

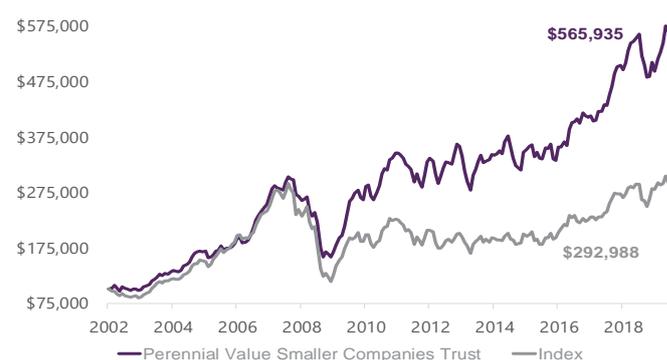
	Month (%)	Quarter (%)	FYTD (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Smaller Companies Trust (Net)	-1.8	7.1	3.8	2.3	12.1	8.5	10.5
S&P/ASX Small Ordinaries Accum. Index	-3.9	1.4	0.5	1.0	8.4	7.8	6.4
<b>Value Added (Detracted)</b>	<b>2.1</b>	<b>5.7</b>	<b>3.3</b>	<b>1.3</b>	<b>3.7</b>	<b>0.7</b>	<b>4.1</b>

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

## Overview

- The Trust was down 1.8% net of fees outperforming the Small Ordinaries Accumulation Index (the Index) return which was down 3.9%. The return for the quarter was +7.1% (net of fees) compared to the Index return of +1.4%.
- The outperformance on the Trust was driven by several strong profit results against the backdrop of what was a generally poor reporting season for the Small Cap Index (45 downgrades vs 27 upgrades).
- Stocks in the Trust exposed to a recovering Australian consumer were particularly strong (Baby Bunting, Adairs, City Chic) as were innovative companies operating globally such as EML Payments, Codan and RPM Global.
- The only major drag on the portfolio was Speedcast as the market focused on a short term liquidity squeeze while earnings were in line with the already downgraded numbers post the July update.
- The portfolio represents solid value at 12.9x FY20 earnings (a 23.0% discount to the Index) and a gross yield of 4.6%.

## 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.

## Top 10 Positions

	Trust (%)	Index (%)
INTEGRAL DIAGNOSTICS LTD	3.8	0.0
PWR HOLDINGS LTD	3.8	0.0
NAVIGATOR GLOBAL INVESTMENTS	3.3	0.2
AUSDRILL LTD	3.3	0.6
ALLIANCE AVIATION SERVICES L	3.2	0.0
FREEDOM FOODS GROUP LTD	3.1	0.3
SRG GLOBAL LTD	2.9	0.0
NATIONAL VETERINARY CARE LTD	2.9	0.0
SEVEN GROUP HOLDINGS LTD	2.7	1.1
BABY BUNTING GROUP LTD	2.7	0.2

## 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	Trust FUM
Andrew Smith and Julian Guido	AUD \$156 million
Distribution Frequency	Minimum Initial Investment
Half yearly	\$25,000
Trust Inception Date	Fees
March 2002	1.20% + Perf fee

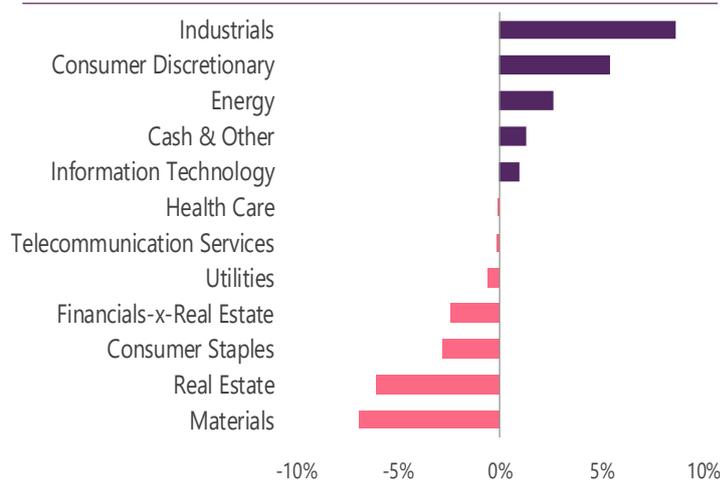
APIR Code  
IOF0214AU

Portfolio Characteristics – FY20	Trust	Index
Price to Earnings (x)	12.9	16.8
Price to Free Cash Flow (x)	10.3	16.0
Gross Yield (%)	4.6	4.2
Price to NTA (x)	2.3	2.2

Source: Perennial Value Management. As at 31 August 2019

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

The Trust was down 1.8% net of fees outperforming the Small Ordinaries Accumulation Index return which was down 3.9%.

