Perennial Partners

Smalls, Microcaps and Private Markets

Quarterly Review March 2022

	Quarter (%) *descending*	Since Inception p.a. (%) Trust	Benchmark
Perennial Global Resources Trust	18.5	63.8	6.5
S&P ASX Small Ordinaries Resources Index	*13.6*		
Perennial Microcap Resources Trust	9.1	22.3	21.9
S&P/ASX Small Ordinaries Accumulation Index	*-4.2*		
Perennial Value Smaller Companies Trust	-7.6	10.7	6.8
S&P/ASX Small Cap Accumulation Industrials Index	*-9.1*		
Perennial Value Microcap Opportunities Trust	-15.9	18.6	10.4

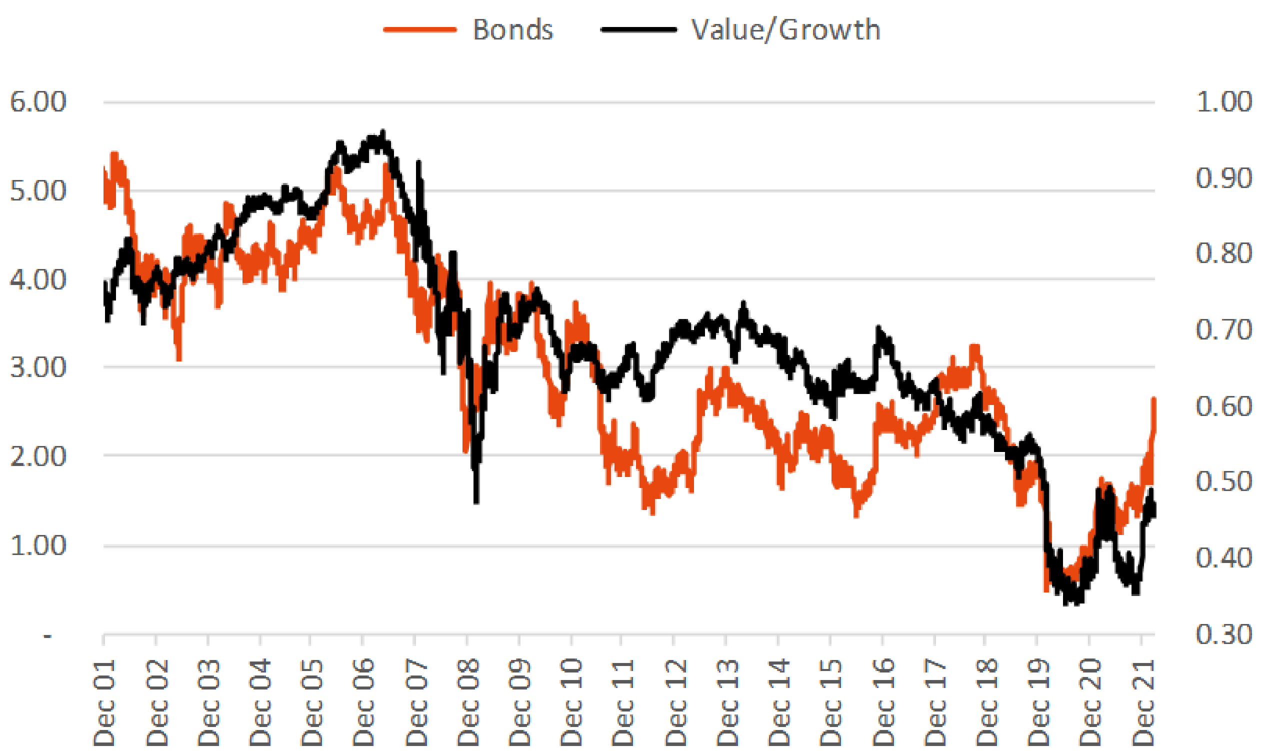
Performance is shown net of fees with distributions reinvested where appropriate (please refer to Pages 5 & 6 of this Promotional Statement to see the full performance of each Trust since inception or visit www.perennial.net.au for further information). The above does not take into account any taxes payable by investors. Past performance is not a reliable indication of future performance.

Note: Perennial Global Resources Trust & Perennial Value Microcap Resources Trust are only available for wholesale investors.

Market Summary

This new quarterly commentary is intended to provide insights from both the listed and private markets we track and invest in. The March 2022 quarter provided some of the widest dispersion across markets and industries for some time with many factors at play.

