

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception <sup>^</sup>
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	-0.3	2.7	2.7	7.4	6.6	5.6	9.9
S&P/ASX Small Ordinaries Accum. Index	1.3	4.4	4.4	3.0	8.1	5.1	5.8
<b>Value Added (Detracted)</b>	<b>-1.6</b>	<b>-1.7</b>	<b>-1.7</b>	<b>4.4</b>	<b>-1.5</b>	<b>0.5</b>	<b>4.1</b>

\*Net performance (including performance fee). <sup>^</sup>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

IOF0214AU

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- ▶ The Trust ended down 0.3% (after deducting all fees) for the month of September 2017, below the S&P/ASX Small Ordinaries Accumulation Index (the Index) return of 1.3%.
- ▶ For the twelve months to September 2017 the Trust has returned 7.4% (net of all fees), ahead of the Index which was up 3.0% over the same period.
- ▶ The Trust remains attractively priced on one year metrics with a price to earnings (P/E) ratio of 12.4 times (a 26.0% discount to the Index) and offering a 4.5% gross yield.

### Market Review

Australian markets underperformed global markets (for the sixth consecutive month) with the S&P500 up 1.9% and the MSCI World Commodity ex Australia up 2.2%. Commodity prices eased, with iron ore (down 21.4%), copper (down 4.6%) and nickel (down 11%) giving back some recent gains. Conversely, oil rallied (up 9.9%) on the back of slowing US rig count and strong demand data.

During September, the best performing sectors were consumer staples up 3.2% and energy up 2.2%. The weakest sectors were consumer discretionary and Industrials both down 1.1%.

### Trust Review

The Perennial Value Smaller Companies Trust (the Trust) was down 0.3% for the month of September net of all fees, underperforming the Index by 1.6%. Rather than any stock specific issues, the underperformance was driven by several large positions which gave back some of the gains from the previous month – such as **Gateway Lifestyle** (down 6.2%), **RPM Global Holdings** (down 4.9%), **Fleetwood Corporation** (down 12.4%) and **Swick Mining** (down 14.3%).

Relative performance was also impacted by not holding **a2 Milk Company**, which is the biggest stock in the Small Ordinaries Index (up 16.3% for the month). We no longer hold a2 Milk on valuation grounds however, given the strong growth in the sector, we have looked for other ways to get exposure to infant formula sales. As discussed in our June commentary, we added **Synlait Milk** (which is the NZ based manufacturer of the a2 infant formula) to the Trust given it was a cheaper exposure. Pleasingly, this was the best performer during the month (up 42.4%) after delivering a strong result and upgrading financial year 2018 guidance.

**SpeedCast International** continued to recover from an oversold position (up 10.0%) as investors focused on the likely pickup in demand for their services from the energy sector as oil prices continue to rise.

The Trust only has a limited exposure to growth stocks given our value discipline but those in the Trust with higher growth tended to perform well (eg. **National Veterinary Care** up 12.2%, **Skydive the Beach** up 17.7% **Kogan.com** up 10.0% and **EML Payments** up 8.7%) along with other growth stocks in the market. In some cases, we having been taking profits as the valuations become stretched.

Despite no specific downgrades, both **Pacific Energy** (down 8.6%) and **HT&E** (down 7.1%) were weaker given market concerns about upcoming contract renewals in the case of **Newmont Mining** and **Yarra Trams** respectively. While the valuations in both cases appear to adequately capture the risks, we acknowledge that the market tends to overshoot on such news and thus we have marginally reduce our positions to reduce risk ahead of final determinations.

**Trust Activity**

The profits from selling some of the strongly performing growth stocks discussed above were reinvested in adding considerably to our position in **Seven Group** via the raising to fund the Coates Hire acquisition. We view this transaction favourably as the Seven Group’s corporate structure continues to simplify, allowing investors a quality exposure to two key growth sectors in the market , namely Mining Services (via the Westrac business) and East Coast Infrastructure (via the Coates Hire business). With only one broker updating their numbers for the accretive acquisitions, we believe the stock remains undervalued by the market.

To manage our exposure to the mining services sector, we closed out our profitable trades in both **RCR Tomlinson** and **MACA Limited**.

The other major change in the Trust was the significant reduction in our position in **Prime Media Group** after they failed to reach agreement on a transaction with **Seven West Media**. Given the increased risk without consolidation, we deem a smaller position in the Trust to be more appropriate.

At month end the Trust held 56 stocks and cash of 3.4%.

**Outlook**

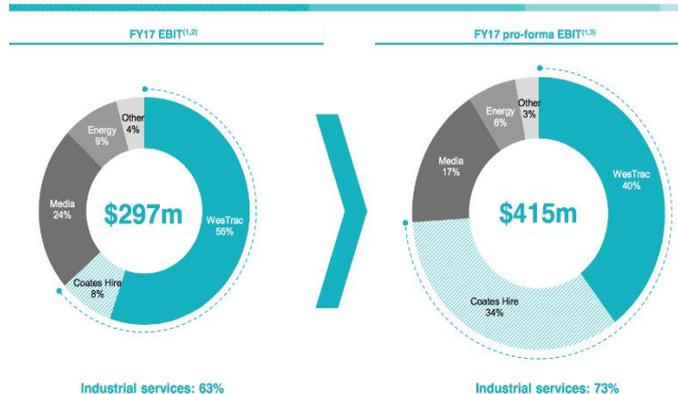
The Trust remains attractively priced on one year metrics with a P/E ratio of 12.3 times (a 23.0% discount to the Index) and offering a 4.8% gross yield.

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

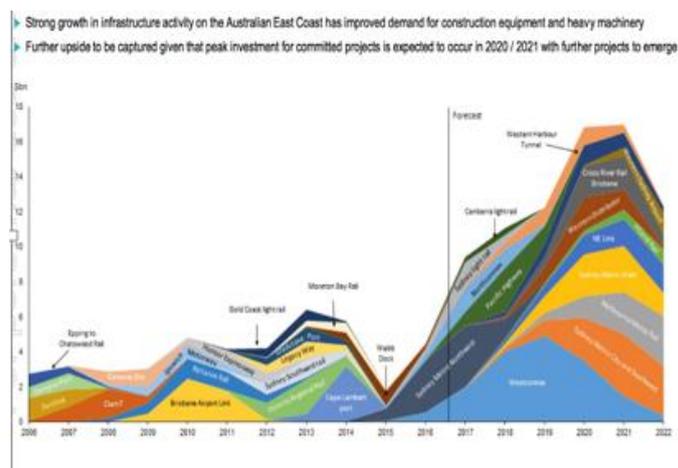
Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.0	6.4
Materials	12.5	17.2
Industrials	12.2	9.9
Consumer Discretionary	27.5	19.8
Consumer Staples	4.8	10.4
Health Care	7.0	6.6
Financials-x-Real Estate	7.7	8.0
Real Estate	5.7	12.4
Information Technology	7.9	6.9
Telecommunication Services	3.5	1.8
Utilities	2.9	0.6
Cash & Other	3.4	-

Rounding accounts for small +/- from 100%.

**Seven Group Pro-forma EBIT**



**Coates Hire and WesTrac set to capture further upside**



Source: Seven Group Presentation for Coates Hire September 2017

Signatory of:



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