

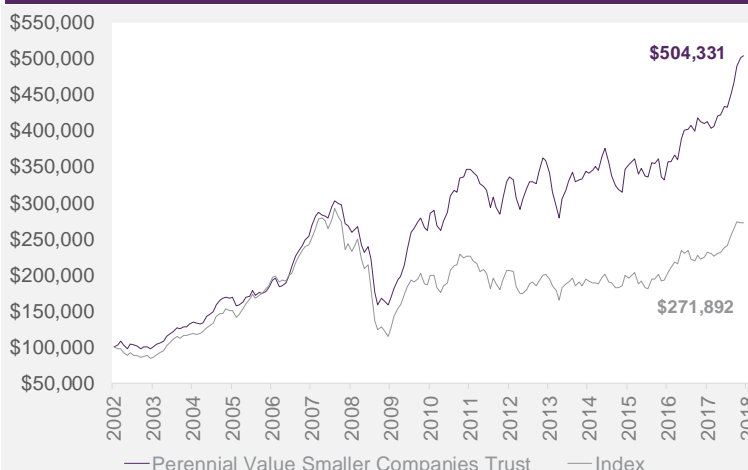
	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception
	%	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust (Net)	0.6	7.9	19.8	22.7	13.3	7.0	10.7
S&P/ASX Small Ordinaries Accum. Index	0.0	2.7	18.1	20.8	10.8	6.2	6.5
<b>Value Added (Detracted)</b>	<b>0.6</b>	<b>5.2</b>	<b>1.7</b>	<b>1.9</b>	<b>2.5</b>	<b>0.8</b>	<b>4.2</b>

<sup>a</sup>Since inception: March 2002. Past performance is not a reliable indicator of future performance.

### Overview

- ▶ The Trust was up 0.6% (net of all fees) for the month of February 2018, ahead of the benchmark return for the S&P/ASX Small Ordinaries Accumulation Index (the Index) of 0.0%.
- ▶ Looking at longer term performance the Trust is up 13.3% p.a. (net of all fees) over the last three years compared to the Index return of 10.8% p.a.
- ▶ While 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 (a 15.0% discount to the Index) and offering a 4.4% 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

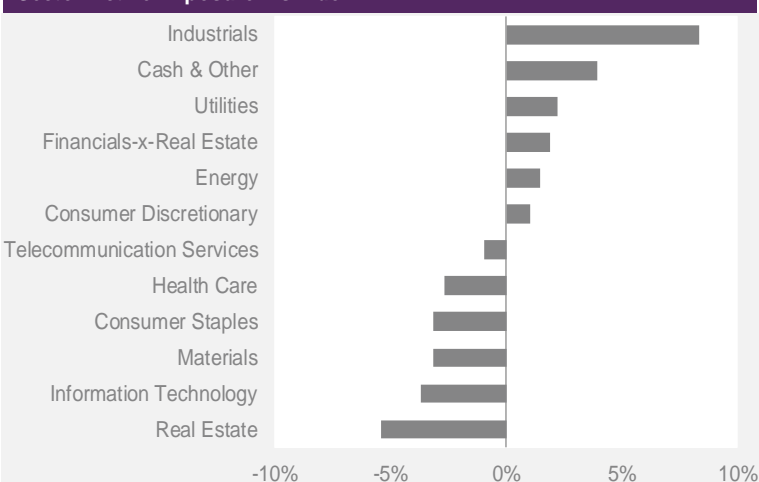
The aim of the Trust is to grow the value of your investment over the long term by investing in a portfolio of listed Australian companies predominately outside the S&P/ASX Top 100 Index, and to provide a total return (after fees) that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured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

Portfolio managers	Andrew Smith and Julian Guido
Trust FUM	AUD \$122 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	0.3
Navigator Global Investments Limited	5.2	0.2
Imdex Limited	4.6	0.3
Alliance Aviation	3.3	0.0
Cooper Energy Limited	2.8	0.3
Huon Aquaculture Grp	2.7	0.0
Seven Group Holdings	2.7	1.1
Ivegroup	2.6	0.0
Austin Engineering	2.5	0.0
Bapcor Limited	2.4	0.9

