretionary	-8.2
Consumer Staples	-2.4
Health Care	-5.8
Financials	-3.8
Real Estate	-0.9
Information Technology	-6.3
Telecommunication Services	-8.8

Portfolio Managers: Sam Berridge (left) and Andrew Smith (right).

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Contact us

Level 27, 88 Phillip Street
Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au