PERENNIAL VALUE MANAGEMENT

Perennial Value Smaller Companies Trust

Monthly Report
31 March 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	0.6	-1.2	14.7	15.7	6.5	4.2	9.9
S&P/ASX Small Ordinaries Accum. Index	2.7	1.5	7.4	13.7	6.4	2.3	5.7
Value Added (Detracted)	**-2.1**	**-2.7**	**7.3**	**2.0**	**0.1**	**1.9**	**4.2**

*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:	AUD $108 million
Income distribution frequency:	Half yearly
Minimum initial investment:	$25,000
Trust inception date:	March 2002
APIR code:	IOF0214AU

- **The Perennial Value Smaller Companies Trust (the Trust) returned 0.6%, net of fees.**
- **For the twelve months ending 31 March 2017, the Trust delivered a net return of 15.7%.**
- **The Trust's relative performance was impacted by a premium takeover offer for debt-laden Spotless coupled with China amending its cross-border policies, giving a large boost to the share prices of index-heavy A2 Milk and others – Neither Spotless or A2 Milk are held in the Trust.**
- **Based on our FY18 analysis, the Trust represents considerable value with an average price to free cash flow per share of 9.3 times (35.0% discount to the ex-100 market).**

Trust Performance

Despite some uncertainty around global politics with President Trump's controversy around his repealed healthcare bill, Britain moving ahead with its exit from the European Union as well as an attack on Westminster, London, the S&P/ASX Small Ordinaries Accumulation Index (the Index) increased by 2.7% during the month. The Trust ended up 0.6%, net of all fees, underperforming by 2.1%.

A portion of the underperformance of the Trust is attributed to the 59.0% premium Spotless received when Downer made a cash takeover offer of $1.15 for this company. Since its IPO at $1.60 in mid-2014, Spotless has struggled to generate free cash flow and has a geared balance sheet in excess of 2.5 times net debt to EBITDA. This balance sheet risk, combined with poor cash flow kept us out of this stock.

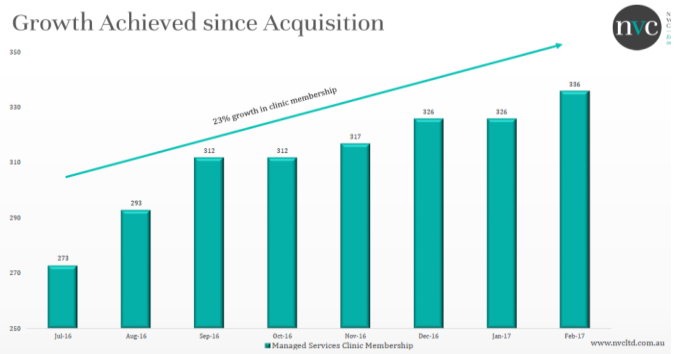
Also impacting our relative performance was China's announcement that it is amending the cross border policy with Australia, which benefitted index-heavy A2 Milk (up 24.0%) and Blackmores (up 14.0% since being re-admitted to the Index during the month). Neither of these stocks were held following the changes the Chinese regulator announced last April to tighten cross border transactions.

Global markets were subdued, with the S&P500 flat, FTSE100 up 0.8%, Nikkei 225 down 0.6% and Shanghai Composite down 1.1%. Commodity prices were generally softer, with iron ore down 11.0%, reversing the previous month's rally, oil down 5.0% and coking coal down 6.0%, while thermal coal rose 1.0% and gold declined 1.0%. The Federal Reserve raised rates by 25 basis points, lifting the target range to between 0.75% - 1.00%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month unchanged at 77 US cents.

During March, the best performing sectors where consumer staples (up 9.7%), health care (up 4.5%) and utilities (up 4.4%). The only two sectors to decline were materials (down 5.0%) followed by telecommunication services (down 0.5%).

The best performing stock in the Trust was New Zealand publishing and media company NZME (up 19.7%) (the Trust received this holding when it spun out of our stake in APN News & Media last June). NZME and Fairfax New Zealand are currently in merger discussions with the companies advising the market during the month that a decision on the merger by New Zealand Commerce Commission won't be made until early May.

