Smalls, Microcaps and Private Markets

Quarterly Review June 2022

	Quarter (%) *descending*	Since Inception p.a. (%)	
		Trust	Benchmark
S&P/ASX Small Cap Accumulation Industrials Index	*-18.4*		
Perennial Global Resources Trust	-20.0	40.5	6.5
S&P/ASX Small Ordinaries Accumulation Index	*-20.4*		
Perennial Value Smaller Companies Trust	-21.1	9.3	5.5
Perennial Value Microcap Opportunities Trust	-25.2	11.5	5.4
S&P ASX Small Ordinaries Resources Index	*-26.8*		
Perennial Microcap Resources Trust	-27.5	-11.3	-10.7

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

Markets shifted from concerns about the impact of rising interest rates on valuations, to concerns about the impact of these rises on the economy (and earnings). As a result, market leadership changed from the March quarter, with Resources becoming a significant drag given lower global growth but also lockdowns in China.

Also, the style factors shifted with size (ie. the bigger the better) becoming the largest driver of performance on the ASX300 for the June quarter, overtaking value as shown below.

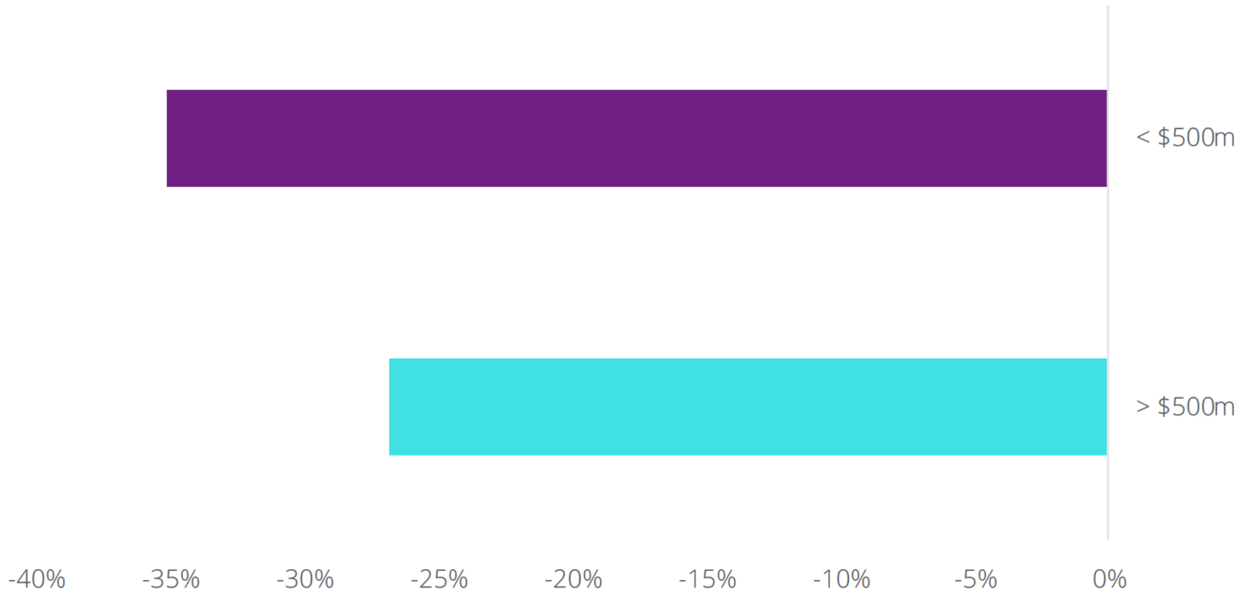
	Style	Factor/Driver Name (10)	JUNE QTR ↑	YTD	1Yr	10Yr
	PORT	Filter				
1)	Growth	PORT AU Growth	-17.40%	-28.73%	-28.36%	-32.17%
2)	Volatility	PORT AU Volatility	-17.32%	-20.61%	-27.72%	-65.21%
3)	Variability	PORT AU Earnings Variability	-16.58%	-22.32%	-27.01%	-46.11%
4)	Trade Activity	PORT AU Trade Activity	-16.24%	-16.19%	-17.99%	-44.94%
5)	Momentum	PORT AU Momentum	8.12%	-2.36%	10.94%	301.93%
6)	Dividends	PORT AU Dividend Yield	16.21%	30.76%	30.60%	42.36%
7)	Leverage	PORT AU Leverage	16.34%	25.80%	29.64%	74.83%
8)	Profitability	PORT AU Profit	18.86%	19.30%	25.57%	160.29%
9)	Value	PORT AU Value	20.39%	47.92%	45.55%	49.42%
10)	Size	PORT AU Size	26.56%	35.96%	29.32%	160.44%

