

	Month	Quarter	FYTD	1 year	3 years	5 years	Since Inception [^]
	%	%	%	%	% p.a.	% p.a.	% p.a.
Perennial Value Smaller Companies Trust*	8.1	8.9	8.1	12.1	8.4	3.8	9.9
S&P/ASX Small Ordinaries Accum. Index	8.6	11.5	8.6	22.3	8.7	2.4	6.1
Value Added (Detracted)	-0.5	-2.6	-0.5	-10.2	-0.3	1.4	3.8

*Net performance (including performance fee). [^]Since inception: March 2002. Past performance is not a reliable indicator of future performance.

Perennial Value Smaller Companies Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income by investing in a diversified portfolio of Australian shares predominantly outside the S&P/ASX 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:

Grant Oshry and Andrew Smith

Risk profile:

High

Trust FUM (as at 31 July 2016):

AUD \$117 million

Income distribution frequency:

Half yearly

Minimum initial investment:

\$25,000

Trust inception date:

March 2002

APIR code:

IOF0214AU

- ▶ **Markets performed strongly during July, with the S&P/ASX Small Ordinaries Accumulation Index (the Index) up 8.6%.**
- ▶ **Globally, markets tussled with a plethora of macro issues, namely the US election campaign, UK Brexit ramifications, an Australian election and terrorist attacks in Europe.**
- ▶ **The Trust returned a net 8.1% and trades on an FY17 price-earnings ratio of 12.0 times, being a 27.0% discount to the ex-100 market.**

Market Activity

The markets recovered from June's post Brexit sell-off, to finish July strongly, with the S&P500 up 3.6%, FTSE100 up 3.4%, Nikkei 225 up 6.4% and the Shanghai Composite up 5.3%. Metal prices remained firm with nickel up 13.0%, iron ore up 6.6% and gold up 2.5% during the month, while oil fell 12.9% as gasoline inventories swelled and the US rig count increased. The Federal Reserve left rates unchanged as did the Reserve Bank of Australia with the Australian Dollar finishing up 2.0% for the month at \$0.76 US cents.

All sectors ended in positive territory, with the strongest being industrials (up 11.4%), health care (up 10.7%) and materials (up 9.4%).

Trust Performance

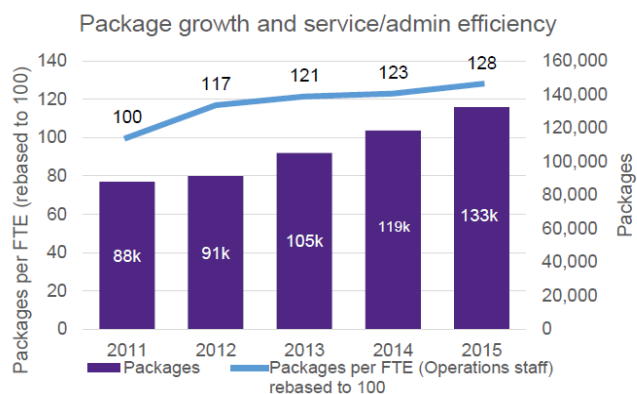
The Index gained 8.6%. The Perennial Value Smaller Companies Trust (the Trust) finished up 8.1%, net of all fees, thereby underperforming by 0.5%.

The best performing stock was oil producer Sundance Energy (up 50.0%), which reversed most of the previous month's detraction following their discounted equity raising. The Company announced it had received an indicative, non-binding and conditional proposal from a US-based private equity manager. Despite the share price surge to finish the month at \$0.15, it still remains at a significant discount to the \$0.19 cents cash offer (US 0.14 cents assuming a 75 cent AUD/USD exchange rate).

Pulse Health (up 34.1%) more than reversed the previous month's decline. The company released an announcement regarding corporate interest following a significant increase in the volume of their shares traded. We remain of the view that the current share price undervalues this clinic and day surgery owner and therefore took no action regarding our position.

Salary packaging and novated leasing provider Smartgroup (up 22.1%) released a strong trading update followed by two strategic and accretive acquisitions during July. Their acquisition of Autopia gives Smartgroup a footing in the corporate novated leasing segment, while their acquisition of Selectus opens up the rebatable segment channel, an area where Smartgroup has no previous exposure.

We are of the view that management have delivered material value to shareholders since we participated in their initial public offering (IPO) in July 2014 at \$1.60 (month end closing price \$7.02) as evidenced by the chart below that highlights the growth in salary packages over the years combined with improved efficiency gains. This provides us with comfort to continue to back management to deliver further benefits from the acquisitions announced this month.



Source: SmartGroup company presentation

Nickel and gold producer Independence Group (up 22.6%) continued with last month's share price rally, benefitting from a firmer nickel and gold price during the month. The company also announced a discounted equity raising above net present value, which is accretive and de-risks the balance sheet. The company also held a site visit which garnered investor interest.



Source: Perennial Value's Small Cap resource analyst Sam Berridge on site at Independence Group's Tropicana gold mine - July 2016

Other strong performers included mining service providers Pacific Energy (up 25.0%) and Runge Pincock Minarco (up 24.4%), gold producer Evolution Mining (up 21.0%), nutritional products company Vitaco (up 19.5%) and department store retailer Myer (up 19.0%).

Trust activity

During the month, we took some profits in APN News & Media and added to our position in Australian Pharmaceutical Industries ahead of their investor day.

We exited our positions in each of Tower and Washington H. Soul Pattinson & Co and used the proceeds to participate in the Smartgroup and Independence Group equity raisings.

The Trust ended the month with 53 stocks and cash of 4.8%.

Outlook

With many small cap stocks trading on lofty price-to-earnings multiples (which we do not hold in the Trust as they do not meet our value process) and little margin of safety, the Trust offers value trading on 11.7 times FY17 price to earnings (P/E) and 11.1 times price/free cash flow, representing a very significant 25.0% and 27.0% discount respectively to the ex-100 market.

As always, our focus will continue to be on investing in quality companies which are offering attractive valuations.

Asset Allocation		
Sector	Trust weight %	Index weight %
Energy	5.4	3.7
Materials	9.8	20.4
Industrials	9.1	11.2
Consumer Discretionary	32.0	21.9
Consumer Staples	5.8	6.6
Health Care	5.2	7.4
Financials-x-Real Estate	6.7	7.3
Real Estate	10.8	11.9
Information Technology	7.9	7.3
Telecommunication Services	1.2	1.3
Utilities	1.4	0.9
Cash & Other	4.8	-

Rounding accounts for small +/- from 100%.

For all other enquiries, please contact us on 1300 730 032
or visit www.perennial.net.au

Signatory of:



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