The quarter began with a large sell-off in highly priced listed “growth” assets reflecting a move higher in interest rate expectations. Investors are reluctant to pay a high price now for cashflow growth that is long dated, hence these companies were sold and those with near term cashflow bid up – as a result “value” has begun to outperform “growth” as interest rate expectations move higher.



Source: Martin Crabb at Shaw and Partners

We have been focused on inflation concerns (and resulting interest rates) for some time and have been monitoring our companies for any risks to their business models – so while we are not discussing inflation concerns at length here, we are firm believers it will remain elevated above the most recent 10yr averages and that investors must resort to old fashioned stock picking to avoid those companies unable to pass costs on while employing a "value" style.

The move in Small Cap and Microcap markets over January was logical and reflected this trend. As a result, alpha outcomes were positive in January for Small and Microcaps albeit absolute numbers were weaker.

We then moved into February reporting season when company fundamentals would normally dominate, however the invasion of Ukraine by Russia created a large drop in risk appetite (best captured below).

Fear and Greed Index

Source: https://edition.cnn.com/markets/fear-and-greed
Last updated Apr 9 at 8:53 PM EDT

This drop in risk appetite was most noticeable in the move out of Microcaps and the lower end of Small Caps – anecdotally by growth managers and hedge funds looking to reduce perceived risk. Given the less liquid nature of Microcaps, this moved prices substantially lower, with only a modest recovery seen in March as compared to a stronger recovery in more liquid names.

Both the value vs growth and liquidity (or size) drivers of the market are well captured when looking at the style factors on the ASX 300 over the March quarter below.

Style	Factor/Driver Name (10)	MARCH QTR ↑	YTD	1Yr
PORT	<Filter>			
1) Growth	PORT AU Growth	-15.66%	-15.39%	-12.26%
2) Volatility	PORT AU Volatility	-10.13%	-9.99%	-20.05%
3) Variability	PORT AU Earnings Variability	-8.52%	-6.32%	-13.90%
4) Momentum	PORT AU Momentum	0.62%	5.83%	22.70%
5) Trade Activity	PORT AU Trade Activity	1.33%	4.16%	-1.24%
6) Profitability	PORT AU Profit	2.13%	-1.41%	8.78%
7) Leverage	PORT AU Leverage	8.17%	4.09%	2.70%
8) Dividends	PORT AU Dividend Yield	13.76%	10.83%	10.20%
9) Size	PORT AU Size	14.59%	11.69%	4.43%
10) Value	PORT AU Value	27.15%	24.42%	24.37%

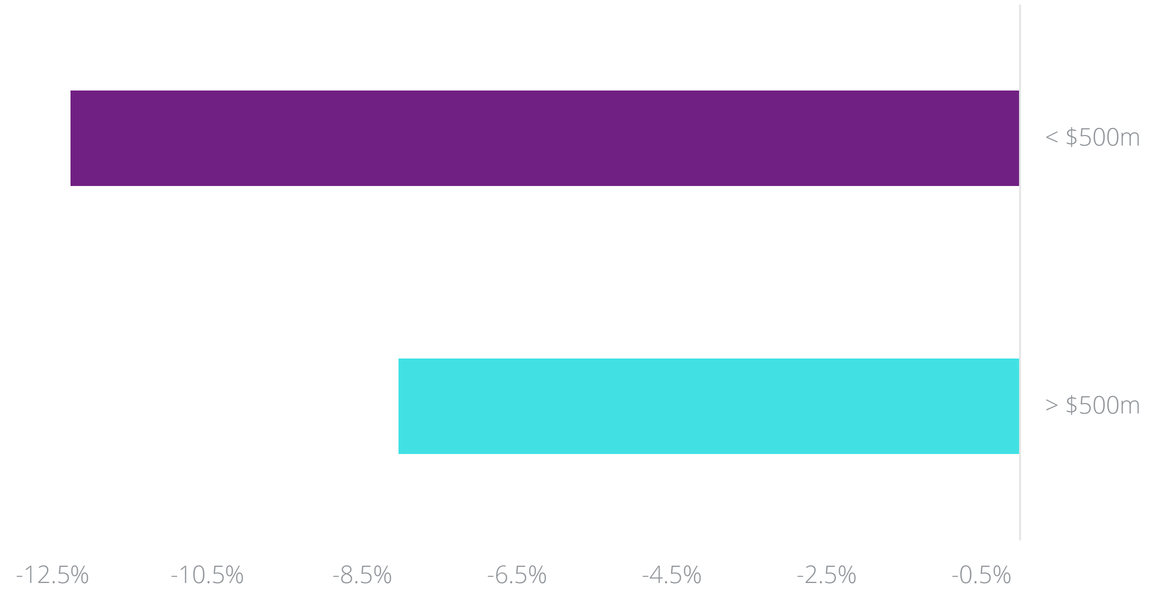
Source: Bloomberg

As discussed, we see the shift towards value (in our view meaning near term cashflow) as logical but think the market has been less discerning as you move down the market cap spectrum. Many high quality value stocks have been ignored, while some higher growth Microcaps which look like "growth" on historic numbers, but look "value" on our 2 and 3 year forecasts were sold off aggressively.