The focus of investors was on the annual reporting season and pleasingly the vast majority of our holdings delivered either in line or better than expected results. This was against a backdrop of a generally poor reporting season (45 downgrades vs 27 upgrades for Industrial Small Caps tracked by JPMorgan).

It is testament to the strength of much of the portfolio that the Trust was able to outperform during the month despite a significant drag from **SpeedCast International** (-58.9%).

We, like other investors, were disappointed that the historically good cash generation of SpeedCast went missing in their 1H19 result. The 5 year average cash conversion was 91.0% whereas the half year result was less than 30.0%. This resulted in a short term liquidity squeeze which, despite room under existing bank covenants, caused a large sell-off in the share price. We spent considerable time with management and the new Chairman to explore our concerns and the opportunity for a turnaround. The steps to recover both earnings and cashflow are logical and appear achievable with considerable upside in the share price if debt levels can be reduced meaningfully - however until this has happened it is high risk and thus we continue to monitor the position closely.

**Metals X** (-25.5%) fell with the tin price (-5.6%), with the latter increasing pressure on the company's balance sheet. Late in the month, the company secured a debt financing package which should see the company through to the guided ramp up in production from Nifty.

On the flip side there were many strong profit results in the portfolio.

**Baby Bunting** (+26.8%) delivered a high quality result which was at the top end of its FY19 guidance range. Initial FY20 guidance was received well with NPAT forecast to grow 40.0% over FY19. This subsequently drove significant broker EPS upgrades. Many competitors left the industry in FY18 causing excess discounting at the time - our investment thesis was that as competition reduced Baby Bunting would thrive and this is now being seen both in strong sales and gross margins.

## Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	-3.9
Energy	-8.1
Materials	-7.4
Industrials	+0.4
Consumer Discretionary	-1.7
Health Care	+1.6
Financials-x-Real Estate	-4.9
Real Estate	+5.7
Information Technology	+1.6
Telecommunication Services	-3.9
Utilities	+2.3

**Invest Online Now**

## Contact Us

Level 27, 88 Phillip Street Sydney NSW 2000

1300 730 032

invest@perennial.net.au

www.perennial.net.au

Signatory of:



Issued by: The Investment Manager, Perennial Value Management Limited, ABN 22 090 879 904, AFSL: 247293. Responsible Entity: Perennial Investment Management Limited ABN 13 108 747 637, AFSL: 275101. This promotional statement is provided for information purposes only. Accordingly, reliance should not be placed on this promotional statement as the basis for making an investment, financial or other decision. This promotional statement does not take into account your investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this promotional statement is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. The current relevant product disclosure statements, additional information booklet and application forms can be found on Perennial's website [www.perennial.net.au](http://www.perennial.net.au).



Source: Baby Bunting FY19 Result Presentation

Results for other retailers were also received well by the market with **Adairs** (+20.8%) and **City Chic** (+18.5%) performing well.

**Smart Group** (+21.0%) defied low market expectations and produced a record result. Shares rallied as investors rewarded management's ability to still deliver earnings growth despite very weak industry conditions.

**EML Payments** (+18.8%) impressed the market with strong growth in all regions (overall 37.0% revenue growth and 40.0% EBITDA growth) and an impressive run-rate towards year end setting them up for further growth in FY20.

**RPM Global** (+17.2%) finally began to gain market attention after several years in the wilderness. The transition from upfront software license fees to recurring subscription fees is gaining rapid traction with Annual Recurring Revenue now \$7m (after a sharp jump post balance date) and a cash hoard to \$28.0m.

At month end we held 61 positions and cash of 1.3%.

## Global, Currency & Commodities (%)

S&P500	-1.8
Nikkei225	-3.8
FTSE100	-5.0
Shanghai Composite	-1.6
RBA Cash Rate	1.00
AUD / USD	-2.2
Iron Ore	-28.9
Oil	-7.3
Gold	+7.5
Copper	-4.7