Perennial Smaller Companies Sustainable Future Trust

MONTHLY REPORT JULY 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	2 Years (% p.a.)	5 Years (% p.a.)	Since Inception^ (%p.a.)
Perennial Smaller Companies Sustainable Future Trust (Net)	0.8	10.6	0.8	1.2	4.9	-	7.6
S&P/ASX Small Ordinaries Accum. Index	1.4	9.9	1.4	-8.5	-0.8	-	1.0
Value Added	**-0.6**	**0.7**	**-0.6**	**9.7**	**5.6**	**-**	**6.5**

^Since inception: 1 February 2018. Past performance is not a reliable indicator of future performance.

Overview

- The Sustainable Future Trust finished the month up 0.8% net of fees, underperforming the benchmark return by 0.6%.
- Since inception in February 2018, it has delivered a 7.6% p.a. return net of fees, outperforming the benchmark by 6.5% p.a.
- Negative contributors this month included Phoslock Environmental Technologies (-29.5%), Fluence Corporation (-18.8%) and Carbon Revolution (-16.3%).
- Positive contributors this month included Netwealth (+33.9%), Imricor (+24.2%), City Chic Collective (+17.2%) and Mesoblast (+12.6%).

Perennial Smaller Companies Sustainable Future Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in companies predominantly outside the S&P/ASX Top 50 Index that conduct business taking into account environmental, social and governance ("ESG") considerations and/or conduct business in industries which have favourable characteristics having regard to ESG considerations. The Trust seeks 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 Manager
Damian Cottier

APIR Code
WPC5600AU

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
1 February 2018

Fees
1.20% p.a. + Performance fee

Sustainable Future Highlight

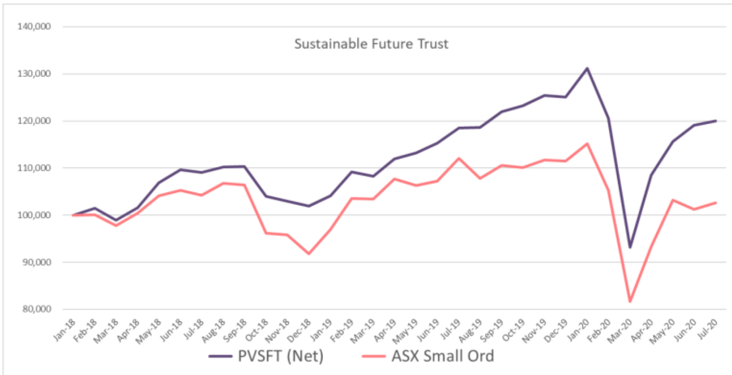
During the month NZ renewable energy company Meridian Energy announced that Rio Tinto had given notice that it would be terminating the electricity supply contract for the Tiwai aluminium smelter on the South Island of New Zealand on 31 August 2021.

RIO decided to close the Smelter after being unable to negotiate lower electricity prices with electricity providers and the NZ government.

While this creates some short-term headwinds for Meridian and the New Zealand electricity market, the surplus lower cost renewable energy is likely to result in a reduction of fossil-fuel fired power generation over time. In addition, the NZ government has announced incentives for industry on the South Island to switch from fossil fuels to hydro renewable energy. This is a major positive for the planet and New Zealand's climate policy.

Meridian will look to sell the renewable energy that it is currently selling to the smelter to other commercial customers and retail customers. These contracts are typically at higher price points than the smelter and this will go some way to offsetting the impact of the contract loss to Meridian. The Meridian share price was down 2.6% during July.

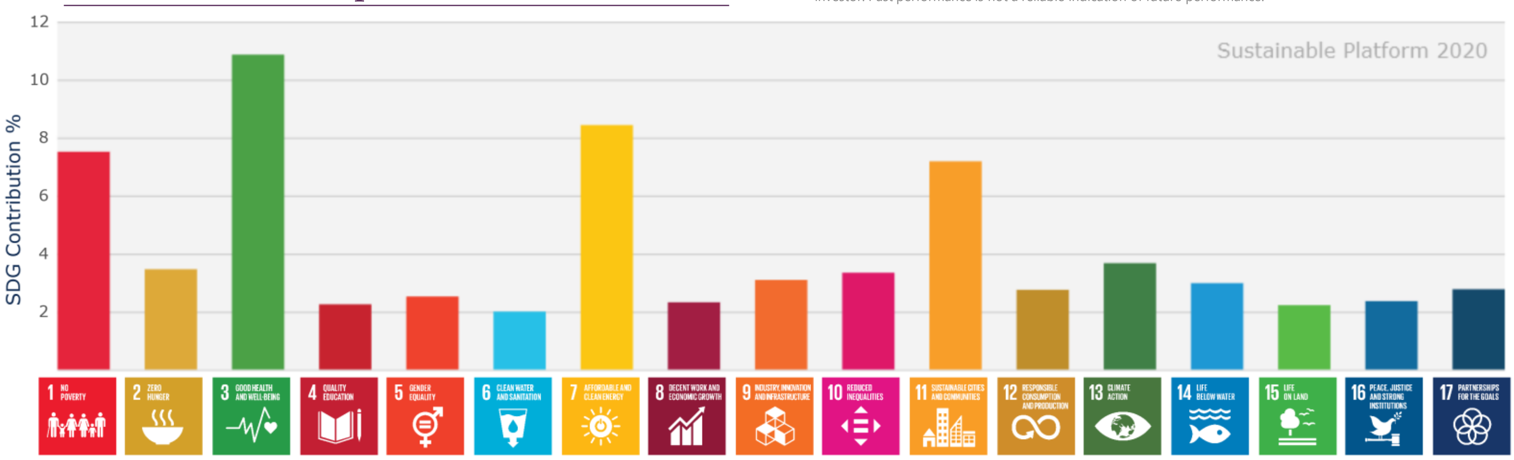
Performance Since Inception



Value of A$100,000 since inception (1 February 2018) of the Sustainable Future Trust as at 31 July 2020.

