

	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)	2.5	4.8	14.6	29.0	14.7	14.7	10.8
S&P/ASX Small Ordinaries Accum. Index	3.4	4.7	7.4	18.8	12.1	11.2	6.6
Value Added	-0.9	0.1	7.2	10.2	2.6	3.5	4.2

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

Overview

- The market was off to a strong start in 2020, driven by momentum from the trade deal which pushed the Small Cap Index (the Index) up 3.4%. This was despite the challenges posed by the bushfires domestically and the start of the coronavirus outbreak. The Trust lagged the Index return with net performance for the month of 2.5% (net of all fees).
- With little in the way of stock specific news flow, it was typically the largest and most liquid stocks in the Index which performed whereas many of our large positions were flat. One exception was our holding in Mesoblast (up 44.2%), which was strong after submitting to the FDA their proposed treatment for a GVHD in children.
- Looking at the trailing 12mth performance it is clear just how strongly the Trust recovered from a slow start this time last year, up 29.0% (net of all fees) compared to an also strong 18.8% performance for the Index.
- Readers would be interested to hear that we rotated out of many 2019 winners to focus on better value (but typically unloved) names. As a result, the portfolio still represents solid value at 12.1x FY21 earnings (a 27.1% discount to the Index) and a gross yield of 4.5%.

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 \$158 million
Distribution Frequency	Minimum Initial Investment
Half yearly	\$25,000
Trust Inception Date	Fees
March 2002	1.20% p.a. + Performance fee

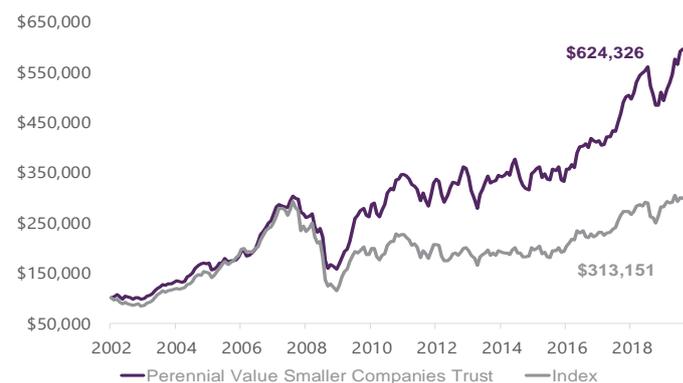
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Portfolio Characteristics – FY21	Trust**	Index*
Price to Earnings (x)	12.1	16.6
Price to Free Cash Flow (x)	8.5	15.7
Gross Yield (%)	4.5	4.1
Price to NTA (x)	2.7	2.2

Source: *Macquarie Securities, Goldman Sachs & UBS forecast as at 31 January 2020. **Perennial Value Management as at 31 January 2020.

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.

Growth of \$100,000 Since Inception

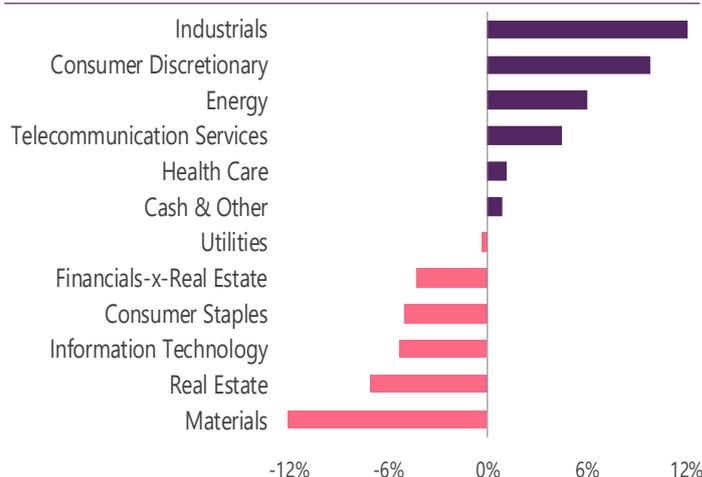


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 10 Positions

	Trust (%)	Index (%)
ALLIANCE AVIATION SERVICES L	4.1	0.0
INTEGRAL DIAGNOSTICS LTD	3.8	0.0
ATOMOS LTD	3.3	0.0
EMECO HOLDINGS LTD	3.1	0.3
NAVIGATOR GLOBAL INVESTMENTS L	3.0	0.2
LIMEADE INC	3.0	0.0
PWR HOLDINGS LTD	2.9	0.0
SEVEN GROUP HOLDINGS LTD	2.8	1.3
SEALINK TRAVEL GROUP L	2.7	0.0
SRG GLOBAL LTD	2.6	0.0

Sector Active Exposure vs Index



Trust Review

Mesoblast (+44.2%) is a unique stock amongst small caps with no shortage of 'blue sky' that the market is chasing in all stocks at present. yet, we also identify value foundations such as the corporate appeal seen in previous takeover attempts, valuable partnerships in several regions and revenue from products already in market (as seen in the accompanying table). It was added to the Trust in the December quarter of 2019, with some forced selling opening up an opportunity to add this name at a depressed share price ahead of some significant potential catalysts. In January, they made an FDA submission for the treatment of GVHD (already in Japan). Investors are now focused on the outcome of this submission which is expected in the next six months.

