

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	2.9	6.9	3.0	8.0	4.8	6.3	10.0
S&P/ASX Small Ordinaries Accum. Index	2.7	5.1	3.1	3.2	5.7	5.7	5.8
Value Added (Detracted)	0.2	1.8	-0.1	4.8	-0.9	0.6	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

Distribution frequency

Half yearly

Minimum initial investment

\$25,000

Trust inception date

March 2002

APIR code

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- ▶ The Perennial Value Smaller Companies Trust (the Trust) ended up 2.9% (net of fees) for August 2017.
- ▶ The Trust remains attractively priced with a price to earnings (P/E) ratio of 12.3 times (a 23.0% discount to the Index) and offering a 4.8% gross yield.

Market Review

Global markets were mixed in August, with the S&P500 up 0.1%, FTSE100 up 0.8% and Shanghai Composite up 2.7%, while the Nikkei 225 declined 1.4%. Commodity price strength continued, with iron ore up 7.0%, thermal coal up 2.0%, coking coal 16.0%, gold 4.0% and copper 7.0%, while oil declined by 1.0%. The Reserve Bank of Australia left the cash rate steady at 1.5% and the Australian Dollar finished the month flat at 80 US cents.

During August, the best performing sectors were consumer staples (up 9.0%) followed by materials (up 6.1%) and energy (up 5.6%). The weakest sector was consumer discretionary (down 3.1%) followed by information technology (down 0.6%).

Trust Performance

The Small Ordinaries Accumulation Index (the Index) was up 2.7% for August. The Trust ended up 2.9%, net of all fees, outperforming by 0.2%.

Reporting season dominated headlines during August. While strong at the Index level, returns were poor when stripping out the performance of materials and energy. As an indication forecasts for Small Cap Industrials Index fell 1.4%* during the reporting season with more companies missing expectations than exceeding as shown below. Pleasingly, the Trust was well positioned versus the Index and avoided most of the high profile falls amongst Index stocks.

	Compared to Market Expectations [´]		
	Beat (%)	Inline (%)	Miss (%)
Small Cap Index (Industrials Only)*	12	49	39
Smaller Companies Trust (Industrials Only)[^]	22	69	9

Source: *JPMorgan, [^]Perennial Value. [´]Based on more than 5% share price move on the result

The Trust benefitted from a large position in **Imdex** (up 23.2%) as their financial year 2017 (FY17) result confirmed the strong recovery we had been expecting in mining services with earnings before interest, tax, depreciation and amortisation (EBITDA) up over 50.0% from the prior year. Imdex remains well positioned with net cash on its balance sheet and a 42.0% increase in tools on hire in June 2017 – a strong lead indicator for future earnings.

Other stocks reporting encouraging results included:

- **Fleetwood** (up 18.9%) which continued to recover as a strong result in modular housing lifted group earnings.
- **Smart Group** (up 18.8%) lifted earnings 50.0% driven by acquisitions and subsequent synergies combined with modest organic growth.

- **RPM Global** (up 18.0%) as strong software license sales in the fourth quarter 2017 provided a lead indicator for maintenance and consulting revenues in financial year 2018.
- **PWR Holdings** (up 14.7%) with a result ahead of consensus driven by stronger second half margins despite the drag from the foreign exchange movements.
- **EML Payments** (up 13.6%) delivered strong cash flow and demonstrated good progress in the business to business payments vertical in the US using their virtual card solution.

Most gold holdings in the Trust were stronger (**Dacian Gold** up 13.5%, **Doray Minerals** up 10.3%) given geopolitical tensions during the month. In contrast to other gold stocks, **Eastern Goldfields** was weaker (down 17.5%) following a payment dispute with a contractor and other suppliers leading to a trading halt in the stock. We consider such corporate behaviour as poor and we continue to engage with the board and management to improve their processes going forward.

Consumer facing stocks were generally weaker during August and while the Trust is underweight compared to the Index there was still some small positions which impacted performance. **The Reject Shop** (down 12.7%) reversed some gains from the prior month as investors focused on the poor start to trading in financial year 2018 despite the key Christmas period still being ahead of them. **Australian Pharmaceutical Industries** (down 16.5%) also disappointed investors downgrading earnings expectations by 5.0% and disclosing they were participating in the sale process for Laser Clinics Australia (although they withdrew from the process by month end).

HT&E (formerly APN News and Media) was weaker (down 13.5%) after a poor result in radio offset good growth in the outdoor assets.

Trust activity

High share price volatility and news flow created several opportunities during the month. We exited our position in **Mineral Resources** on valuation grounds with the stock up 38.0% from our recent entry price, with the potential good news of a Lithium asset sell down now captured in the share price in our view.

A site tour with **Independence Group** early in the month gave us increased comfort around recent resource updates which had disappointed the market. As a result of this and with stronger nickel prices we bought back into the stock at an average of \$3.16 (month end price \$3.37).

We were impressed with the result from **Kogan.com** which delivered 37.0% revenue growth with EBITDA more than doubling – a clear sign of the structural shift in retail towards online players. After attending several meetings we added Kogan.com to the Trust sourcing a line at \$3.00 (versus the month end price of \$3.50).

iSentia was very weak following another profit downgrade early in August. We have been watching iSentia for some time and believe the now heavily depressed share price offers a reasonable risk/reward given the highly cash generative nature of their business. As such we added iSentia to the Trust at average \$1.67 during the month (month end price of \$1.76).

The Trust also participated in two capital raisings which we believed provided an attractive price at which to increase our holdings. **Cooper Energy** completed a large capital raising to fully fund their Sole gas development in combination with a debt facility. **IVE Group** delivered a solid FY17 result and undertook a raising to fund an acquisition as well as the installation of a new press to fulfil contract wins. These two stocks were weaker over the month as the market digested the relatively large raisings.

At month end the Trust held 59 stocks and cash of 3.8%.

Outlook

The Trust offers considerable value trading on a PE ratio of 12.3 times (a 23.0% discount to the Index) and offering a 4.8% gross yield.

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	4.8	6.1
Materials	12.4	16.9
Industrials	7.9	9.3
Consumer Discretionary	29.4	20.6
Consumer Staples	4.3	10.2
Health Care	7.0	5.9
Financials-x-Real Estate	10.1	7.8
Real Estate	6.2	14.4
Information Technology	8.2	6.2
Telecommunication Services	3.1	1.9
Utilities	2.8	0.6
Cash & Other	3.8	-

Rounding accounts for small +/- from 100%.

Signatory of:



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