Source: Bloomberg

As we highlighted in the March quarter the impact due to size has had an outsized impact on the Microcap end of the market (which we define as sub $500m market cap). The chart on the next page shows those stocks in our universe which started the calendar year below $500m market cap (Microcaps) were down 35% as measured at the median, while those ex100 but above $500m market cap were down a lower amount of 27%. Such a large gap shows that liquidity is the dominant driver of performance so far this year rather than fundamentals. As a reminder of strong fundamentals our Microcap portfolio is 80% in companies with net cash on their balance sheet. Additionally, the price to earnings ratio is 9.8x as compared to the Index on 13.0x in FY24.

Given the obvious value on offer at the Microcap end of the market, we have added several of our highest conviction names to the Small Cap fund during the quarter – focusing on those stocks with strong ESG revenue tailwinds given the more uncertain economic outlook.

Our Universe – 6 Month Performance (Median)



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

The additional challenge facing the smaller end of the market was the most impactful tax loss selling period in recent memory. The strong 1HFY22 created high levels of realised gains for many investors and thus as markets dropped sharply in the last quarter there was a strong incentive to take tax losses – anecdotal feedback from brokers and investors was that this was left much later than usual and thus had an outsized impact in illiquid markets. Further evidence of this was the sharp recovery in many names early in July as this selling pressure was removed.

The market will eventually focus on fundamentals for stocks and there were some encouraging events in that regard during the June quarter. The themes of capital management and M&A Activity began to emerge and are likely to continue for the balance of the calendar year.

- **Capital Management** – Two buybacks were announced across the portfolios in June (and a further two in July). This enhances earnings per share in future periods but also reminds the market of both the strong balance sheets of the companies in question and the Board's view that the shares are undervalued
- **M&A Activity** – We foreshadowed in our March newsletter that we expect an increase in takeover activity. It was pleasing to see a bid for our largest holding in Small Caps, Alliance Aviation, from Qantas during the quarter. The share price response was muted given ACCC approval is still a risk, however it is a good reminder of the strategic value on offer. In Microcaps there have been several bids at ~100% premiums (e.g. not held names such as Pay Group and Reckon) reflecting the control premium but also the closing of the large liquidity discount. The Microcap fund benefited from the cash bid for HRL holdings (also close to a 100% premium) in June. We expect further interest in many of our names given the strong value on offer

July quarterly updates and August reporting season

Investors will have a busy period in the current quarter assessing how well business models are adopting to inflationary pressures in all parts of the economy. The additional challenge will be the prospect of a weaker consumer as house prices fall and disposable income is reduced by interest rate increases. Given this backdrop, we are focused on more resilient earnings streams and higher margin businesses with several names of interest in healthcare and technology – ironically the part of the market that has been the weakest this calendar year.

This environment should benefit stock pickers as those companies that can continue to thrive, will emerge much stronger over the medium term.

