

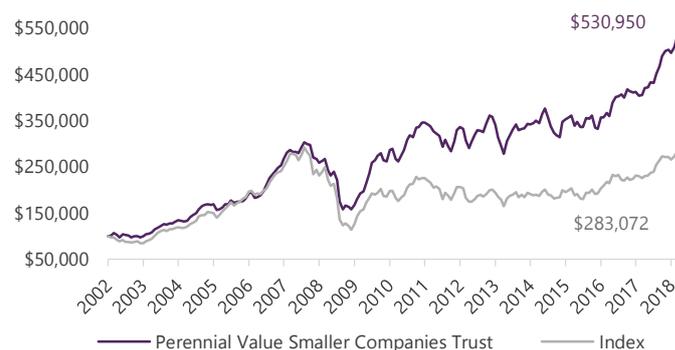
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Smaller Companies Trust (Net)	4.3	5.3	26.1	30.8	13.7	12.5	10.8
S&P/ASX Small Ordinaries Accum. Index	3.7	4.1	22.9	25.4	11.6	9.7	6.6
<b>Value Added (Detracted)</b>	<b>0.6</b>	<b>1.2</b>	<b>3.2</b>	<b>5.4</b>	<b>2.1</b>	<b>2.8</b>	<b>4.2</b>

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

## Overview

- The Trust was up 4.3% (net of all fees) in May, ahead of the benchmark return of the S&P/ASX Small Ordinaries Accumulation Index which was up 3.7%.
- Looking at longer term performance over the year the Trust has returned 30.8% p.a. (net of all fees) compared to the Index return of 25.4% 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 12.8 times (a 21.0% discount to the Index).

## 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 \$128 million

**Distribution Frequency**  
Half yearly

**Minimum Initial Investment**  
\$25,000

**Trust Inception Date**  
March 2002

**Fees**  
1.20% + Perf fee

**APIR Code**  
IOF0214AU

## Top 10 Positions

	Trust (%)	Index (%)
Navigator Global Investments Ltd	5.6	0.3
Gateway Lifestyle	5.5	0.3
Pacific Energy	3.1	0.0
Integral Diagnostics	3.1	0.0
Imdex Ltd	3.0	0.3
Huon Aquaculture Group	3.0	0.0
EML Payments Ltd	2.8	0.2
Codan Ltd	2.8	0.0
Pwr Holdings Ltd	2.5	0.0
Ivegroup	2.3	0.0

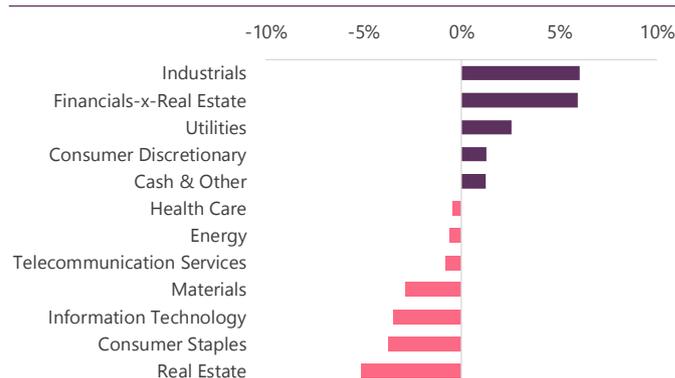
## Portfolio Characteristics – FY19

	Trust	Market
Price to Earnings (x)	12.8	16.2
Price to Free Cash Flow (x)	11.1	16.1
Gross Yield (%)	4.7	4.3
Price to NTA (x)	1.9	3.0

Source: Perennial Value Management. As at 31 May 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.

## Sector Active Exposure vs Index



## Trust Review

May was an eventful month with the usual 'confession season' for those unfortunate small caps lagging market expectations juxtaposed by the continued strong performance of high growth (and highly priced) market darlings. For example not holding large index stocks such as Blackmores (+29.3%), Reliance (+25.3%) and Whitehaven (+13.9%) made relative performance challenging.

We were pleased that despite these headwinds we were able to outperform while not deviating from our value investing discipline. The outperformance of our portfolio was driven by a combination of takeover activity, accretive acquisitions and positive operational updates.

**Sino Gas Energy** (+38.2%) received a takeover bid from Lone Star, a private equity firm. We are pleased that a corporate has also noticed the value that we have seen in Sino Gas for many years. We will continue to hold our position as we believe other potential bidders may emerge over the next few months.

Accretive acquisitions lifted both **Navigator Global Investments** (+19.8%) and **Integral Diagnostics** (+18.7%). In both cases we believe changes to consensus estimates for FY19 as a result of the acquisitions (+8.2% and 15.9% respectively according to FACTSET) appear conservative.

**Codan** (+19.0%) provided a positive earnings update as well as detailing a very large contract with BHP for its Minetech business which until this year was loss-making.

**Bapcor** (+13.6%) confirmed guidance at a broker conference during the month.

On the negative side **Gateway** (-9.5%) forecast marginally lower settlements for FY18 and **Fleetwood** (-10.1%) disclosed higher losses in their RV business. While we were disappointed in both cases we believe there is significant valuation support in each case to justify holding at these levels.

## Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+3.7
Energy	+2.1
Materials	-0.1
Industrials	+2.0
Consumer Discretionary	+1.8
Health Care	-0.1
Financials-x-Real Estate	+3.1
Real Estate	+3.6
Information Technology	+0.3
Telecommunication Services	-3.3
Utilities	-2.8

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## Trust Activity

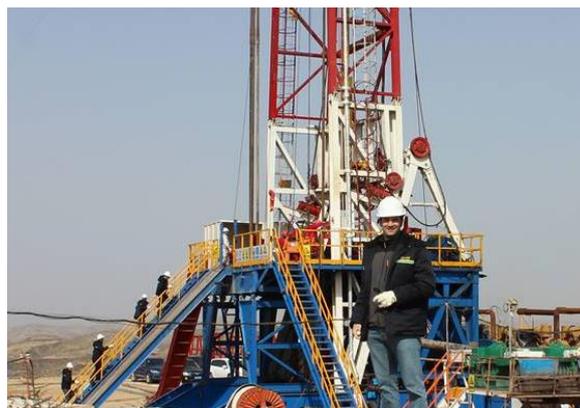
Several stocks previously not held in the Trust were aggressively sold off during May on the back of poor earnings updates. In some cases we believe overly emotional selling has created oversold situations which we are looking to exploit – to this end we have added several new names to the Trust during the month.

At month end the Trust held 59 stocks and cash of 1.2%.

## Outlook

The Trust remains attractively priced when looking at our FY19 forecast with a price to earnings (P/E) ratio of 12.8 times (a 21.0% discount to the Index) and offering a 4.7% gross yield.

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



Source: Analyst Sam Berridge visiting Sino Gas Energy site in China.

## Global, Currency & Commodities (%)

S&P500	+2.2
Nikkei225	-1.2
FTSE100	+2.2
Shanghai Composite	+0.4
RBA Cash Rate	1.50
AUD / USD	+0.2
Iron Ore	-2.3
Oil	+2.3
Gold	-1.3
Copper	-0.3