Perennial Value Smaller Companies Trust

Monthly Report
30 April 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-2.2	-2.3	12.2	13.0	5.4	4.0	9.7
S&P/ASX Small Ordinaries Accum. Index	-0.2	3.7	7.1	10.0	6.8	2.4	5.7
Value Added (Detracted)	**-2.0**	**-6.0**	**5.1**	**3.0**	**-1.4**	**1.6**	**4.0**

*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 $105 million

Distribution frequency
Half yearly

Minimum initial investment
$25,000

Trust inception date
March 2002

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- **For the 12 months ended 30 April 2017, the Trust delivered a net return of 13.0%.**
- **The Trust's relative performance was impacted by the recovery in several high price to earnings (P/E) names such as Bellamy's, BT Investment Management and Aconex.**
- **Based on our FY18 assumptions, the Trust represents considerable value with an average price to free cash flow per share of 8.5 times (41.0% discount to the ex-100 market).**

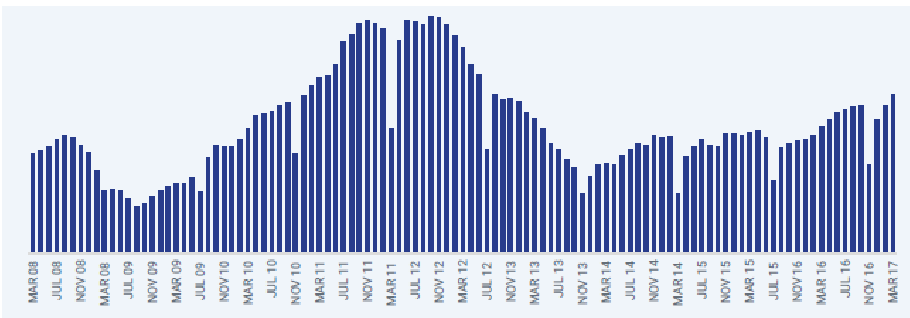
Trust Performance

The S&P/ASX Small Ordinaries Accumulation Index (the Index) marginally declined by 0.2%. The Trust also declined 2.2%, net of all fees.

A portion of the relative underperformance of the Trust can be attributed to the recovery in several high P/E names, some of which have been sold off aggressively in previous months. This lifted large index stocks such as Bellamy's (up 22.4%), A2 Milk (up 13.1%), BT Investment Management (up 19.4%) and Aconex (up 11.7%), which are not held on valuation grounds.

An additional challenge for small cap investors in the short term is the continued managed fund redemptions in the sector reflecting either a move out of small caps or a response to fund manager movements. While this short term weakness is frustrating it also creates a buying opportunity given many of these stocks have stable or improving fundamentals. A striking example of this was redemption selling in Imdex, which was down 4.6% for the month despite providing a strong update. The March quarter update highlighted a pick-up in momentum with 3Q revenue growth of 39.0% compared to 2Q growth of 13.4% and 1Q growth of 6.0%. Indicators from March were also strong with a 44.0% lift in tools on hire (seen in the chart below) foreshadowing strong revenue growth in the coming quarter.

NUMBER OF REFLEX INSTRUMENTS ON HIRE - 31 MARCH 2017



Source: Imdex Shareholder Newsletter 3Q17

Global markets were mixed, with the S&P500 (up 0.9%) and Nikkei 225 (up 1.5%) rising, while the FTSE100 (down 1.6%) and Shanghai Composite (down 2.1%) declined. Commodity prices were generally softer, with iron ore down 16.0%, oil down 7.0%, copper down 4.0% and thermal coal down 1.0%. Coking coal (up 62.0%) was the exception, rallying as a result of supply disruptions from the recent cyclones and gold also rose (up 2.0%). The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month down one cent at 75 US cents.

During April, the best performing sectors were telecommunication services (up 4.7%) and information technology (up 3.0%). The worst performing sectors were utilities (down 4.4%) and consumer discretionary (down 3.6%).