Our view on liquidity risk or company size is also different to the markets current treatment as we prefer to focus on financial risk as the dominate factor. On this measure many of our Microcaps have lower risk with 75% having net cash on their balance sheet. Thus we see reduced risk in these names from a financial sense and used the sell-off as a buying opportunity.

To further explore the extreme move driven by size (rather than any company fundamentals) we examined the move in ex-100 Industrial stocks over the quarter. We examined those stocks which were above $500m market cap as compared to those below at the start of the period. As you can see from the graphic below those with market caps above $500m at the start lost 8% while the smaller cohort of Microcaps below $500m lost 12%.

Our Universe – 3 Mth Performance (Median)



Source: Factset, Universe is ex-100 down to $20m Market Cap.

We also note that when a corporate assesses a Microcap or Small Cap for a full takeover, liquidity risk no longer applies - all that matters then is the expected cash earnings from the deal. This explains the often large premiums for deals at this end of the market, as the liquidity discount disappears in addition to the normal 30% takeover premium required for a successful takeover.

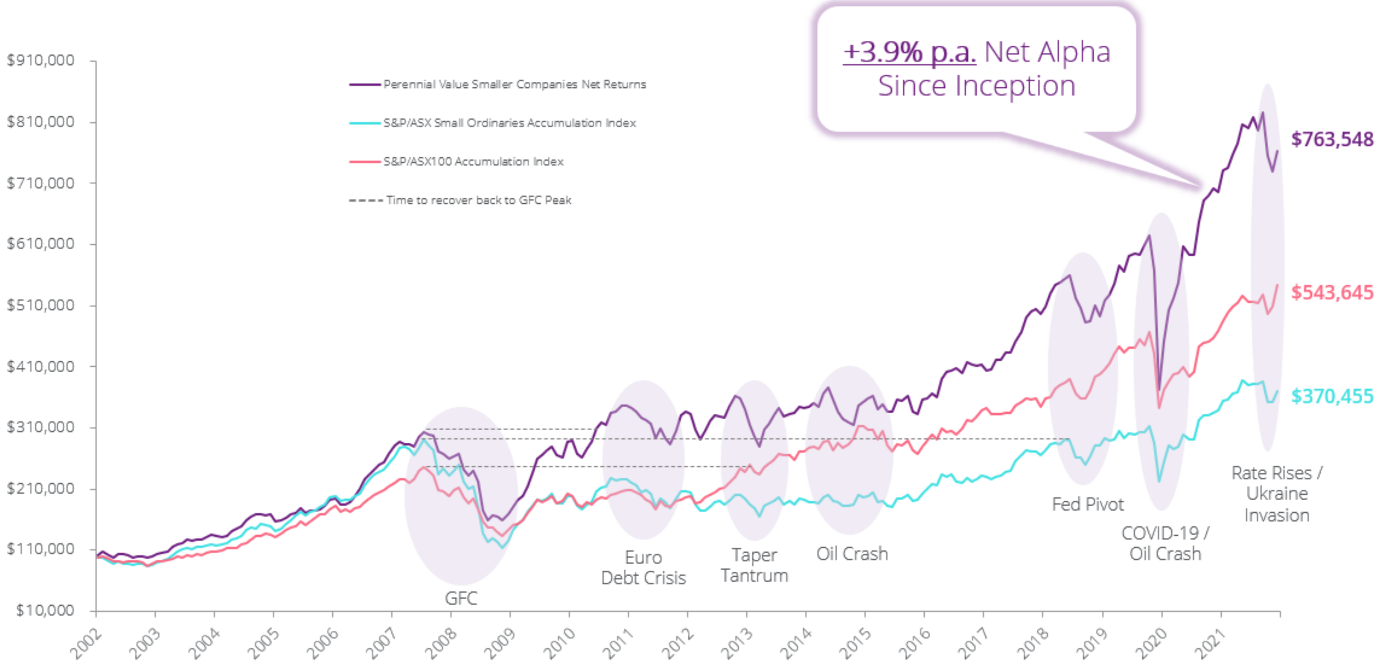
We expect takeover activity to pick up as risk appetite begins to normalise and other sources of growth are more limited. Pleasingly, we have seen some M&A activity already with the bid for Uniti Group (held in the Small Cap Trust) leading to increased investor interest in Superloop in March (held in both the Small Cap and Microcap Trusts). In the same way the bids for Virtus Health have increased the share price of listed close comp, Monash IVF (held in the Small Cap Trust).

