

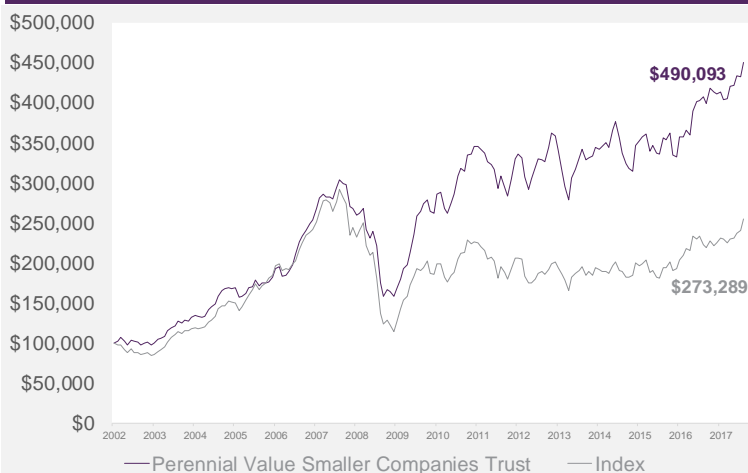
	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception
	%	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust (Net)	4.8	13.3	16.4	17.1	15.4	7.3	10.6
S&P/ASX Small Ordinaries Accum. Index	3.2	13.7	18.7	20.0	14.4	7.4	6.6
<b>Value Added (Detracted)</b>	<b>1.6</b>	<b>-0.4</b>	<b>-2.3</b>	<b>-2.9</b>	<b>1.0</b>	<b>-0.1</b>	<b>4.0</b>

^Since inception: March 2002. Past performance is not a reliable indicator of future performance.

**Overview**

- ▶ The Trust was up 4.8% (net of all fees) for the month of December 2017, ahead of the benchmark return for the Small Ordinaries of 3.2%
- ▶ The Trust was up strongly over the 2017 Calendar Year 17.1% (net of all fees) albeit this was behind the very strong benchmark return for CY17 of 20.0%
- ▶ While the Small Ordinaries Index (the Index) looks expensive relative to history the Trust remains attractively priced when looking at our FY19 forecast with a price to earnings (P/E) ratio of 13.4 times (an 18.0% discount to the Index) and offering a 4.3% gross yield

**Growth of \$100,000 since inception**



Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

**Perennial Value Smaller Companies Trust**

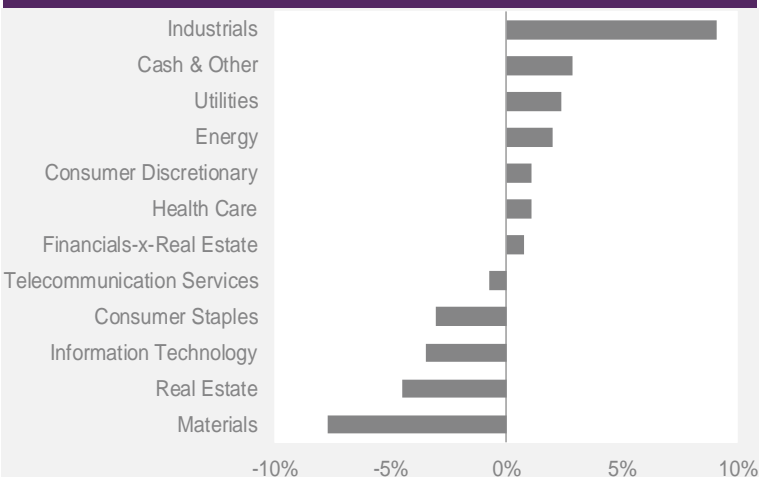
The aim of the Trust is to grow the value of your investment over the long term by investing in a portfolio of listed Australian companies predominately outside the S&P/ASX Top 100 Index, and to provide a total return (after fees) that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured on a rolling three-year basis.

