

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Smaller Companies Trust (Net)	-8.6	-7.7	-0.4	9.3	16.0	12.8	10.7
S&P/ASX Small Ordinaries Accumulation Index	-9.0	-8.0	-4.0	6.7	10.1	9.6	6.5
Value Added	0.4	0.3	3.6	2.6	5.9	3.2	4.2

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

Overview

The Trust was down 8.6% (net of all fees) compared to the Index which was down 9.0%.

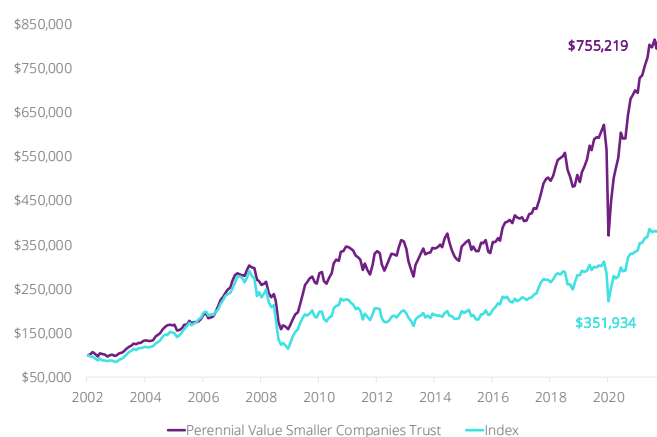
The market focused on commentary from the Federal Reserve (and other central banks) that rate rises may be needed earlier to deal with high levels of observed inflation. This impacted longer term rates and thus the valuation for companies whose forecasts for meaningful cashflow are longer dated and as such, more sensitive to higher discount rates (simplistically growth stocks); compared to companies with near term cashflow (simplistically value stocks).

Growth stocks in the US responded appropriately selling off more than value stocks. In Australia, the small caps market was less discerning with a wide spread selloff in all but the energy sector.

This creates an exciting set up for returns over CY22 as we seek out both value stocks ignored by the market and oversold growth-orientated stocks with the potential for better-than-expected cashflow outcomes.

The portfolio-average PE ratio of 12.2x remains at a sizeable discount to the index which is 16.8x for FY23.

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 Australian companies that are either listed or unlisted companies found 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, Julian Guido & Marco Correia

Trust FUM

AUD \$215 million

Distribution Frequency

Half yearly

Minimum Initial Investment

\$25,000

Trust Inception Date

March 2002

Fees

1.20% p.a. + Performance fee

APIR Code

IOF0214AU

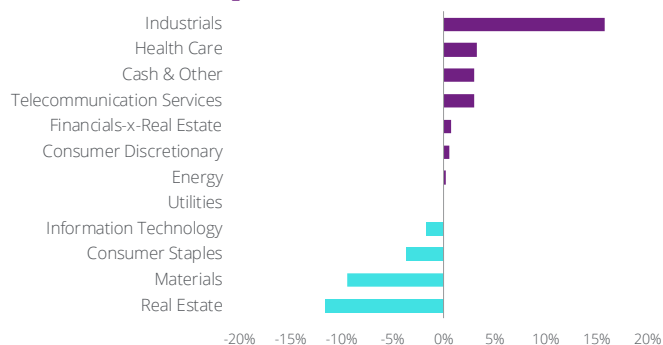
Portfolio Characteristics – FY23	Trust*	Index**
Price to Earnings (x)	12.2	16.8
Price to Free Cash Flow (x)	9.5	16.0
Gross Yield (%)	4.4	3.3
Price to NTA (x)	2.3	2.2

Source: *Perennial Value Management as at 31 January 2022. **FactSet forecast as at 31 January 2022

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.