We expect further takeover activity across the portfolio given high cashflow yields for many of our positions.

We are also attracted to those names perceived as 'cash burners' which the market is in no mood for at present, but which we think will transition to cashflow positive over the next 12-18mths and hence be re-rated as "value" emerges. This portion of the Microcap portfolio was hardest hit in the March quarter and we look to company quarterly result announcements over April as the start of the recovery process (and an opportunity for us to re-test our forecasts of impending positive cash).

Dislocation = Opportunity

Experience from many cycles

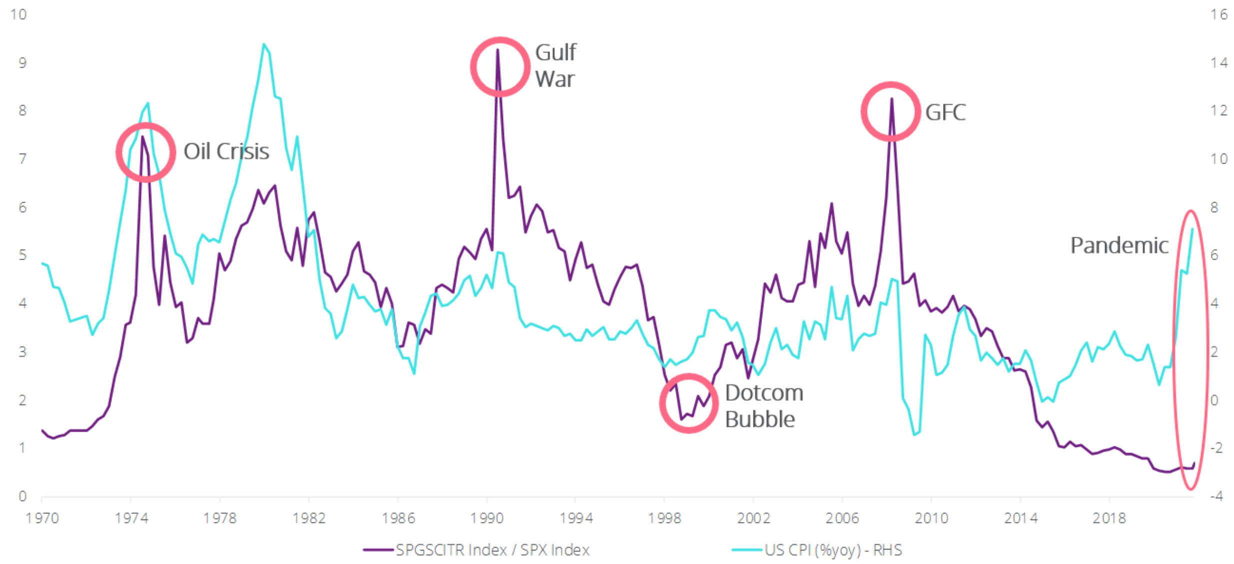


Source: Perennial as at 31 March 2022. Perennial Value Smaller Companies Net Returns includes distributions reinvested. Past performance is not a reliable indicator of future performance.

As a team, we have navigated many market sell-offs in the past (captured in the Small Cap Performance chart below), with these circumstances providing a good hunting ground to reposition the portfolio to maximise alpha into the recovery.

Each sell-off has created a different opportunity set. In addition to those discussed above, we remain of the view that Resources are in a structural bull market and look for any weakness as a chance to add to our direct holdings in Small Caps (and indirectly via the Micro Resources Trust for the Microcap Opportunities Trust).

Commodities: Relative Outperformance in Times of Inflation



Key Picks | Cooper Energy (COE) | 29 Metals (29M) | Dacian Gold (DCN)

Source: FactSet February 2022, Perennial Value Management Limited

A brief discussion of each Funds quarterly performance follows, with more stock examples.

Perennial Value Smaller Companies Trust – Quarterly Review

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Smaller Companies Trust (Net)	4.5	-7.6	0.7	9.6	43.2	15.7	13.1	10.7
S&P/ASX Small Ordinaries Accumulation Index	5.3	-4.2	1.1	9.7	29.2	9.6	9.9	6.8
Value Added	**-0.8**	**-3.4**	**-0.4**	**-0.1**	**14.0**	**6.1**	**3.2**	**3.9**

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

For the quarter, the Trust underperformed with a return of -7.6% compared to -4.2% for the Index. Most of the drop in relative performance occurred towards the end of February when market risk aversion was elevated due to the invasion of Ukraine.