### Sector Active Exposure vs Index



Portfolio Characteristics on FY19	Trust	Market
Price to Earnings (x)	13.4	15.7
Price to Free Cashflow (x)	9.6	15.1
Gross Yield (%)	4.4	4.3
Price to NTA (x)	2.1	2.3

Source: Perennial Value Management. As at 28 February 2018. 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**

Volatility returned to financial markets in February with a strong sell-off early in the month in response to rising bond yields. Markets then recovered over the balance of the month given the strength of reporting season both here and in the United States. In this environment the Trust was up 0.6% outperforming the flat benchmark.

While we expect this volatility to continue in CY18 it was pleasing to have the market focused, at least temporarily, on fundamentals during reporting season. Strong results were delivered by two of our companies exposed to the recovery in mining services.

**Imdex Limited** (up 18.6%) delivered strong revenue growth of 28.0% and an expansion in gross margins. Tools on hire in January were also up 25.0% providing a strong leading indicator for earnings in the remainder of FY18.

**Seven Group** (up 12.6%) increased full year guidance due to strong growth in the Westrac business on the back of both product and support sales. The recovery in Coates was also ahead of expectations. We expect further grow in the coming years as the repair and replacement cycle picks up in mining equipment for Westrac and Coates Hire benefits from the infrastructure boom on the East Coast

Given rising bond yields globally, we expect higher PE stocks to struggle in coming years. This should lead to a preference for “Value Style” investing and our portfolio is well positioned for this. However this style shift is yet to be evident in Small Caps with some high PE stocks not held in the fund; such as Corporate Travel, Costa and Altium moving substantially higher in February.

On the flip side the large share price falls in both **Wise Tech Global** (down 31.2%) and **Platinum Asset Management** (down 22.9%) is a timely reminder of what can happen when highly priced stocks negatively surprise the market.

**Trust Activity**

A key driver of performance during the month was the takeover offer for **Lifehealthcare Group** (up 39.5%) which we have long held in the portfolio. Given the low risk of a counter-bid we sold on market to take advantage of some oversold positions elsewhere in the portfolio given market volatility.

We expect this volatility to continue throughout this year and we continue to spread risk across a diversified portfolio of 57 stocks. We also aim to take advantage of any severe price moves (up or down) in such a market.

Reporting season also allowed us to shift the portfolio in response to updated earnings expectations. As an example we sold out of **Aveo Group** and **Baby Bunting** after a relief rally provided a good exit point given a mixed outlook for both stocks. In response to stronger than expected results we added **Nine Entertainment** (at \$1.99 compared to \$2.28 at month end), **Primary Healthcare** (at \$3.66 compared to \$4.00 at month end) and **Ausdrill** (taking advantage of discounted sell down).

At month end the Trust held 57 stocks and cash of 4.0%.

**Outlook**

The Trust remains attractively priced when looking at our FY19 forecast with a price to earnings (P/E) ratio of 13.4 times (a 15.0% discount to the Index) and offering a 4.4% gross yield.

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

Market Review - Australia	%	Global, Currency & Commodities	%
S&P/ASX Small Ordinaries Index	+0.0	S&P500	-3.9
Energy	-0.9	Nikkei 225	-4.5
Materials	+2.4	FTSE100	-3.3
Industrials	-0.1	Shanghai Composite	-6.4
Consumer Discretionary	-1.2	RBA Cash Rate	1.50
Health Care	+4.0	AUD / USD	-3.8
Financials-x-Real Estate	-2.3	Iron Ore	+9.6
Real Estate	-0.6	Oil	-4.7
Information Technology	-0.4	Gold	-2.0
Telecommunication Services	-15.1	Copper	-2.6
Utilities	4.1		

**Contact Us**

1300 730 032

invest@perennial.net.au

[www.perennial.net.au](http://www.perennial.net.au)

Signatory of:



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