Top 10 Positions	Trust (%)	Index (%)
ALLIANCE AVIATION SERVICES LTD	5.6	0.0
SRG GLOBAL LTD	3.7	0.0
NAVIGATOR GLOBAL	3.4	0.0
COOPER ENERGY LTD	3.3	0.2
INTEGRAL DIAGNOSTICS LTD	3.3	0.3
SEVEN GROUP HOLDINGS	3.2	1.3
SUPERLOOP LTD	2.8	0.0
CLASS LTD	2.5	0.0
FLETCHER BUILDING LTD	2.3	0.0
VIVA LEISURE LTD	2.3	0.0

Sector Active Exposure vs Index



Trust Review

With such a weak market backdrop, stocks with positive returns were hard to come by but several stocks managed it:

- **GTN Limited** (+10.9%) provided a positive trading update with Australian media spend being the key driver to higher revenue and earnings while debt also reduced which was pleasing.
- **G.U.D. Holdings** (+8.4%) completed the acquisition of the AutoPacific Group announced in the prior month.

Other stocks with positive news flow that responded well in a very weak market included:

- **OFX Group** was flat after providing a positive December 2021 quarterly update. The business continues to see good momentum in its corporate and consumer segments, leading to an upgraded financial year 2022 net operating income guidance.
- **Latitude Group** (down 1.5%) announced its intention to buy Humm's consumer business for \$355m (90% in Latitude shares). Large synergies of \$100m (pre-tax) are expected making the proposed acquisition >10% EPS accretive should the deal complete.
- **Codan Limited** (down 3.3%) provided a trading update during the month, with management guiding to record half year 2022 profits. The company was able to maintain good supply to customers against a challenging supply chain backdrop; and reassuringly, its recent acquisitions have exceeded management's expectations.

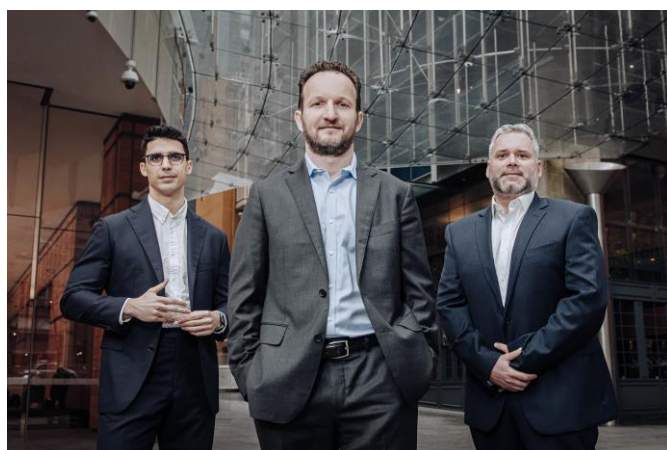
During January we saw a flurry of pre-result trading updates for the retail sector which resulted in overall consensus downgrades due to the late surge in Omicron in December hindering the usually strong seasonal period. We are neutral the sector and very selective with only **Adairs** (down 23.2%) underperforming the market while the Index had more widespread weakness (e.g. large index stocks not held such as AX1, TPW and KGN all fell >15%). For Adairs, sales trends were generally in line with margin outcomes – the main negative due to the higher costs caused by the Omicron distribution (freight, labour availability etc). We are of the view this will be temporary and thus used the weakness as a buying opportunity. The same thesis applies to **Integral Diagnostics** (down 16.4%) which also reported solid sales but large one-off costs due to COVID.

Those stocks perceived as growth by the market were severely punished but, in some cases, we think the market is missing a near-term inflection to a cash flow positive position this calendar year– we see this as likely for **Betmakers Technology**, **Doctor Care Anywhere** and **Marley Spoon** (all down 20-30% in the month). If these companies can indeed deliver improved cash flows in line with our expectations, we believe this could be a strong driver of the share price and move them firmly back into the 'value' camp.

At month end, the Trust finished with 62 positions and cash of 3.0%.

Market Review – Australia (%)


S&P/ASX Small Ordinaries Index	-9.0
Energy	+0.0
Materials	-7.8
Industrials	-10.6
Consumer Discretionary	-12.6
Consumer Staples	-8.7
Health Care	-14.5
Financials	-11.6
Real Estate	-9.9
Information Technology	-14.1
Telecommunication Services	-11.4



Portfolio Managers: Marco Correia, Andrew Smith and Julian Guido (left to right)

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