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)	-13.4	-21.1	-20.5	-20.5	7.4	3.4	7.4	9.3
S&P/ASX Small Ordinaries Accumulation Index	-13.1	-20.4	-19.5	-19.5	3.5	0.4	5.1	5.5
Value Added	**-0.3**	**-0.7**	**-1.0**	**-1.0**	**3.9**	**3.0**	**2.3**	**3.8**

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

For the quarter, the Trust performed inline with the market, down 21.1%, compared to the Index, down 20.4%. There were many positive fundamental updates, but these were overshadowed by the weak market sentiment:

- SRG Global (-3.2%) provided several positive updates, lifting earnings guidance and also announcing several new contracts wins
- Alliance Aviation (-6.1%) announced a takeover bid from Qantas at $4.75 vs the quarter closing price of $3.57. The large discount to the bid price reflects uncertainty over the likely ACCC decision on the bid which should be resolved in coming months
- Superloop (-22.6%) closed the sale of the HK/Singapore assets moving the business to a net cash position; they also reaffirmed guidance and the CEO bought stock on market

Tax loss selling was a major driver during the quarter with the following stocks impacted:

- Enero Group (-23.7%) despite guiding to 20% growth in revenue and 34-36% growth in EBITDA
- BetMakers (-46.5%) initiated a stock buy-back and announced traction in the fixed odds market in the US
- Viva Leisure (-37.2%) despite achieving their member and revenue milestones ahead of schedule
- MoneyMe (-63.0%) despite positive updates on funding costs and bad debts

Given the emergence of China lockdowns, we reduced our resource exposure early in the quarter but are monitoring demand conditions for an opportunity to begin increasing our exposure again given the bullish backdrop of constrained supply when demand does eventually recover.

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)	-11.2	-25.2	-31.8	-31.8	-5.3	0.6	10.8	11.5
S&P/ASX Small Ordinaries Accumulation Index	-13.1	-20.4	-19.5	-19.5	3.5	0.4	5.1	5.4
Value Added	**1.9**	**-4.8**	**-12.3**	**-12.3**	**-8.8**	**0.2**	**5.7**	**6.1**

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

The Trust underperformed the more liquid Small Cap Index by 4.8% for the quarter with a return of -25.2%. The portfolio was heavily impacted by tax loss selling which was most noticeable at this illiquid end of the market.

It was positive to see the takeover bid for HRL Holdings in June (at close to 100% premium) proving up the strategic value we have seen in the position for some time. We believe there will be more M&A activity across the portfolio given the value we see in our names – both strategic value and value based purely on cash flows.

There were also some encouraging fundamental updates across the portfolio in June which should lead to improving share prices as this is digested by the market (the key updates are captured in the small cap stock commentary above as these positions are all held across both funds)

Perennial Global Resources Trust – Quarterly Review

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	Since inception^ (% p.a.)
Perennial Global Resources Trust (Net)	-17.0	-20.0	8.3	8.3	40.5
Benchmark (Absolute return of +6.50% p.a.)	0.5	1.6	6.5	6.5	6.5
Value Added	**-16.5**	**-21.6**	**1.8**	**1.8**	**34.0**
S&P ASX200 Resources Total Return Index*	-10.6	-13.8	3.3	3.3	26.7

^ **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)	-19.4	-27.5	-	-	-11.3
S&P ASX Small Ordinaries Resources Index	-22.1	-26.8	-	-	-10.7
Value Added	**2.7**	**-0.7**	**-**	**-**	**-0.6**

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

Much of the commodities space slipped into the gap between Chinese stimulus and softening western world demand during the June quarter. Equity indices sold off across the board and the resources trusts were not immune, ending down 20.0% and 27.5% for Global and Micro Resources Trusts respectively.