RPM Global (+31.0%) reported strong growth in their subscription mining software revenue, which has grown to \$10.0m from the \$8.0m disclosed in late November 2019. This increase was ahead of market expectations and should help limit the earnings volatility which can occur as companies switch from large upfront licence revenue to higher quality subscription revenue – a process RPM Global started early last year.

Revasum (+26.2%) recovered some ground after demonstrating better than expected cashflow for the December quarter. While the poor sales result had already been communicated to the market, the positive surprise of a stronger balance sheet helped reduce the downside in the stock.

Likewise, our large position in **Navigator** (+13.8%) recovered from a weak December, after providing guidance of stronger performance fees driven by underlying fund performance.

Gold performed well late in the month as growth fears from the coronavirus impacted risk assets. This combined with solid quarterlies lifted our holdings in **Silver Lake** (+21.3%) and **Saracen Minerals** (+19.3%).

EML Payments (+15.9%) continue to demonstrate earnings momentum with several contract wins during the month. The excellent share price performance over 2019 has started to push EML Payments to the edge of our valuation tolerance – we have therefore been trimming in recent months.

Market Review – Australia (%)

S&P/ASX Small Ordinaries Index	+3.4
Energy	-2.7
Materials	+2.1
Industrials	+2.4
Consumer Discretionary	-1.6
Consumer Staples	+4.1
Health Care	+11.9
Financials-x-Real Estate	+4.1
Real Estate	+7.6
Information Technology	+12.0
Telecommunication Services	+3.9
Utilities	+7.7

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Commercial and Late-Stage Product Pipeline

PLATFORM	PRODUCT	THERAPEUTIC AREA	APPROVAL	COMMERCIAL RIGHTS
MSC (Bone Marrow)	TEMCCELL® HS In ¹	Acute Graft Versus Host Disease	1st allogeneic regen med approved in Japan	AJCR Japan
MSC (Adipose)	Ablovec SM	Perianal Fistula	1st allogeneic regen med approved in Europe	FlisKendo Global

PLATFORM	PRODUCT CANDIDATE	THERAPEUTIC AREA	PRE-CLINICAL	PHASE 2	PHASE 3	COMMERCIAL RIGHTS
MSC suite	Remesotemcel-L	Acute Graft Versus Host Disease	██████████	██████████	██████████	BLA submission to FDA underway
		Crohn's Disease	██████████	██████████	██████████	mesoblast
MPC suite	Revascor	Advanced HF (Class III/IV)	██████████	██████████	██████████	TASLY China
		End-Stage HF (Class III/IV)	██████████	██████████	██████████	mesoblast ROW
MPC suite	MPC-06-ID	Chronic Low Back Pain	██████████	██████████	██████████	mesoblast Europe Lat Am ROW
		Rheumatoid Arthritis	██████████	██████████	██████████	mesoblast
	MPC-300-IV	Rheumatoid Arthritis	██████████	██████████	██████████	mesoblast

Source: Mesoblast 2019 AGM Presentation

Johns Lyng Group (+9.6%) upgraded revenue forecasts by 5% and EBITDA by 11% during the month. This was driven by their core insurance related recovery work.

People Infrastructure (+10.8%), **HRL Holdings** (+8.7%) and **Centuria Capital** (+8.4%) also performed well despite no news flow during the month.

Our large position in **SeaLink** (down 10.5%) detracted from performance with operations at their Kangaroo Island assets impacted by the bushfires. This plus the impact of the fires on tourism, more broadly, led to earnings downgrades. We added to our position on the weakness as we see these disruptions as not only temporary, but less relevant with the stock's tourism exposure having halved post the acquisition of Transit Systems last year.

There was also weakness in the energy sector which impacted our small positions in **Otto Energy** (down 13.5%) and **Speedcast** (down 16.0%) – in the case of the latter a trading halt early in February indicates earnings will also disappoint the market for CY19.

At month end we held 65 positions and cash of 0.9%.

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Small Cap Portfolio Managers: Andrew Smith (left) and Julian Guido (right)