

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	4.7	3.8	16.2	15.6	8.0	8.1	10.2
S&P/ASX Small Ordinaries Accum. Index	3.6	-2.5	5.8	13.2	6.2	4.9	5.7
Value Added (Deducted)	1.1	6.3	10.4	2.5	1.8	3.2	4.5

*Net performance (including performance fee). [^]Since inception: March 2002. Past performance is not a reliable indicator of future performance.

Perennial Value Smaller Companies Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares predominantly outside the S&P/ASX 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:

Grant Oshry and Andrew Smith

Risk profile:

High

Trust FUM (as at 31 December 2016):

AUD \$114 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ The Trust delivered a solid return of 4.7% net of all fees, outperforming the Index by 1.1%.
- ▶ The Index rallied in December, with the S&P/ASX Small Ordinaries Accumulation Index (the Index) up 3.6%.
- ▶ Performance for the Calendar Year 2016 was also strong with the Trust up 15.6% net of all fees, compared to the Index which was up 13.2%.

Trust Performance

The Perennial Value Smaller Companies Trust (the Trust) delivered a return of 4.7% for December, net of all fees, ahead of the Index which was up 3.6% for the period.

For Calendar Year 2016 the Trust was up 15.6% net of all fees, compared to the Index which was up 13.2%. 2016 was a busy year which saw the Perennial Small Caps team make over 650 company visits travelling from places as diverse as Western Sydney and Western Australia to China and the US. Some of the more illuminating meetings are shown below.



RUL and IMD Exhibits at the [MineExpo](#) Las Vegas Oct 2016



VEE – Perth Site Visit – Oct 2016



TOX – Windsor - Aug 2016



IGO -Tropicana gold mine, July 2016



A2M– China Store Visit May 2016

Global markets remained in a buoyant mood, with the S&P500 up 1.8%, Nikkei 225 up 4.4% and FTSE 100 up 5.3%, while the Shanghai Composite declined 4.5%. Commodity prices were mixed with oil up 10.6%, iron ore up 9.1% while copper (down 4.2%) and gold (down 1.8%) declined. As widely expected, the Federal Reserve lifted rates for the first time since the Global Financial Crisis (GFC), raising the Federal Funds Rate by 25 basis points to 0.75%. The Reserve Bank of Australia (RBA) left the cash rate steady at 1.5%, while the Australia Dollar (AUD) finished the month down two cents at 72 US cents.

During December, the better performing sectors were consumer discretionary up 6.9% and industrials 5.8%. The weakest sector was consumer staples down 3.7% followed by health care which was up 0.2%.

A major contributor to performance during the month was the continued rotation in the market towards value stocks – with high PE (Price to earnings ratio) names not held in the Trust sold off while cheaper value names (many of which are held in the Trust) attracted buying interest. For example significant weakness was seen in Bellamy's which is not held by the Trust but is reasonably large in the index. It was down 45.7% post the profit downgrade and subsequent trading halt – this also impacted the share prices of other 'China stocks' such as A2 Milk (down 14.3% despite positive trading updates) and BWX down 3.1% - both of which are not held in the Trust.

By contrast several value names held in the Trust rebounded strongly from oversold positions with Thorn Group up 15.3%, Global Constructions up 14.0%, Speedcast up 12.5%, Vita Group up 11.4% and HFA Holdings up 9.6%.

While the best performing stock for the Trust was Sundance Energy (up 25.7%) as it followed the oil price higher.

Stocks which detracted from performance included Gateway (down 4.2%) with the lower distribution announced for 1H17 signalling a potentially large second half skew to earnings. Melbourne IT, EML Payments and Adairs were also all down around 3.0% despite no news in the period.

Trust activity

During the month, we took profits in Oz Minerals, APN Media, Global Constructions, Myer and Aveo Group in addition to receiving cash for our shares in Intecq as the takeover completed. The position in Pulse Health was exited on market at close to the takeover bid price, while the small position in Tassal Group was sold ahead of what could be a weak 1H17 result.

Proceeds were predominantly used to add several new small positions (such as Bradken which was acquired at a small discount to the current takeover price) as well as to add to existing positions on weakness– such as Vita Group at \$2.80, Regis Resources at \$2.58, Baby Bunting at \$2.20, Imdex at \$0.56 and HFA Holdings at \$2.00.

The Trust ended the month with 57 stocks and cash of 3.5%.

Outlook

Despite the derating in some expensive stocks during the month, there are still many small cap stocks trading on lofty price-to-earnings multiples providing little margin of safety (we do not hold these in the Trust as they do not meet our value process). The Trust offers value trading on 13.4 times FY17 P/E and 12.1 times price/free cash flow, representing a very significant 19.3% and 24.4% discount respectively to the ex-100 market.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.3	4.8
Materials	13.6	20.1
Industrials	10.4	10.2
Consumer Discretionary	26.9	22.1
Consumer Staples	0.9	6.2
Health Care	6.4	6.4
Financials-x-Real Estate	7.2	8.7
Real Estate	12.4	13.0
Information Technology	7.1	6.2
Telecommunication Services	4.0	1.5
Utilities	2.4	0.8
Cash & Other	3.5	-

Rounding accounts for small +/- from 100%.

For all other enquiries, please contact us on 1300 730 032
or visit www.perennial.net.au

Signatory of:



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