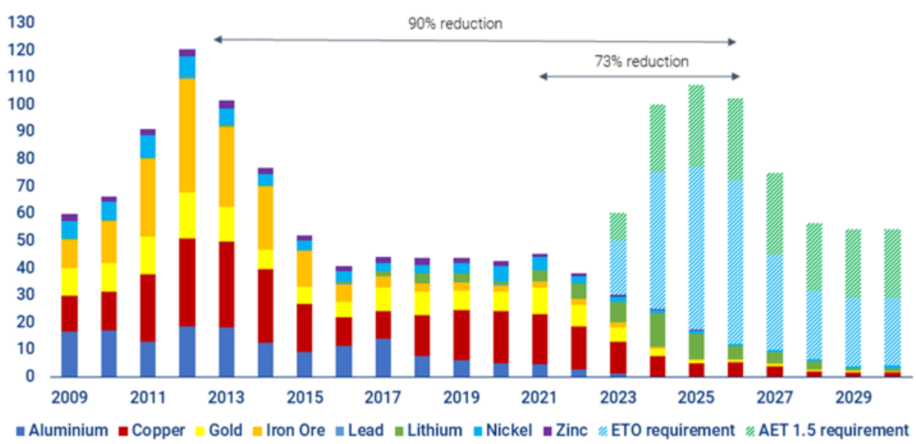
It is somewhat frustrating that the underlying commodity exposures of our barbell exposure to old and new energy actually held up quite well, with oil up 11.6%, lithium hydroxide broadly flat and achieved prices for spodumene (lithium source mineral) up over 100% during the quarter.

Despite the commodity moves above, some of our larger positions still suffered falls during the quarter. Including:

- Lithium holdings; Green Technology Metals (down 24.1%) and Jindalee Resources, (down 9.9%)
- Oil exposures; Woodside (down 0.8%), XOP Oil ETF (down 11.2% in USD)

Looking forward, the core drivers of the commodity price rally, being the current energy shortage and future energy transition remain unresolved. These are multi-year and multi-decade thematics respectively, which will certainly extend past the current rate-rising cycle. The current level of investment in new supply of metals critical to the energy transition is materially below that which is required to reach either +2.0 (ETO requirement) or +1.5 degree targets (AET requirement). While this remains the case, we remain optimistic regarding opportunities to support the commodity response required to achieve decarbonisation.

Metals and mining committed investment capex and requirements (US$bn)



Source: Wood Mackenzie Corporate Service

Private Markets – Quarterly Review

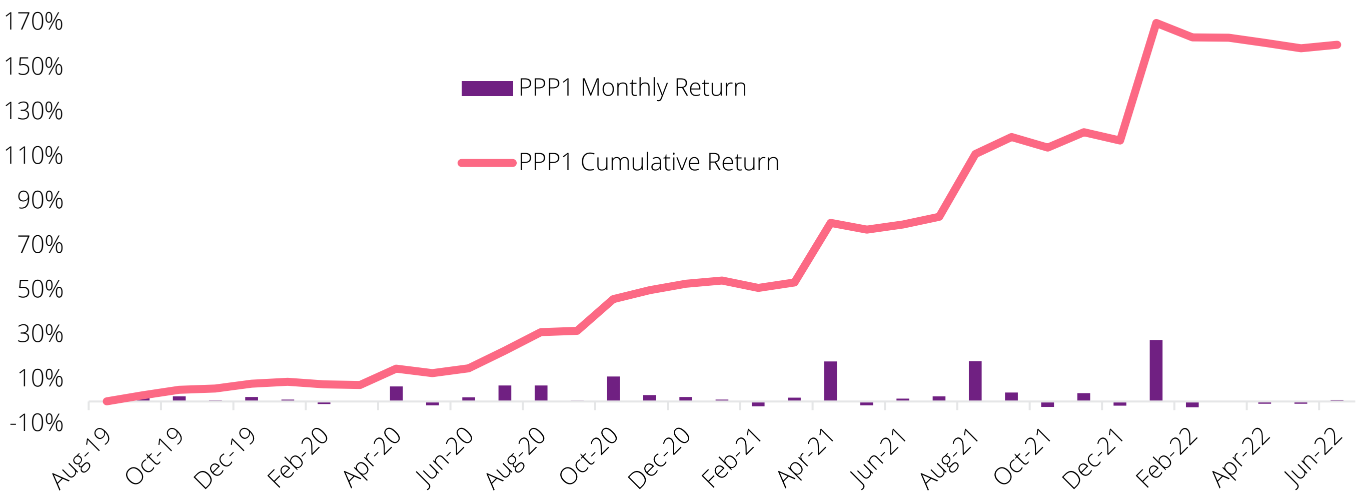
	Quarter (%)	Since Inception p.a. (%)
Perennial Private to Public Opportunities Fund No.1	-1.4	40.0
Perennial Private to Public Opportunities Fund No.2	0.5	15.0
Perennial Private to Public Opportunities Fund No.3	0.4	-

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.
Note: All Perennial Private to Public Opportunities Funds are only available for wholesale investors.