In such an environment, our Resource exposures did well:

- Capricorn Metals (+20.3%) reflecting higher gold prices and the first quarter of commercial production
- Dacian Gold (+15.8%) reflecting higher gold prices and the market becoming more comfortable with the strong second half recovery implied by the current production guidance

Mining and Infrastructure beneficiary SRG (+30.0%) continued its strong momentum, upgrading EBITDA guidance during the period and delivering high cashflow at their 1H22 result. The Trust also benefitted from the takeovers for Uniti Group (+6.3%) and increased interest in Monash IVF (+15.1%) with a continuation of the competitive takeover process for competitor Virtus Health.

Dragging down performance was:

- Marley Spoon (-46.3%) despite 24% revenue growth and guidance of lower EBITDA losses for 2022 which imply a close to cashflow breakeven outcome (they benefit from negative working capital)
- Doctor Care Anywhere (-58.3%) despite exceeding revenue guidance with 115% revenue growth and guidance for 40-50% growth this year, but most importantly EBITDA profitability by the end of 1H 2023

Looking forward, we expect to add to our Resource exposure on any weakness and continue to look for opportunities in Industrial stocks which appear oversold.

Perennial Value Microcap Opportunities Trust – Quarterly Review

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Microcap Opportunities Trust (Net)	3.2	-15.9	-8.9	-7.2	30.3	14.4	19.0	18.6
S&P/ASX Small Ordinaries Accumulation Index	5.3	-4.2	1.1	9.7	29.2	9.6	9.9	10.4
Value Added	**-2.1**	**-11.7**	**-10.0**	**-16.9**	**1.1**	**4.8**	**9.1**	**8.2**

^ Since inception: February 2017. Past performance is not a reliable indicator of future performance.

The Trust underperformed the more liquid Small Cap Index by 11.7% with a return of -15.9% for the quarter. Many of the holdings faced significant selling pressure despite mostly positive news flow during the period. This reflected lower risk appetite given lower liquidity (ignoring the often better balance sheets and valuations on offer).

Resources continued to do well with a positive return via our holding in the Micro Resources Trust (+9.1%) and our direct holding in Jindalee Resources (+49.5%) after drilling results for its McDermitt Lithium project in the US.

Revasum (+28.6%) provided a good case study for those companies who are able to clearly show a path to cashflow positivity as they did with guidance in January. Ironically, it was other companies also in that transition phase that were the big drag in the portfolio for the quarter with:

- Envirosuite (-31.8%) delivering encouraging growth in recurring revenues and increasing gross profits despite the drag from COVID on sales activity (particularly Aviation). They finished with ample cash of $23.7m, more than enough given the likelihood of achieving a cashflow positive run-rate this year
- Doctor Care Anywhere (-58.3%) as above

For those names approaching cashflow positivity, we will assess March results (delivered in April) as that will be the first sign of progress in that regard. We will also look for opportunities to add to the Micro Resources Trust.

Perennial Global Resources Trust – Quarterly Review

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since inception^ (% p.a.)
Perennial Global Resources Trust (Net)	9.5	18.5	35.3	38.3	63.8
Benchmark (Absolute return of +6.50% p.a.)	0.5	1.6	4.8	6.5	6.5
Value Added	**9.0**	**16.9**	**30.5**	**31.8**	**57.3**
S&P ASX200 Resources Total Return Index*	9.9	20.4	19.8	28.4	40.5

^ **Since inception:** April 2020. Past performance is not a reliable indicator of future performance.
* S&P ASX200 Resources Total Return Index is used for reference purposes only.

Perennial Microcap Resources Trust – Quarterly Review

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since inception^ (% p.a.)
Perennial Microcap Resources Trust (Net)	10.6	9.1	-	-	22.3
S&P ASX Small Ordinaries Resources Index	12.2	13.6	-	-	21.9
Value Added	**-1.6**	**-4.5**	**-**	**-**	**0.4**

^ **Since inception:** August 2021. Past performance is not a reliable indicator of future performance.

Both the Global Resources (+18.5%) and Micro Resources (+9.1%) Trusts performed well in an absolute sense given the very strong backdrop for Resources.