Vet care provider and aggregator, National Veterinary Care (NVL, up 14.0%) rallied on a 'no news is good news' flow. Aside from their interim result highlighting continued growth from recently acquired vet clinics and with a strong pipeline (particularly difficult in this highly fragmented industry), we have been impressed by a 23.0% growth (63 clinic members) in clinic membership over the past seven months since their new division (Managed Services & Procurement) came into existence. This is reflected in the chart below. The importance of this division is that it benefits the company in forming a relationship from an early stage with clinics that may eventually become a relatively low-risk acquisition target for NVL over time.



Source: National Vet 1H17 Investor Presentation

Cooper Energy completed a $151 million equity raising during the month, which will cover the equity component of financing for the Sole gas project (located offshore Victoria). As per their previous raising, the majority of new stock was offered via a rights issue, leaving limited scope for new investors to gain exposure, but rewarding existing investors. The Trust took up its full entitlement at 31.5 cents a share in addition to subscribing for additional stock. The raise was well supported, with Cooper Energy closing 17.5% above the raising price. The East Coast gas shortage will mean that Cooper Energy's Sole gas project will be one of the first sources of new supply to reach the market. Diagnostic Imaging service provider Integral Diagnostics (up 11.1%) reacted positively to signs of improving growth rate indications in recent industry data as well as the 1H17 result commentary. Other strong performers included hedge fund-of-fund manager HFA Holdings (up 10.8%), mineral drilling contractor Swick Mining (up 9.8%) and global mobile payment and transaction processing company Mint Payments (up 9.1%).

Detracting from performance was consumer and commercial rental equipment provider Thorn Group (down 10.9%) following the company's provision for the long-standing review being undertaken by the Australian Securities and Investment Commission (ASIC), who is taking measures to clean up the industry. Thorn Group has been working closely with this regulator during their two year-long review and has already adopted operational measures that ASIC are yet to enforce. Over the past 18 months, Thorn has strengthened its Board and management team by appointing the ex-deputy chairman of ASIC, Belinda Gibson as well as the ex-CEO of Suncorp Bank, David Foster, to its Board while also appointing a chief risk officer given the increased compliance and risk focus that the company has adopted. We are of the view that Thorn will emerge stronger as the industry undergoes rationalisation, given smaller unscrupulous operators will be forced out of business. This segment of the market will always require a service provider as the big banks choose to focus on the broader, mass market, where reputation and risk are relatively lower.

Power Holdings (down 14.1%) continued to encounter selling pressure post their 1H17 result, which was impacted by the weaker British pound.

Trust activity

During the month we exited Premier Investments post their good interim result that was released during March. We also profitably exited our position in GUD Holdings on valuation grounds as the stock was trading at a premium to its nearest competitor Bapcor, mindful this peer is 100% auto-parts while GUD is yet to divest some non-core businesses and re-deploy the proceeds.

During the month Collins Food, owner of Kentucky Fried Chicken (KFC) franchises in Australia and Germany announced an equity raising to fund the purchase of a portfolio of 16 KFC franchises in The Netherlands, together with a pipeline to develop 20 more in the region. This acquisition assists in economically supporting a regional office to oversee Germany and The Netherlands and provide a base for further European expansion. We used this raising as an opportunity to establish a position at the issue price of $5.25 as the stock trades at a substantial discount to the market, while offering growth from further restaurant expansion both locally and abroad. It is also one way to play a turnaround on the Western Australian economy, which seems to be bottoming based on feedback we solicited during the recent results season in meeting with a plethora of WA-based companies.

At month end the Trust held 56 stocks and cash of 3.7%.

Outlook

The Trust offers considerable value trading on an FY18 price to earnings of 10.5 times (30.0% discount to the ex-100 market) and a gross yield of 5.8% (23.0% premium 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	4.0	6.0
Materials	16.6	17.5
Industrials	10.2	8.7
Consumer Discretionary	23.3	20.8
Consumer Staples	0.4	8.5
Health Care	5.6	7.2
Financials-x-Real Estate	12.3	9.0
Real Estate	8.1	14.1
Information Technology	7.6	5.8
Telecommunication Services	5.1	1.7
Utilities	3.1	0.7
Cash & Other	3.7	-

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:

PRI Principles for Responsible Investment