Detracting from performance was a write-down in one unlisted asset in PPP1 as well as the fall in Microbra as it transitioned to public markets via an IPO early in the quarter (into very weak markets). Across the PPP strategies the listed exposure was below 10% of assets reducing the size of the drag from weaker share markets during the quarter. Performance was therefore dictated by moves in the value of private assets where there were many positive updates across the funds:

- Superhero was a convertible note investment across all PPP funds. Perennial led an investment round in March 2021, and then followed with a top-up investment in October 2021. Superhero announced a merger with Swyftx to create a $1.5b diversified trading services platform for retail investors with consideration part cash and part shares in the combined entity
- In PPP1, Mint Payments completed a private capital raising (at a premium to our holding cost) to fund further product development after successfully integrating their recent European acquisition
- In PPP2, we participated in a follow-on investment in HR tech business WithYouWithMe at an uplift to the previous valuation, reflecting significant growth in the business since our first investment
- In PPP3, we moved to a fully invested position adding positions in Equiem, Limitless and Shippit during the quarter

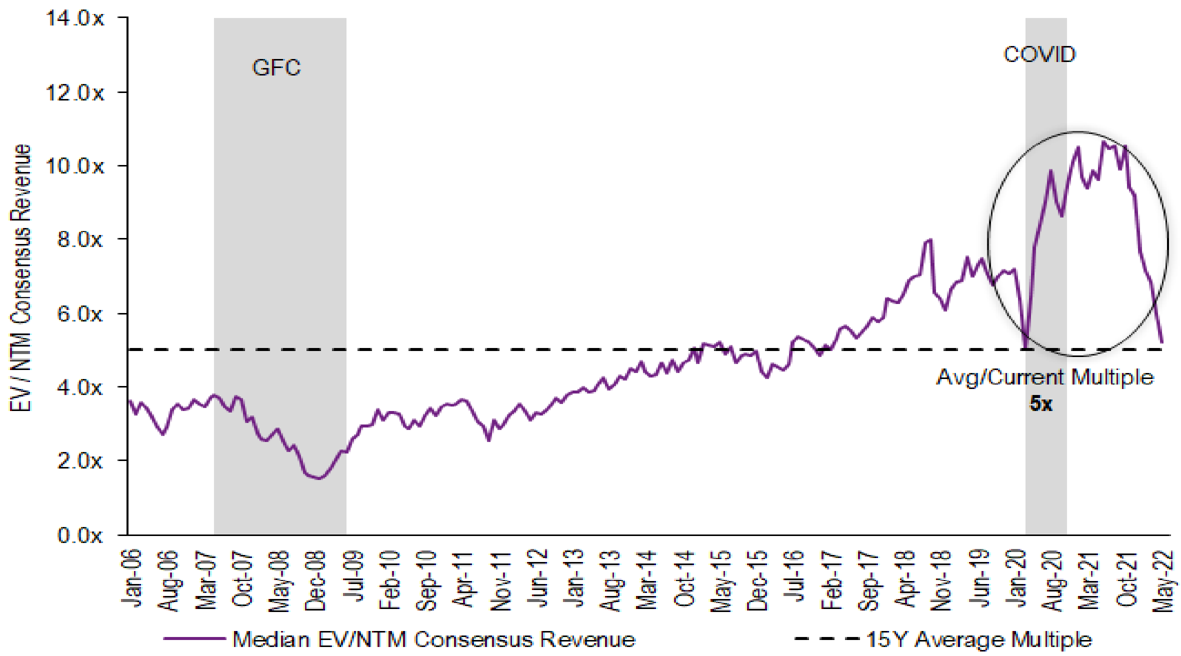
Return Since Inception[1] Net of Fees (%)



[1] Inception date for PPP1 is 19 August 2019. Performance shown is net of fees. It does not take into account any taxes payable by an investor. Past performance is not a reliable indicator of future performance.