Lithium exposures were a highlight:

- Jindalee Resources (+49.5%, held in both Trusts) detailed drilling results for its McDermitt Lithium project in the US
- Green Technology Metals (+59.6%, held in both Trusts) provided early drill results from its Seymour lithium project, and the expansion of its land position in Canada

While Gold exposures also performed well:

- Capricorn Metals (+20.3%, held in Global) reflecting higher gold prices and the first quarter of commercial production
- Dacian Gold (+15.8%, held in both Trusts) following the gold price but also reflecting the market becoming more comfortable with the strong second half recovery implied by guidance

The Global Resources Trust was also able to take advantage of opportunities outside of the Microcap investment universe with strong performance from the SPDR S&P Oil and Gas ETF, as well as Karoon Energy. It also benefitted from a repricing of a private investment in ClearSky Industries (+104%) post the sale of its share of the Western Plant Hire business.

Capital raising activity remains high in the sector. Both Trusts have a reasonably high cash balance to take advantage of opportunities as they present in coming months.

Positive tailwinds for commodities have led to euphoric sentiment, most evident in the lithium space. This has resulted in markets taking a glass-half-full view regarding projects we would consider conceptual in nature.

The outcome of this is two fold, firstly projects with novel production methods are likely to disappoint very lofty expectations – hence stock picking is important.

Secondly, the supply response is likely to fall short of current forecasts, prolonging elevated commodity prices.

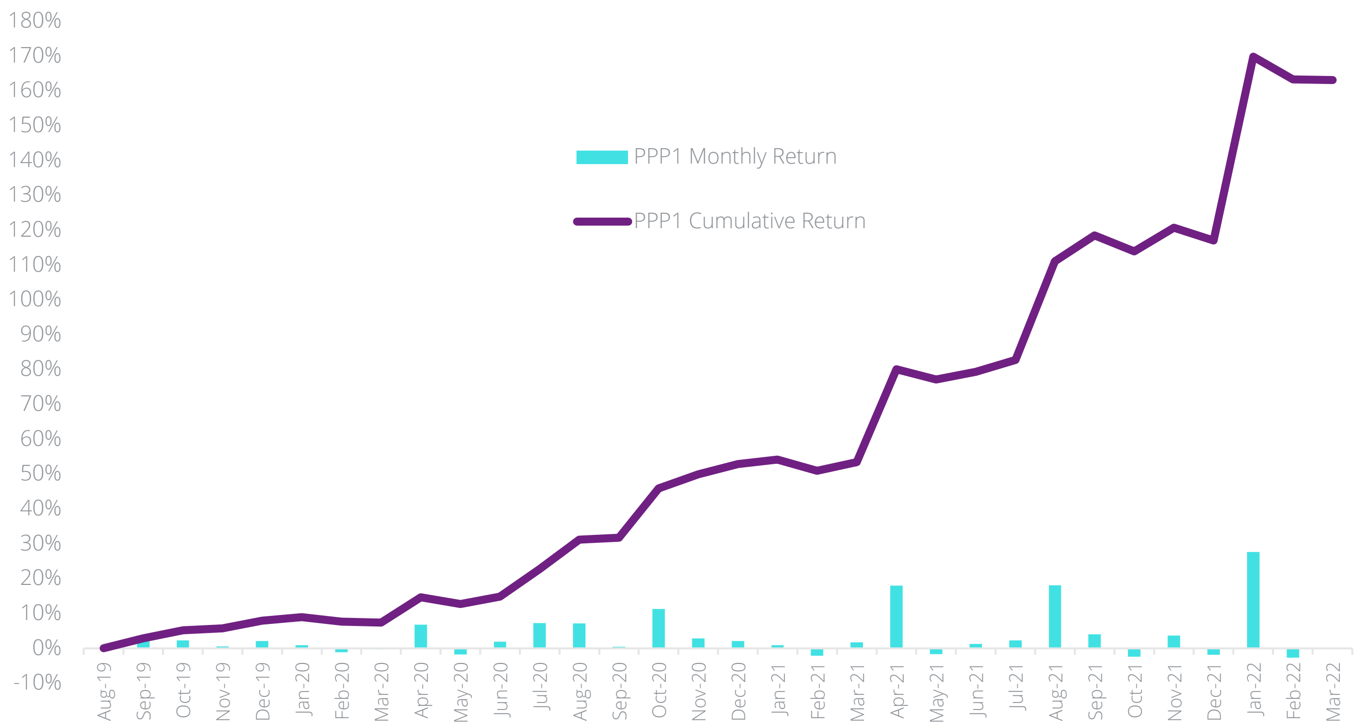
Private Markets – Quarterly Review

	Quarter (%)	Since Inception p.a. (%)	
		Trust	Benchmark
Perennial Private to Public Opportunities Fund No.1	24.1	44.8	6.5
Perennial Private to Public Opportunities Fund No.2	14.3	16.0	6.5
Perennial Private to Public Opportunities Fund No.3	-3.4		

Inception date for PPP1 is 19 August 2019. Inception date for PPP2 is 2 October 2020. Inception date for PPP3 is 18 August 2021. Performance shown is net of fees and includes all distributions to date. The above does not take into account any taxes payable by investors. Past performance is not a reliable indicator of future performance.