A strong contribution was made from API (up 9.3%) which delivered a good interim result with their pharmacy wholesaling channel surprisingly stronger than their retail franchise. Cash flow improved significantly and the company increased their interim dividend 40.0%. The company guided to net profit after tax growth of 'at least 10.0%' for FY17 which implies a more conservative view for 2H, which seems appropriate with the softer retail conditions.

Other positive moves included Speedcast (up 9.2%) after the company presented at a broker conference and held an investor day during the month where management confirmed that they are comfortable with consensus earnings. In addition they won two system integration contracts offshore in the oil and gas space.

HFA Holdings Ltd was stronger (up 8.1%) after it announced a positive fund update which included mandate wins in Japan and the Middle East equating to US $570 million, a 7.0% funds under management increase. This vindicates the company's investment it has made in recent times to build up its distribution arm. Despite the rise in share price, the stock still trades on a single-digit P/FCF multiple for both FY17 & FY18.

Skydive the Beach (up 7.5%) was re-rated by the market after buying a tour operator in the Great Barrier Reef.

The main detractor from performance were gold stocks with Doray Minerals (down 11.9%), Dacian Gold (down 15.2%) and Eastern Goldfields (down 21.1%) all falling. Eastern Goldfields completed a raising in April at 35 cents and despite then trading as high as 40 cents it also succumbed to what looked like forced selling late in the month.

APN was down 10.4% as softer radio data weighed on their share price. Pleasingly, APN's KISS in Melbourne (which management called out as an area of weakness at the last result) improved to their highest level in a year, while Kyle and Jackie O retained their number one breakfast slot in Sydney.

Trust activity

April was a busy month for Trust activity with the large selloff in the Reject Shop creating an opportunity. Following three consecutive downgrades that wiped 49.0% off The Reject Shop's share price during April alone, we viewed this as an opportunity to start building a position in this market-leader of everyday items that consumers need such as toiletries, cleaning products, confectionary and snack food etc. The company, whose head-buyer was replaced last October, has disappointed investors with poor earnings as the company clears out inventory that their previous buying team procured when they moved too heavily towards variety product. With a network of 350 stores and an average transaction value of $3.00, and having committed to inventory purchases, the turnaround takes time. FY18 should get some supply chain benefits from the company's new distribution centre in Truganina, Victoria. Longer-term we see real upside should the company move to a direct-sourcing model that could materially improve their gross operating margins as we have seen with other companies who have gone this route (e.g. Super Retail Group).

We also exited Vita Group following a second 'leak' during the month that Telstra would be taking back some of their stores that are currently operated by Vita under licence. This is despite the company putting out an announcement after the initial leak last December, which confirmed that Vita would on a net store basis be increasing its Telstra store network.

We also sold a third of our AHG position at average $4.08 given softer Australian Bureau of Statistics numbers over the past three months (month end close $3.73).

We took profits in NZM at 81 cents following its strong performance in recent months ahead of the pending outcome from the New Zealand Commerce Commission regarding their proposed merger with Fairfax New Zealand. We also locked in gains in Regis Resources to reduce our gold exposure and took some profits in National Vet on valuation grounds.

At month end the Trust held 57 stocks and cash of 5.0%.

Outlook

The Trust offers considerable value trading on an FY18 (PE) of 10.1 times (33.0% discount to the ex-100 market) and a Gross Yield of 5.9% (25.0% 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	3.9	5.9
Materials	15.7	17.1
Industrials	11.1	8.9
Consumer Discretionary	22.4	20.2
Consumer Staples	0.4	8.5
Health Care	5.9	7.4
Financials-x-Real Estate	12.0	8.9
Real Estate	7.8	14.5
Information Technology	7.5	6.0
Telecommunication Services	5.1	1.9
Utilities	3.1	0.7
Cash & Other	5.0	-

Rounding accounts for small +/- from 100%.

Signatory of:

PRI Principles for Responsible Investment