Private Markets Focus

Our Perennial Private to Public (PPP) private investments are typically fast-growing, high-margin businesses with strong market positions, unique IP and good pricing power. We have engaged heavily with our portfolio companies since the start of the year to ensure their cash management and funding runway is optimised. Pleasingly, almost all of PPP investment companies have sufficient cash runway at present, with a select few currently shoring up their balance sheet through cost cutting measures and/or capital raisings. Some other portfolio companies are pursuing capital raising to accelerate existing growth initiatives as well. Last year, we encountered elevated valuations in private markets, however we maintained our valuation discipline and only invested at attractive valuations, with adequate downside protection. Accordingly, the current correction in public and private market valuations has not materially impacted the PPP portfolio to date. We believe the valuations in both the private and public markets were extremely elevated during 2020 and 2021 because of low interest rates and monetary policies. A more appropriate benchmark for valuations would be to look backwards to 2019 and to the long term average. This is evident in the chart below which shows the medium Enterprise Value to Next Twelve Months Revenue (EV/NTM Revenue) for listed tech companies.



Source: Perennial, FactSet and Citi

When investing for the PPP Funds, we value private businesses using long-term averages and apply significant discounts to comparable public businesses. Our large and growing pipeline of private deals enables us to uncover the highest quality companies and invest at very attractive valuations and terms, usually on an exclusive or cornerstone basis, thereby setting the terms. Perennial's reputation, scale and style has positioned us as the lifecycle partner of choice for many private company founders. We pass on ~95% of the private opportunities we meet, and on regular occasions, this is due to excessive valuation expectations.

We maintain a conservative valuation policy once a private company enters the portfolio. All private investments are held 'at cost' until a verified material third-party transaction occurs, such as an IPO, private takeover/merger, subsequent equity raising in the same or lower security class, or a secondary selldown. In practice, this means many of our private investments are held at a historical value which is below the current operating performance of the business. Carrying values for all private investments are reviewed every quarter, with any underperforming company assessed at that time. Across the 87 private investments we have made over the past 5 years, there has been only 1 write-down due to poor operational performance (held in PPP1). In a couple of other cases, we have made small downward revisions when a new instrument is issued or a discounted secondary sale has taken place, in order to maintain our conservative valuation approach. Listed equity positions are marked to market every month.

The PPP Funds do not invest in ideas, start-ups, pre-product validation or unproven business models. Often at this stage, the business strategy is to grow at any cost, with a high failure rate. Many of these businesses have been funded at relatively high valuations and are operating at a large cash burn. Due to their less mature profiles, these business often do not have the scale or operating levers to get to profitability outside of large costs cuts and staff redundancies. As a result, the PPP Funds focus on businesses that are further along the maturity curve. We have always been attracted to this market segment for the following key reasons:

1. Our companies are of a revenue scale where they are often already profitable/cashflow breakeven or can achieve this quickly if required by market conditions. They have a maturity of operations and a successful product in market. Therefore, they have operational levers to either grow faster or slow down growth if required. Several of our portfolio holdings have recently pivoted from cash burn to cash preservation and profitability.
2. Our companies have a financial track record that we can assess. We can then make informed decisions on unit economics and valuations, as well as future growth potential.
3. The PPP Funds are more often than not the last financial investor in the business. Therefore, we position ourselves to have the highest class of shares on issue. This provides the PPP Funds with strong downside protection.
4. These companies are closer to an exit event with multiple options including IPO, Trade Sale or Private Equity buyout. In the current market, we are witnessing an increase in both Trade Sale and Private Equity buyout interest.

In addition, we do not invest in cyclical businesses which includes resources (mining & energy), agriculture, commodities, direct property, and mature domestic industrials – this helps to protect the PPP portfolios from both domestic and global macro shocks.