The obvious standout for March quarter was the performance of the Perennial Private to Public Trusts despite the market weakness – particularly those with an earlier vintage (like PPP1 below) and thus with investments which are more progressed.

Monthly and Cumulative Returns Net of Fees (%)



Investors may logically ask whether the listed market may drag down private valuations over time. We agree this makes sense in general and certainly anticipate better priced private deals over the next six months as this plays out.

In the case of our funds, investors should take comfort from our value discipline as we typically apply a 50% discount to listed names when entering new private transactions.

The performance of our Private to Public Trusts was very stock specific during the March quarter, with three names worth highlighting and discussed below (more detailed quarterly reports for each fund are available on our website).

Animoca Brands (held in PPP1 & PPP2)

Animoca completed a high profile funding round during the quarter (see - Digital rights biz Animoca Brands tops up at $US5b valuation) which brought in several more high profile investors. Importantly these new investors can also assist in investing in other companies involved in the Animoca ecosystem helping build the network effect that will add value over time.

The A$500m initial cash raise adds to a growing cash balance that will be used by Animoca to continue its investment strategy in companies in the NFT and blockchain gaming ecosystem, as well as supporting existing investments such as Sandbox.

Sandbox was one of the key assets which attracted us initially and continues to progress towards a full launch. Many notable brands have now purchased land (or SAND) in the virtual universe on which to build their brand and engage with gamers – with names as diverse as Ocean Park (a real theme park in HK), Warner Music, PwC HK and physical property developers in Hong Kong (as part of the virtual city being built in the Metaverse).

One new investment made by Animoca during the quarter was Immutable (see link), an Australian based developer behind NFT marketplaces. Animoca seems well placed to attract further deal flow, such as this, with heighted deal activity on deals observed so far in 2022.

The valuation for Animoca in the recent round was A$4.50 as compared to the A$2.00 raising price late last year. Given the already large position in PPP1 and sizeable position in PPP2, this had a positive impact on the unit price of both in January. We are still positive towards the outlook for Animoca but given the large size of the position we trimmed a portion of our holding with the cash received in April.

InstantScripts (held in PPP1 & PPP2)

InstantScripts is a fast-growing private business which is leading innovation in the digital healthcare sector in Australia. We first invested via an equity position in early 2021, and then topped up that position by acquiring some secondary shares later in the year. Other investors have since joined the register at higher prices leading to the lift in value during the quarter.

The primary product is an electronic medical prescription platform which is utilised by both consumers directly and cosmetic day clinics. Since our investment, processed prescriptions has more than doubled with repeat business representing 60% of volume. Our investment last year enabled the company to further invest in marketing its brand, hire additional staff, and launch additional products, and it is great to see this strategy bearing fruit.

InstantScripts also provides telehealth consultations and medical certificates, and it is now adding new subscription-based products to its range. More than half of Australian pharmacies now use the platform, and new sites are joining regularly. The technology backbone was built in-house and so the business fully owns its own IP.

InstantScripts is led by its founder CEO, Asher Freilich, who is a medical doctor with wide-ranging commercial experience. Prior to our investment, Asher has essentially bootstrapped the business to early success, and was looking for a capital partner to take it to the next level. We have been extremely pleased with the performance to date, and believe the business is helping to drive structural change in the domestic digital healthcare market.

MICROBA™

Microba (held since pre-IPO in PPP1 & PPP2, bought at IPO for PPP3)

Microba listed on the ASX in April 2022 at $0.45 per share, providing a small uplift on the holding value for PPP1 and PPP2.

We believe that to secure funding for an IPO during such a difficult market is testament to the unique assets of Microba and their status as one of the key companies investigating what some see as the last frontier of Medicine, namely DNA mapping of the gut biome. This status was further enhanced with the investment of Ginkgo Bioworks (NYSE:DNA) into the IPO and the creation of a partnership with Microba to pursue potential drug development.

