Perennial Value Smaller Companies Trust

Monthly Report
31 July 2017

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception^
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	0.2	4.4	0.2	8.3	4.9	6.7	9.8
S&P/ASX Small Ordinaries Accum. Index	0.3	0.2	0.3	-1.1	5.6	5.8	5.6
Value Added (Detracted)	**-0.1**	**4.2**	**-0.1**	**9.4**	**-0.7**	**0.9**	**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 $106 million

Distribution frequency
Half yearly

Minimum initial investment
$25,000

Trust inception date
March 2002

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- **The Perennial Value Smaller Companies Trust (the Trust) ended up 0.2% (net of all fees) for the month of July 2017.**
- **The Trust remains attractively priced compared to the S&P/ASX Small Ordinaries Index (the Index) with a price to free cash flow multiple of 9.3 times, being a 39.0% discount to the Index's 15.2 times.**

Market Review

Global markets were generally stronger in July, with the S&P500 up 1.9%, FTSE100 up 0.8% and Shanghai Composite up 2.5%, while the Nikkei 225 declined 0.5%. Commodity prices rallied strongly, with iron ore up 13.0%, thermal and coking coal both up 20.0%, copper up 7.0%, oil up 10.0% and gold up 2.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar (AUD) finished the month up three cents at 80.0 US cents.

During July, the best performing sector was energy (up 5.9%) following AUD oil price gain of 5.6% (USD oil price up 9.9%), utilities (up 5.0%) and industrials (up 3.3%) also recorded strong gains. The worst performing sector was healthcare (down 4.9%) followed by telecommunication Services (down 3.8%) and property trusts (down 2.2%).

Trust Performance

The Index was up 0.3% for the month of July. The Trust ended up 0.2%, net of all fees.

After weighing on performance last month, **Swick** (up 34.0%) rebounded strongly in July. There was no company specific news, although we note that a substantial holder ceased in early July, possibly explaining weaker performance in June. A steady flow of positive data points from exploration facing companies continued during July, and while we expect Swick's FY17 results to be modest, the outlook should be positive.

Copper producer **Metals X** (up 21.6%) more than reversed last month's declines, benefitting from a 6.7% bounce in the copper price during July and some outstanding exploration results at their Nifty copper mine, including an intersection of over 200 meters at reasonable grades. Nifty is a sedimentary exhalative copper deposit, which means mineralisation is generally more continuous than the more commonly found volcanogenic massive sulphide deposits. The company's quarterly report outlined a steady growth profile to 40 kilotons per annum of copper production, 40.0% above current levels. The exploration success adds some validity to Metal X's growth ambitions.

Discount variety retailer **The Reject Shop** (up 17.5%) rallied along with a few other oversold consumer discretionary stocks. We used this strength to lock in a few profits, whilst managing our exposure of this relatively illiquid stock.

Caravan and manufactured accommodation producer **Fleetwood** (up 12.3%) successfully voted in favour of amending their Constitution, which will facilitate the payment of dividends earlier than expected.

Other strong performers included **RPM Global** (up 11.9%), **Alliance Aviation** (up 11.3%) and **Metcash** (up 11.0%).

The main detractor from performance was **Doray Minerals** (down 36.1%) after announcing the closure of their Andy Well mine. The quarterly report showed Andy Well to be marginal at current gold prices, so in acknowledgement of Doray Mineral's balance sheet, a decision was made to curtail operations in favour of the lower cost Deflector mine. Positive exploration results from Deflector during the month allude to mine life extension at this asset. We took advantage of the share price weakness and added to our position.

Eastern Goldfields (down 23.0%) was sold down post announcing a dispute with one of its contractors, which have threatened court action. The news came at a sensitive time for the Eastern Goldfields as first gold production was imminent and subsequently announced on the 25 July. While we envisage a tight couple of quarters as production and cash flow ramp up, we maintain a positive view on the growth potential of the wider asset base, which is littered with high-grade gold occurrences.

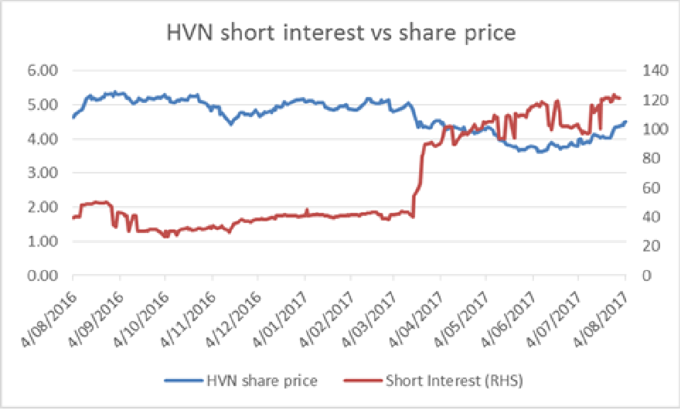
Australis Oil & Gas (down 18.4%) was sold down with the oil price early in the month. Despite the oil price bouncing later in the month, Australis Oil & Gas did not recover so we took the opportunity to add to our position at lower levels. We view Australis Oil & Gas as a long-dated option on the oil market, with no material capital expenditure obligations until CY18. Nearer term, we look forward to the divestment of non-core land.

Trust activity

Following good quarterly results, we took profits and exited each of **Regis Resources** and **Evolution Mining** following share price appreciation coupled with our concerns over an unexpected strengthening of the AUD as a firmer AUD works against Australian gold producers.

We added a new position in mining company **Mineral Resources** (up 15.4% from our average entry price of $10.63), which benefitted from iron ore's 13.5% rise during the month. Also benefitting the share price was a 12.1% increase in Spodumene (lithium ore mineral) pricing, effective from 1 July 2017. With the ramp up of the Wodgina DSO lithium operation, Mineral Resources has become the largest lithium producer in the world.

Following a material share price derating, we added **Harvey Norman** to the portfolio (up 10.4% from our $3.96 average entry price) as we view earnings risk to the upside when they report their financial year 2017 result. We received positive feedback from suppliers Samsung and Panasonic during the month, coupled with good Australian Bureau of Statistics for electrical and furniture sales in June. At our average entry price, we purchased the company on an enterprise value to earnings before interest and tax of 8.9 times which provides some margin of safety when compared to Industrial's trading on 14.2 times. Additionally, the company is one of the most heavily shorted on the Australian Stock Exchange at 10.7% (above 15.0% on a free-float adjusted basis) and we have just written to the Board on the merits of doing an on-market buyback given the valuation metrics currently on offer are compelling in acquiring shares on market and cancelling them, leading to permanent earnings per share accretion.



Source: Bloomberg

At month end the Trust held 56 stocks and cash of 6.8%.

Outlook

The Trust offers considerable value trading on a financial year 18 price earnings of 12.1 times (21.0% discount to the ex-100 market) and a Gross Yield of 4.8% (1.0% 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	3.7	5.9
Materials	11.7	16.3
Industrials	10.3	9.9
Consumer Discretionary	26.0	21.5
Consumer Staples	3.4	9.6
Health Care	7.8	6.4
Financials-x-Real Estate	10.3	7.6
Real Estate	5.7	13.9
Information Technology	7.4	6.4
Telecommunication Services	4.1	1.9
Utilities	3.0	0.6
Cash & Other	6.8	-

Rounding accounts for small +/- from 100%.