IPO Market Update

We have observed the significant slowdown in IPO activity over recent months and remain cautious on this sector of the market. Since the global COVID sell-off in early 2020, new IPOs on the ASX have delivered mixed results. On our analysis, approximately 75% of the 20 largest domestic IPOs over this period are now trading below their issue price. This reflects the quality, pricing and structure of these transactions, as well as a volatile equity market.

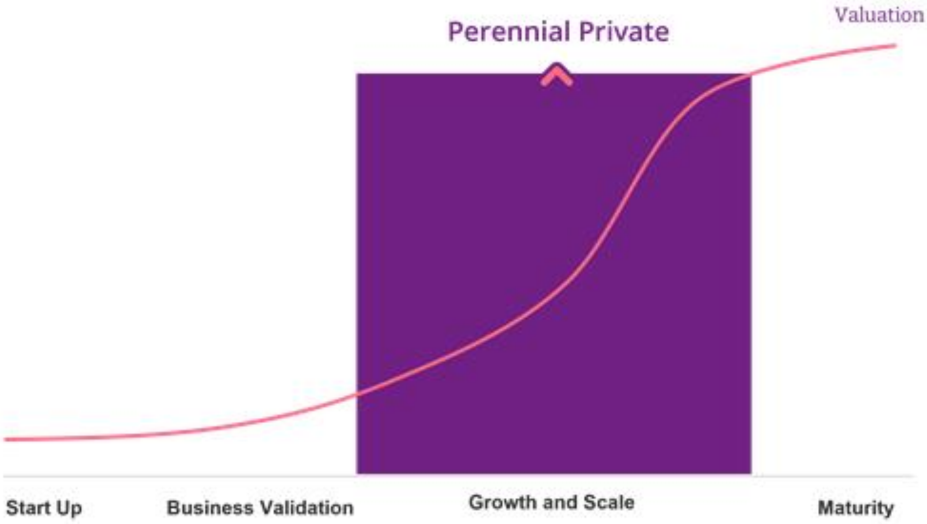
During that period, our PPP Funds only invested in a single name on the top 20 IPO list, and that company was one of the few to perform well on debut. As with all our PPP investments, we remain highly selective regarding which IPO companies we decide to invest in. Our preferred IPO candidate is a mid-sized, founder-led, fast–growing, highly-predictable business with an attractive transaction structure and valuation. The secret to a successful IPO is usually the belief within the owners and counterparties that a company's value is built with consistent execution against a good strategy over time, not based on a singular event or transaction.

The Small Ordinaries Index was down 20.4% for the June quarter, with the prospect for successful IPOs unlikely in the near term. Some of our companies that were on track for a September quarter listing are finding strong Private Equity and/or strategic interest instead, and we expect more positive newsflow in this regard over the coming months.

History suggests that while IPO windows can be shut for a period (typically six months), they always reopen, and the early IPOs are usually more attractive as valuation expectations have been reset. We will monitor the pipeline of coming IPOs to screen for any high-quality investments. We also expect some of our pre-IPO positions to move towards IPO in the December 2022 or March 2023 quarters.

Perennial Private Ventures

Post quarter end we were pleased to achieve first close on the Perennial Private Ventures Fund No. 1, LP (PPV)[1]. PPV is a dedicated growth stage private market fund that focuses on private companies further along the maturity curve than typical early-stage venture capital funds. The current macro uncertainty has created excellent investment opportunities for private investors.



During the initial deployment phase, PPV has secured attractive terms for an investment into four portfolio companies – LiveWire, WithYouWithMe, InDebted and Planet Innovation. We are thrilled to have each of these companies as early investments within the PPV portfolio. Each company is well positioned in structural growth sectors, has both operational and financial scale, is either already profitable (or on track to be profitable within the next 12 months), and is raising additional capital to pursue exciting growth opportunities. PPV is still open for investors in subsequent closings.

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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1. Note: PPV is only available for wholesale investors.