Microba has a direct consumer offer and via large partners such as SYNLAB in Europe and Genova Diagnostics (NASDAQ:ILMN) in the US. These test results provide good insights to the consumer (which some of our team have benefited from!) but also builds a valuable database of gut biome DNA to map against other indications and pursue potential drug treatments – the most progressed being for Inflammatory Bowel Disease.

Microba have a strong team with CEO Dr Luke Reid and the two founders Prof Gene Tyson and Prof Phil Hugenholtz were joined on the board by Australian of the Year, Prof Ian Frazer and experienced Chairman Pasquale Rombola.

We look forward to the continued evolution of the company which has already come along way since we began tracking it in 2017. At the time, it had just started consumer tests in Australia after spinning out of the University of QLD.

Private Market Outlook

We expect IPO and placement activity to remain subdued for the June quarter, with the possible exception of Xpansiv, which is a unique exposure in a market desperate for ESG exposure (see the article "Xpansiv to piggyback on Chrysos IPO").

Some of our other investments may list in the December quarter but are also considering trade sales as alternatives. In other cases, we are encouraging further funding rounds to extend the flexibility for each company should the IPO window be shut for longer than currently expected.

The US and Australia public markets have seen significant softness in new placements and IPOs, particularly SPACs in the US where activity fell to the lowest levels for some time compared to the frenzy of last year. This is particularly pleasing as SPACs were starting to feature as a competing path to our funding offers. The generally poor performance of SPACs last year should deter companies from this path going forward and encourage more traditional front door IPOs, which is our preferred pathway.

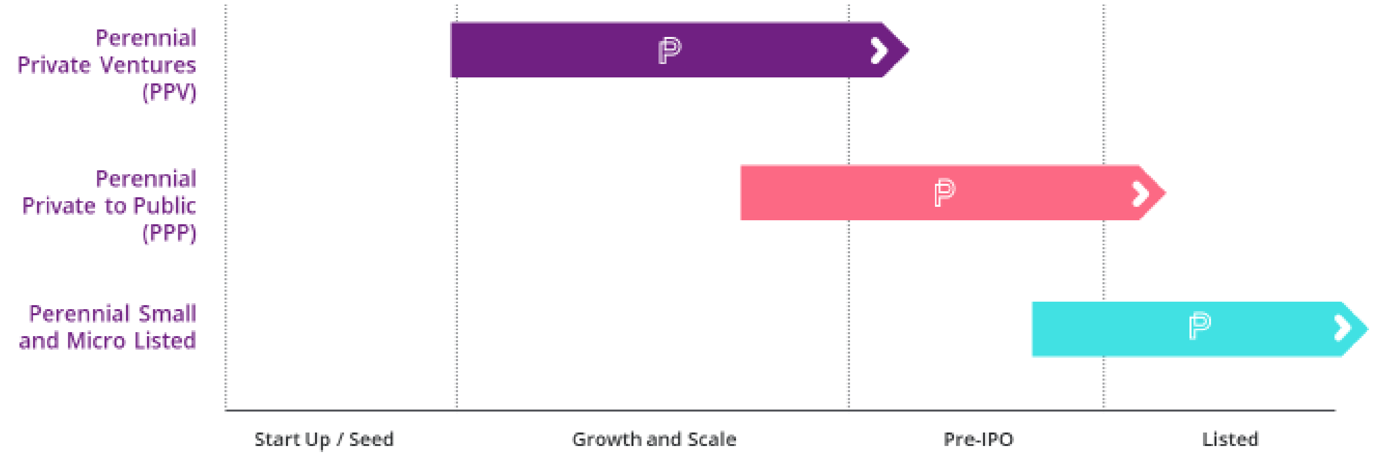
Regarding early stage private markets, the Q1 2022 PitchBook-NVCA Venture Monitor noted that while deal activity remained strong much of this is backward looking (as terms sheets take time to complete) and there were signs "deal sizes and valuations have begun to drop".

This backward nature of the data partly explains the unusually strong start up activity reported in the AFR "Start-ups on fire in record-breaking $3.6b quarter" with much of this data reflecting deals negotiated late last year. But in the Australian context it is also worth noting the significant amount of new capital coming into the Australian market chasing start up investments.

In contrast, we continue to focus on the area of the market several steps after start-up phase (shown below) where we believe the best risk-return exists – namely those companies that have demonstrated product market fit and scaling revenue – this is the target market for our new Ventures Fund which the team is currently discussing with potential investors and is launching in April (see webinar link here).

Funding Pipeline

Uniquely positioned to fund private companies throughout their lifecycle



Thank you again for your continuing interest in our Small, Micro and Private investment strategies.

Yours sincerely,
Andrew Smith and Brendan Lyons

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