

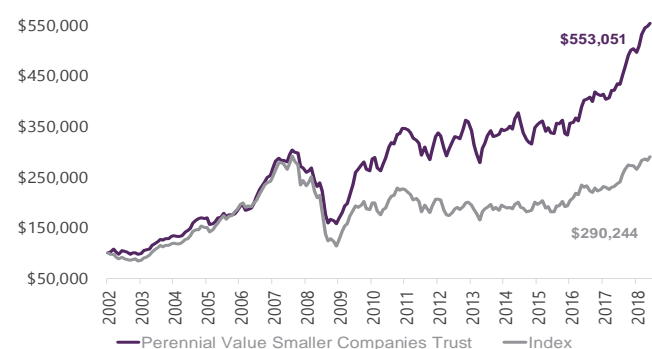
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Smaller Companies Trust (Net)	0.9	4.1	1.6	27.5	17.9	11.8	11.0
S&P/ASX Small Ordinaries Accum. Index	2.5	2.5	1.5	22.3	16.9	9.2	6.7
Value Added (Detracted)	-1.6	1.6	0.1	5.2	1.0	2.6	4.3

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

Overview

- The Trust was up 0.9% (net of all fees) in August, lagging the benchmark return for the S&P/ASX Small Ordinaries Accumulation Index (the Index) which was up 2.5%.
- In the past 12 months the Trust has returned 27.5% p.a. (net of all fees) compared to the Index return of 22.3% p.a.
- Tech stocks were the big driver at the Index level with Altium, Wisetech Global and Afterpay Touch Group alone contributing nearly half of the total return for the Index. By contrast Small Resources were down 4.1%
- 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 13.8 times (a 20.0% 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 predominantly 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 \$129 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 (%)
Imdex Ltd	4.7	0.2
Navigator Global Investments Ltd	4.4	0.4
Integral Diagnostics	4.3	0.0
EML Payments Ltd	3.6	0.2
Pacific Energy	3.5	0.0
Pwr Holdings Ltd	3.0	0.0
Huon Aquaculture Grp	2.7	0.0
HT&E Limited	2.6	0.4
Cooper Energy Ltd	2.5	0.3
Reliance Worldwide	2.4	2.0

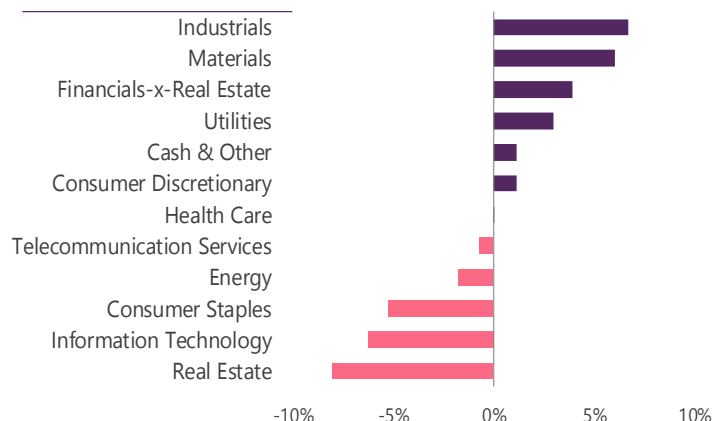
Portfolio Characteristics – FY19

	Trust	Index
Price to Earnings (x)	13.8	17.2
Price to Free Cash Flow (x)	10.4	17.0
Gross Yield (%)	4.5	4.0
Price to NTA (x)	1.9	3.0

Source: Perennial Value Management. As at 31 August 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

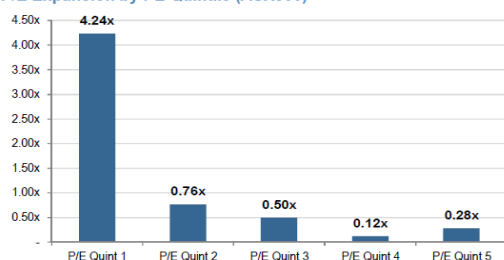
There was a significant dispersion of small cap returns during the August 2018 reporting season.

On the one hand the team was pleased to avoid the savage sell-offs in some names such as **iSentia** (-54.0%), **RCR Tomlinson** (-47.0%), **Arq Group** (formerly MLB IT -27.1%) and **Experience Co** (-26.6%) – these are all stocks we exited at higher levels over the previous year after our research highlighted increasing risks.

On the other hand there was a sharp move higher in a select number of high tech names. **Altium**, **Wisetech Global** and **Afterpay Touch Group** were up on average 36.3% during the month. These stocks are now on an average PE ratio of 58.0 times in FY20. Not holding these stocks impacted relative performance during the month.

Research on the ASX300 from JPMorgan highlighted that this rapid re-rating was most stark in those stocks which were already the most expensive in the market (see P/E Quint 1 in chart below).

P/E Expansion by PE Quintile (ASX300)



Source: J.P. Morgan estimates, Bloomberg.

This high growth, high valuation end of the market is beginning to look very stretched on all measures. We continue to stick to our value discipline and invest only in areas of the market where we see good value and growth prospects which are not yet fully valued by the market.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+2.5
Energy	+1.9
Materials	-4.4
Industrials	+4.5
Consumer Discretionary	+7.6
Health Care	-1.5
Financials-x-Real Estate	+3.0
Real Estate	-0.9
Information Technology	+14.0
Telecommunication Services	-4.2
Utilities	+3.1

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Signatory of:



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Stocks held by the Trust which were rewarded for strong results included:

- **Breville Group** (+26.4%) which delivered a high quality result supported by continued investment in both marketing and R&D which was complemented by strong operating cash flow generation.
- **HT&E Limited** (+18.9%) produced a strong result but more importantly the ACCC cleared the sale of their Adshel division for \$570m – allowing a return to shareholders via a special dividend and share buyback
- **Adairs** (+13.2%) demonstrated accelerated earnings growth in FY18 while also highlighting trading in FY19 has started well.

The only sharp fall post a downgrade which had a meaningful impact on the Trust was **SpeedCast International** (-32.1%) as the energy division disappointed. We had reduced this to a small position pre-result but given the issues are largely cyclical we bought back a sizeable position on weakness during the month – pleasingly so did several directors including the MD.

In Mining Services we sold out of Seven Group on valuation grounds and increased our holding in Ausdrill materially post the acquisition of Barmenco which we see as highly accretive.

At month end the Trust held 56 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 13.8 times (a 20.0% discount to the Index) and offering a 4.5% gross yield.

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

Global, Currency & Commodities (%)

S&P500	+3.0
Nikkei225	+1.4
FTSE100	-4.1
Shanghai Composite	-5.3
RBA Cash Rate	1.50
AUD / USD	-2.7
Iron Ore	-2.2
Oil	+4.3
Gold	-1.7
Copper	-6.4