Portfolio managers	Andrew Smith
Trust FUM	AUD \$120 million
Distribution frequency:	Half Yearly
Minimum initial investment	\$25,000
Trust Inception Date	March 2002
Fee	1.20% + Perf fee
APIR code	IOF0214AU

**Top 10 Positions**

	Trust (%)	Index (%)
Gateway Lifestyle	5.5	0.4
Navigator Global Investments Limited	4.5	0.2
Imdex Limited	4.0	0.2
Alliance Aviation	3.9	0.0
Integral Diagnostics	3.7	0.0
Cooper Energy Limited	3.5	0.3
Pacific Energy	2.9	0.0
RPMGlobal Holdings Limited	2.9	0.0
Pwr Holdings Limited	2.9	0.0
Seven Group Holdings	2.6	0.9

**Sector Active Exposure vs Index**



Portfolio Characteristics on FY19	Trust	Market
Price to Earnings (x)	13.4	16.4
Price to Free Cashflow (x)	10.4	16.2
Gross Yield (%)	4.3	4.3
Price to NTA (x)	1.9	2.3

Source: Perennial Value Management. As at 31 December 2017. The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

## Trust Review

The Trust was up 4.8% for the month of December (net of all fees), outperforming the Index which was up 3.2%.

The strong performance was driven by a diverse range of stocks.

The renewed interest in commodities continued to drive mining service positions such as **Imdex** (up 12.3%), **Alliance Aviation** (up 15.2%) and **Seven Group** (up 11.3%).

Increased Chinese demand for gas triggered a strong rally in **Sino Gas and Energy** (up 29.2%) with the implications of higher Australian gas prices also lifting **Cooper Energy** (up 12.1%). We also took advantage of an on-market sell-down to build a position in New Hope Coal (up 13.6% from our acquisition price) given strong thermal coal markets.

The Trust participated in two IPO's during the period after extensive due diligence. Each position traded above issue price at month end (**National Tyre** up 24.0% and **Wagners** up 39.5%).

The main drag on performance was **Collins Foods** (down 8.6%) and **Prime TV** which we are exiting (down 8.2%). The Trust also has a large position in **RPM Global** (down 5.8%) which despite a positive acquisition was dragged lower by a substantial shareholder selling down.

## Trust Activity

With all the euphoria around lithium value has proved difficult to find. That said, late in December we managed to identify a lithium company which had been relatively overlooked despite first production scheduled for the coming months. Near term production in the lithium space is highly desirable, in our view, as we believe global lithium production capacity will ultimately surpass demand should lithium prices remain in excess of levels required to incentivise new production capacity.

## Trust Activity

That stock, **Tawana Resources**, first came to our attention after meeting their Engineering consultants, which was followed up by multiple meetings with management. We were able to source a line of stock at an attractive price and we are now up 15.0% from our entry price.

Another new position added was **Longtable Group** (up 56.7% from the placement price). We had been watching this business for over a year since first meeting the previous management team in Adelaide.

Despite some positive attributes at the time we considered the business was sub-scale. Considerable progress has since been made with Laura McBain (ex Bellamys) joining as MD in August and then the acquisition of Paris Creek – with the subsequent placement providing our entry point.

Paris Creek has built up a large supply base in organic milk which is relatively scarce as farms take several years to convert farming practices to meet organic requirements. With think the combination of this sourcing ability and Laura's experience in brand building could provide a material lift in earnings for Longtable Group in the coming years.

Given improved energy markets we have also begun to assess energy service companies and participated in the re-capitalisation of **Mermaid Marine** in November and the stock continued to perform in December (up 29.5% for the month). While debt levels remain elevated it has become investment grade again post the capital raising and should begin to de-gear quickly as some of the idle fleet begins to be put to work.

At month end the Trust held 55 stocks and cash of 2.9%.

## Outlook

Trust remains attractively priced when looking at our FY19 forecast with a price to earnings (P/E) ratio of 13.4 times (an 18.0% discount to the Index) and offering a 4.3% gross yield.

Market Review - Australia	%	Global, Currency & Commodities	%
S&P/ASX Small Ordinaries Index	+3.2	S&P500	+1.0
Energy	+8.3	Nikkei 225	+0.2
Materials	+7.0	FTSE100	+4.9
Industrials	+1.6	Shanghai Composite	-0.3
Consumer Discretionary	+1.7	RBA Cash Rate	1.50
Health Care	+3.6	AUD / USD	+3.0
Financials-x-Real Estate	+0.0	Iron Ore	+3.6
Real Estate	-0.8	Oil	+5.2
Information Technology	+5.4	Gold	+2.2
Telecommunication Services	-0.2	Copper	+7.7
Utilities	-3.3		

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