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.

Portfolios Contribution to the UN Sustainable Development Goals



Source: Data provided by the Sustainable Platform 29 Feb 2020; based on company revenues. Note: ~70% of holding companies revenue contributes to the UN SDGs

Trust Review

The Sustainable Future Trust finished the month up 0.8% net of fees, underperforming the benchmark return by 0.6%.

It is a key goal of the Trust to demonstrate that there is no performance trade-off to invest with a focus on ESG and sustainability. Since inception in February 2018 the Trust has delivered a 7.6% p.a. return net of fees, outperforming the benchmark by 6.5% p.a.

Negative contributors this month included Phoslock Environmental Technologies (-29.5%), Fluence Corporation (-18.8%) and Carbon Revolution (-16.3%).

Positive contributors this month included Netwealth (+33.9%), Imricor (+24.2%), City Chic Collective (+17.2%) and Mesoblast (+12.6%).

Carbon Revolution and water remediation companies Phoslock and Fluence each announced greater than expected impacts on their business from COVID-19. In the case of Phoslock, the impact was amplified by recent extensive flooding in China which has had an impact on the company's Chinese operations.

Netwealth delivered a better than expected quarterly update, while Imricor announced that it had entered into a non-exclusive sales distribution agreement with Philips Electronics. Philips is a leading manufacturer of MRI Equipment. Under the agreement Philips will sell Imricor's MRI-compatible products to assist with cardiac arrhythmia surgery as part of the iCMR installation package that Philips sells to hospitals. This is likely to assist with the adoption of Imricor's products in Europe.

City Chic Collective, which is an "Engaged Improver" holding, announced a capital raising for the acquisition of the e-Commerce assets of Catherine's, a US plus-size fashion retailer. City Chic is currently the preferred party to acquire the assets out of the bankruptcy process for Catherine's "bricks-and-mortar" business in the US. If it is successful, in our view it will have acquired the assets at an attractive price – likely less than 5x expected EBITDA. The company successfully acquired the eCommerce assets of the US business Avenue Stores through a similar process last year. After this acquisition over 80% of the company's sales will be through online channels.

Mesoblast announced the Oncology Drugs Advisory Committee of the US Food and Drug Administration has scheduled a meeting in mid-August to consider the approval of the Company's RYONCIL product for the treatment of acute graft versus host disease (aGVHD) in children. aGVHD is a serious condition which typically impacts children who are being treated for leukemia. If the company receives this approval, it will be a significant milestone for the company.

During the month we participated in the City Chic capital raising and added to our positions in New Energy Solar, M7 Technologies and Smartgroup. We sold out of Estia Health after it became apparent that the second wave of the COVID-19 outbreak in Victoria was likely to have a significant negative effect on both the company's business and the aged care sector in general.

At month end the Trust held 40 stocks and cash was 8.4%.

For July, the weighted average Perennial-derived Environmental, Social, Governance and Engagement ("ESGE") Score of the Trust was 7.2 which is 27% higher than the benchmark ESGE Score of 5.7.

ESG Activity

Our ESG activities during the month included:

- We attended the Carbon Action 100+ Working Group Meeting which discussed the progress on the Carbon Action 100+ engagements with significant ASX-listed carbon emitters.
- We met with ClimateWorks to discuss how the organisation is assessing the extent to which listed companies are making commitments aligned with the emission reduction targets outlined in the Paris Agreement. The work has led to the development of the netzerotracker.org website.
- We engaged with Mach7 Technologies to encourage greater gender diversity at a board and executive level.
- We engaged with City Chic Collective in relation to the supply chain of the Catherine's business that the company is seeking to acquire. The company is planning to manage supply chain risks by moving production to City Chic's existing suppliers where, as discussed in last month's update, the company has in place processes to manage and improve outcomes in relation to the supply chain.
- During the month we attended a call with management of Calix. They discussed their project LEILAC which uses Calix technology to reduce CO_2 in the lime and cement industry. The process involves grinding the minerals to make very small particles and then heating them to extract and separate the CO_2 emitted. They view their CO_2 emissions reduction technology a material opportunity. They compared their technology to the closest competitor who uses chemicals to absorb the CO_2 in lime and cement. They also discussed their water treatment business which can improve the sustainability of wastewater through re-use, improve aquaculture through improved water quality while reducing energy costs and pollution and their process of converting wastewater into renewable energy.

Top 5 Positions	Trust (%)	Index (%)
City Chic Collective Ltd	4.1	0.4
Janison Education Ltd	3.8	0.0
Infigen Energy	3.7	0.5
Imricor Medical Systems	3.7	0.0
Steadfast Group Ltd	3.3	1.5

Sustainable Future and ESG Team

Damian Cottier – Portfolio Manager

Emilie O'Neill – ESG & Equities Analyst

Invest Online Now

Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000 | 1300 730 032 | invest@perennial.net.au | www.perennial.net.au